

RELIABLE URANIUM SUPPLY NEEDED FOR NUCLEAR RENAISSANCE TO CONTINUE

Hargreave Hale's Jamie Strauss Looks to Australia: 'Release Your Resources'

SUMMARY: We recently talked with Hargreave Hale head of institutional sales, Jamie Strauss, by telephone. He was working late by London (UK) time, and answering multiple phone calls. Over the course of our conversation, we talked about Cigar Lake (of course), the nuclear renaissance, U.S. Department of Energy uranium stockpiles, his favorite uranium companies (SXR Uranium One is Number One), Australia's vast uranium reserves and the junior exploration sector. He forecast the U.S. government may pressure Australia, at some point, to release its vast uranium resources to continue the momentum of the nuclear renaissance.



Jamie Strauss founded the Hargreave Hale Institutional mining desk in early 2003, where he serves as Head of Institutional Sales. Strauss has emerged as one of Europe's leading experts on Uranium. Prior to joining Hargreave Hale as partner and head of institutional sales in 2000, he previously worked for Arnold Bleichroder and Merrill Lynch (New York) and later at Societe Generale. Photo Courtesy of Anglesey Mining (UK). www.hhmining.com

By James Finch

StockInterview:

In your opinion, what is the impact of the Cigar Lake underground mine flooding on the uranium sector?

Jamie Strauss:

We are somewhat concerned the nuclear renaissance may be, to some extent, slowed down unless we find new ore bodies or bring more production onstream quickly as a result of the Cigar Lake problem. We're going to continue to keep the upward price in uranium, but there's always a negative to the positive. In this case, the negative is the nuclear renaissance requires access to uranium production to be contracted before they can get bank financing to put in a new nuclear power station.

StockInterview:

Cameco's uranium mining delay at Cigar Lake would impact the nuclear renaissance?

Jamie Strauss:

I think any delay of that amount of new product coming onto the market – the market was tight enough as it was – any further delay for new uranium, the nuclear renaissance can not be accelerated as a result. It's got to be held back to some extent.

StockInterview:

Why is that?

Jamie Strauss:

As I understand it, with nuclear reactors, in order to build a nuclear reactor, you have to contract your uranium fuel and a significant amount of it. Not just for the first year, but I also suspect you have to have your stockpiles of it, as Kevin Bambrough has highlighted, before you can get your bank financing. No bank is going to give money if you can't actually produce any revenue from it. The uranium industry has to wake up to making sure there is enough uranium out there. Will there be enough uranium for these power stations if they are built?

StockInterview:

If not from Cigar Lake, from where would the uranium come?

Jamie Strauss:

The Americans, who look at the Cigar Lake situation, see the tightness of the market, and have one of the most aggressive new nuclear packages going, are they going to sit by and watch this thing happen? I suspect they're going to go straight on down to Australia and say 'release your resources.'

StockInterview:

Do you think the U.S. will pressure the Australian government?

Jamie Strauss:

I think they must. Australia is sitting on 30 to 40 percent of the world's known resources. They have signed a nonproliferation agreement, a free trade agreement around the world and the uranium deal with China. Then, you've got to try and release that. I think that's going to be very positive.

StockInterview:

What about the U.S. Department of Energy and U.S. government 'already mined uranium' being stockpiled?

Jamie Strauss:

I think uranium stockpiles held by governments, particularly the United States government, are a positive and not a negative. The U.S. government wants to get nuclear power stations up and running. Therefore, they will use that stockpile to make sure the market remains as stable and as qualified as possible in order to get nuclear power stations up and running.

StockInterview:

Won't dumping the government uranium stockpiles into the market drive the price lower and discourage new uranium companies from following through on their projects?

Jamie Strauss:

They won't dump it. They will let uranium onto the market in order to secure long-term contracts. It will probably dampen the price. That does not mean to say it will fall down. It may stabilize the price, and I think that's a positive. At the end of the day, we're not talking about what the price of uranium could go to, because that's not the game. The game is: 'Is the nuclear renaissance on, or is it off?' If it's on, which I firmly believe it is, it depends upon the speed it's going to go. We have got to make sure there's enough uranium in order to allow this to continue.

StockInterview:

What impact would the price of uranium have on the nuclear renaissance?

Jamie Strauss:

I'm not in the game to push up uranium as high as possible because that will kill the nuclear renaissance. We've got to make sure the uranium price is the right price. This will ensure utilities have confidence in the uranium industry and that it is there to support them. Otherwise, we've not got a uranium renaissance.

StockInterview:

Then, what is a fair long-term uranium price?

Jamie Strauss:

The long-term price will ultimately come down to the marginal-cost producer. That's the standard comment to make for any industry. I suspect the marginal cost producer will be the United States mines. I'm guessing at the moment, but that's what I suspect.

