

Ur-Energy, Hedging the uranium supply against the chaos of war

written by InvestorNews | March 14, 2022

The big question right now is what will Putin do next? Last week U.S President [Biden banned Russian oil and gas imports](#). Will Russia respond by banning uranium exports to the USA? That would certainly cause a huge drama given that Russia largely controls the uranium market ([41%](#) of supply from Kazakhstan, 6% from Russia) and the USA's dependence on uranium to power [19%](#) of the electricity grid and a significant part of its navy which is nuclear powered.

In anticipation of a possible Russian uranium export ban or supply shock, the uranium price has been moving higher since the war began. At the current uranium price of [US\\$60/lb](#) the outlook for uranium producers is looking dramatically improved.

Uranium prices have spiked higher since the Russia-Ukraine war began on February 24, 2022



Source: [Trading Economics](#)

[Ur-Energy Inc.](#) (NYSE American: URG | TSX: URE) is among the top two U.S uranium producers (when operational). Ur-Energy operates their flagship Lost Creek 'in-situ recovery' uranium mine and facility in south-central Wyoming, USA. The Lost Creek Mine and facility has been on [care and maintenance](#) awaiting higher uranium prices. Ur-Energy also owns [several other projects](#) including the Shirley Basin Project (construction ready), Lucky

Mc Mine, and Last Soldier uranium projects in the USA as well as the Excel Gold Project in Nevada, USA.

A summary of U-Energy's uranium projects in the USA



Source: [Ur-Energy website](#)

The recent good news for Ur-Energy investors can be summed up from the following two key announcements:

1. [November 1, 2021](#) – Ur-Energy announces Lost Creek development program to advance readiness to ramp up uranium production. Ur-Energy stated: “We are pleased to announce the commencement of a development program at Lost Creek **that will advance us from reduced operations to full production-ready status.....** As of October 27, 2021, we had more than \$40 million in cash and 285,000 pounds of U.S. produced U_3O_8 in inventory worth approximately \$13.4 million, stored at the conversion facility.”
2. [March 9, 2022](#) – “The economic analyses within the Lost Creek report continue to support the potential viability of the property. Total future life of mine (LoM) production (without additional exploration) is modeled to be 12.3 million pounds from 2022 to 2036 with LoM operating costs estimated to be \$16.34 per pound. All in, the estimated total costs per pound, including royalties and extraction taxes, is estimated at \$33.61 per pound before income tax of \$8.72 per pound. Pricing used in the analysis ranged from \$50.80 to \$66.04 per pound.....The Property has a calculated before tax internal rate of return (IRR) of 72.2 percent and a before tax net present value (NPV) of \$210.9 million applying an 8% discount rate. When income taxes are included in the calculation, the **after-tax IRR is 66.8 percent and the after tax NPV is**

\$156.8 million.”

Note: Bold emphasis by the author.

Lost Creek update

Minimal controlled production continued at Lost Creek throughout 2021 in recognition of market conditions. Ur-Energy has all required permits for operations within the first three mine units at Lost Creek and expects to have the final permit to allow operations within the HJ and KM Horizon at LC East and additional mine units at Lost Creek this year. Ur-Energy is in the process of obtaining remaining additional amendments to Lost Creek authorizations for expansion of the Lost Creek Mine.

Lost Creek recently received an amendment to its license allowing expansion of mining activities within the existing Lost Creek Project and the adjacent LC East Project. [The license now allows annual plant production of up to 2.2 million pounds \$U_3O_8\$, which includes wellfield of up to 1.2 million pounds \$U_3O_8\$ and toll processing of up to 1 million pounds \$U_3O_8\$. Additional approvals \(as referenced above\) for this expansion are expected in H2 2021.](#)

At the current uranium price of [US\\$60/lb](#) it looks highly likely we will very soon hear an announcement of Lost Creek production restarting.

Shirley Basin update

In addition to Lost Creek, Ur-Energy can bring on their Shirley Basin Project. It has a [before tax IRR of 105.6% and NPV8% of \\$129.7 million](#). Ur-Energy has all major permits and authorizations to begin construction at Shirley Basin, the Company's second in situ recovery uranium facility in Wyoming, USA.

