

# MZConsulting Midyear Message 2014



MZ Consulting

**2014 has been off to a sluggish start as reactor restarts in Japan continue to be delayed. With the first units at Sendai now approved by the Japanese regulator and international experts confirming that no radiation induced illness is likely from Fukushima; the impact of the 2011 accident may be starting to subside. Globally a significant number of nuclear units continue to be committed with 73 units under construction representing about 77 GW of capacity (compared to 375 GW in operation today).**

The spot price of uranium continued its slide in the first half of 2014 and now sits just above \$28/lb. The long term contracted price has also fallen and is in the mid \$40/lb range. As a result, suppliers have delayed or cancelled new production. In the long term a supply deficit is unavoidable which will lead to higher prices to incent the required production. However, the timing of this inevitable increase in prices remains uncertain. It may come within this year or it may be delayed into next year or even longer.

|                 | Price CDN\$ | YTD(%)     | 1yr(%) | 1yr (%) | 1yr (%) | 1yr (%) |
|-----------------|-------------|------------|--------|---------|---------|---------|
| Company         | June 30/14  | June 30/14 | 2013   | 2012    | 2011    | 2010    |
| Cameco CCO-T    | 20.93       | -5.0       | +12.5  | +6.4    | -54.3   | +18.8   |
| Denison DML-T   | 1.35        | +4.7       | -2.3   | -3.1    | -62.8   | +158    |
| ForsysFYS-T     | 0.42        | 0          | -47.5  | +9.6    | -75.9   | -26.9   |
| Mega MGA-T      | 0.185       | +105.6     | -25    | -40     | -81.7   | +43.4   |
| Toro TOE-AX     | 0.055       | -29.6      | -40.8  | +10     | -28.6   | +3.7    |
| Paladin PDN-T   | 0.305       | -31.5      | -59.5  | -22.5   | -71.7   | +28.1   |
| Powertech PWE-T | 0.06        | -25        | -36    | +47     | -72.1   | -23.7   |
| Ur Part U-T     | 4.85        | -14.2      | +4.6   | -3.9    | -29.0   | +20.0   |
| UEX UEX-T       | 0.42        | +6.3       | -33    | -10.6   | -70.7   | +105    |
| Ur Energy URE-T | 1.21        | -16.0      | +73.5  | -4.6    | -70.8   | +268    |
| UranerzURZ-T    | 1.58        | +23.4      | -6.6   | -26     | -53.6   | +186    |

## **Lack of progress in Japan continues to impact the market**

While committed to restarting its reactors, ongoing delays in securing even the first unit's restart is having a continuing negative impact on the market. This coupled with the economic issues facing the existing operating fleet in the United States is casting nuclear power in a negative light.

As a result, most uranium companies have seen stock prices drop in the first half of the year with some exceptions based on specific company circumstances.

However the tide is beginning to turn with the decision by the Japanese regulator to approve the restart of the first two

Japanese units since the Fukushima accident. This is just the first step as local approvals are still required making the restart unlikely before September or October – but likely within this year.

In the United States, proposed new environmental regulations requiring a reduction of carbon from the electricity sector of 30% from 2005 levels by 2030 have made it clear that nuclear power plays a very important role as the nation's leading source of low carbon electricity. This may put less pressure on economically- challenged units in the short term and provide support to keep the nation's operating nuclear plants running as well as encourage further uprates. In the longer term it is the performance of the

five units under construction that will determine whether or not more nuclear units will be added to the mix.

***However, a number of countries are continuing to consider a nuclear future***

China continues to expand its nuclear program leading the world with units under construction (29). The UK is moving forward with its program. Not only has EDF Energy agreed to a price for energy from Hinkley Point C, Toshiba has entered the market completing its purchase of NuGen. GE-H is also moving forward with their plan to build ABWRs.

While most people are aware of the above, it is the other markets that are starting to move that are of interest. This includes countries such as South Africa, Hungary, Poland, Bulgaria and Saudi Arabia; just to name a few. Clearly the appeal of clean, economic and abundant nuclear energy is remaining on the agenda for those markets with growing energy needs.

Geopolitical issues can also be expected to impact energy decisions. With ongoing issues in the Ukraine, it can be expected that Europe will be thinking about the level of its commitment to Russian gas. This can put both nuclear and fracking back on the table to address possible energy security issues.

***New Uranium mines needed but are not likely at these prices***

At current prices, there is little interest by producers to develop new mines or increase production. Cameco has delayed its Millennium project and technical issues have slowed down Cigar Lake moving production into 2015. In Australia, Honeymoon has been closed and ERA is having issues as it works to move Ranger production underground. Even Kazakhstan has slowed its expansion as the world's leader in uranium production.

***Progress is being made***

There is some good news in the market. The Four Mile mine in South Australia became Australia's newest uranium mine and is projected to produce about 1.6 million pounds of uranium this year. In Queensland, a 32 year ban on uranium mining was lifted. Western Australia opened its doors to uranium mining in

2008 with Toro's Wiluna project the leading development project in that State.

In Africa, the Husab uranium mine in Namibia has reportedly started operations. First ore production is expected in 2015. The development is being led by China General Nuclear Power Corp (CGNPC). Husab can produce up to 15 million pounds of uranium oxide yearly which would make it the world's second-largest uranium mine after McArthur River in Canada. China's other major uranium company, the China Uranium Corporation (a subsidiary of CNNC), has recently taken a 25% stake in Paladin's Langer Heinrich mine in Namibia.

Progress was also made in the United States with Uranerz making its first resin shipment from its Nichols Ranch ISR project in Wyoming to Cameco's Smith Ranch uranium processing facility. Ur-Energy's Lost Creek ISR facility in Wyoming continued to produce profitably in difficult spot market conditions by relying on contracted sales.

***Strategic investors look at more than price***

Investing in uranium under the current market conditions is not for the faint of heart. However, nuclear countries like China and India are eager to secure long term commitments for uranium either through contracts or mine ownership to feed their rapidly growing nuclear power programs. China has demonstrated its commitment with investments in Husab and Langer Heinrich. With recent policy changes in Australia and Canada to allow uranium supply to India, will India be next?

***Tremendous value in the market today***

While the timing of increased uranium prices is uncertain, for those interested in uranium, especially strategic investors, there will never be a better time to secure maximum value for a potential investment. It will take patience; but when prices do rise, those willing to take risks today will be rewarded.

***About MZConsulting***

MZConsulting advises governments, utilities and others interested in new build nuclear and investment in uranium companies.