StockInterview:

In Wyoming and New Mexico?

Jamie Strauss:

Exactly. I suspect a lot of these old mines, which they'll be able to bring back into production to some extent, will be the marginal cost producers. If you take Strathmore Minerals as an example, which bought the two lowest cost producers as tabled by Kerr McGee, then the marginal cost of production must be somewhere between \$40 and \$60. I would argue it's got to be \$60/pound. I believe this company is conservatively \$3.10/share price target on just the measured and



Jamie Strauss calls SXR Uranium One CEO Neal Froneman's acquisitions 'a stroke of genius.'

indicated resources of Roca Honda and Church Rock (Kerr McGee properties). And that's forgetting all of the other bits and pieces including Dieter Lake, Athabasca, the Wyoming resources and the cash. This company has significant upside. It's priced for takeout at the moment, and it's a given to somebody who wants to consolidate. I think there's no reason why this stock should not exceed \$4. We have warrants when we did the fundraising. I'm also a private shareholder.

StockInterview:

Speaking of uranium stocks, which are your favorites?

Jamie Strauss:

In Tier One (producers and near-term producers), SXR Uranium One is our favorite and remains it. We should include UrAsia and ERA. We love ERA. I am not going to put down Paladin. I think SXR will out perform Paladin and will actually go to a premium rating.

StockInterview:

How do you compare the two?

Jamie Strauss:

My main concern on a relative performance was that Paladin had a high rating coming into production and had a high likelihood – not because of Paladin, but just because of any mining stock – of coming up with some disappointments. In comparison, SXR had come from an undervalued basis where that was all written into the price. I think it is fair to say that SXR's Dominion is a brown field, where Langer Heinrich is largely a green field site. The Dominion ore body is well understood. I think Paladin has an excellent track record. I think they're well respected.

StockInterview:

What about the burden of SXR Uranium One's recent acquisitions?

Jamie Strauss:

In principle, I think it's a stroke of genius that he was able to get these assets. This company has come from virtually being a bust company. Neil Froneman has turned that around, focused on one asset and had a very long-term view of where he wanted to go. To take those assets (Wyoming, Utah), which were available to anybody who wanted them, they were the jewels in the crown of the North American-developed asset base. It's like a bit of art, isn't it? There are only a certain amount of Picassos. There are only a certain number of mills out there. You're not going to get another mill set up quickly.

StockInterview:

What's Neal Froneman going to do for an encore?

Jamie Strauss:

I think he's got a lot on his plate at the moment. He's got a lot to deliver. He's never missed a deadline in this project, to date. I'm not going to bet against him missing a deadline now. But, it does take an awful lot of manpower to do what needs to do. He's got the building blocks. Obviously, he's got to acquire other producing assets, or near-term producing assets, which will supply those building blocks. I think he wants to buy another company because he's bought these mills, and he needs feedstock to go into it. I don't know if he's going to buy Strathmore Minerals, but I think the price in Strathmore is there for anybody to consolidate with it. It's priced for takeout at the moment, and it's a given to somebody who wants to consolidate. It's well rumored that UR-Energy is up and running.

StockInterview:

Where is the biggest excitement in the sector now?

Jamie Strauss:

I think the speculation side is really coming in now – the pure explorers. That sector looks as though it's kind of got further legs to go. We believe there are two areas of investment in the uranium world. One of them is the near-term producers and the late stage developers. That's the area we focus on – companies such as Aurora Energy (TSX: AXU), Berkeley Resources (ASX: BKY) and Energy Metals (ASX: EME). The other area for investment is the exploration side. We haven't got the capacity to cover all of the 300 to 400 stocks. Therefore, we stick to the top end.

StockInterview:

Paladin’s John Borshoff told an Australian newspaper, “Everybody’s been trained in uranium by the Simpsons.” He also said a lot of the juniors were mining the stock exchange, didn’t have the expertise for uranium mining and would be lucky to get off the ground.

Jamie Strauss:

I am a great believer the great majority of exploration companies will never come to production. Therefore, we have focused very hard to make sure we pick the top five percent of the industry. I’m onboard with John Borshoff. To go through pure exploration straight up to production is a very difficult game. But, we desperately need exploration to find economic deposits, which are difficult to find. I don’t put down the junior sector, but he’s stating the obvious. The odds of finding an economic orebody of anything is difficult.

Websites and Trading Symbols of companies mentioned in this report:		
ERA	AX: ERA	www.energyres.com.au
Paladin Resources	TSE: PDN	www.paladinresources.com.au
Strathmore Minerals	TSX: STM	www.strathmoreminerals.com
SXR Uranium One	TSE:SXR	www.uranium1.com
UrAsia Energy	TSX: UUU	www.urasiaenergy.com
UR-Energy	TSE: URE	www.ur-energy.com

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