2021 year end results

Ur-Energy's 2021 results are not important given that there was virtually zero (251 pounds of U_3O_8) uranium production and no sales. Ur-Energy [reported](#): "As of December 31, 2021, we had cash resources consisting of cash and cash equivalents of \$46.2 million. No sales of U_3O_8 were necessary in 2021. The Company had a net loss of \$22.9 million or \$0.12 per common share."

Ur-Energy, [new CEO](#), John Cash [stated](#):

"We are encouraged by the dramatic increase in domestic and global support for nuclear power, as it is increasingly recognized as the only plausible solution to climate change. Ur-Energy is in the enviable position of being able to quickly ramp up and participate in an improving uranium market and, in addition, we could immediately deliver up to 284,000 pounds U_3O_8 into the Uranium Reserve Program, currently being established by the U.S. Department of Energy. On March 3, 2022, we had \$44.7 million in cash, plus our ready to sell U.S. produced inventory, worth approximately \$14.4 million at recent spot prices. Additionally, we continue to advance the construction of header house 2-4 to expedite production when market signals allow us to ramp up at Lost Creek."

Closing remarks

Uncertainty of uranium supply from Russia and Russian controlled sources such as Kazakhstan is leading to a surge in uranium prices, up almost 50% in the past 3 weeks since the Russia-Ukraine war commenced.

At current prices, Ur-Energy's two key projects Lost Creek and Shirley Basin would be highly profitable as per recent economic studies done at uranium prices similar to today's price. All of this means it is highly likely we will soon see the resumption

of uranium production by Ur-Energy at Lost Creek Mine in the near term. It also times well with the U.S.'s intentions to build up a reserve of uranium and the recent [White House Fact Sheet](#) aiming to build USA supply chains for key materials.

For investors looking at a hedge against the war, then look no further than uranium. And if Putin bans exports of Russian controlled uranium to the USA and others, then expect to see uranium prices closer to US\$100/lb, than to today's price of US\$60/lb.

Ur-Energy trades on a market cap of [US\\$380 million](#). Looks appealing.

Putin attacks Ukraine, what are the consequences for investors?

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Like a lot of people around the world, I'm royally pissed off about what is happening in Ukraine. My email inbox exploded yesterday with questions on what this means from a trading perspective, and no one seemed to like my answer, which is – it meant very little to me (but please don't mistake that for my personal outrage with respect to this issue). Frankly, when all was said and done not a whole lot happened in the market, and depending on how the continued sanction saga goes, we'll see if it has much impact at all. I targeted a few buying opportunities of anything that got yard-saled, but my guess is that this is a

simple speed bump, and the market will have forgotten about it in a week or two.

In my opinion, the bigger market impact will be how it affects the U.S. Federal Reserve actions. The potential for increased commodity inflation (due to sanctions) could slow the economy. A slowing economy is not a great background for gung-ho interest rate increases. So, this conflict/war/assault on humanity may actually temper interest rate increases which could be bullish tech and gold. A perceived less aggressive interest rate path may partially explain the slap upside the head that most North American financials took, although there may also be some ramifications from all the banking sanctions announced. But, by day's end, all I had done was to buy some Facebook/Meta (NASDAQ: FB) and sell some out of the money covered calls on Cameco Corp. (TSX: CCO | NYSE: CCJ), and that's it. There was a lot of uranium interest for sure, but we saw bigger intraday moves when everyone was all cranked up by the activity of the Sprott Physical Uranium Trust (TSX: U. UN). Nevertheless, I will often find some way to trade around a 10% single day move in an equity.

Now don't get me wrong. I'm definitely paying attention to the obvious [sectors that may be impacted](#) as one could argue that Russia is a global commodities superstore – you know, oil, natural gas, wheat, corn, palladium, platinum, aluminum, potash and phosphate, to name a few. But let's be frank, a lot of these commodities will see limited impacts for various reasons.

The current global supply/demand picture for both oil and natural gas, the largest contributor to Russian GDP, is such that no country has enough spare capacity or political will to completely shut off Russian imports. It seems like every speech made by President Biden on this topic always has some reference to keeping U.S. gasoline prices below \$4/gallon. And in Germany,

they made the symbolic gesture of halting certification for the Nord Stream 2 pipeline but that wasn't shipping any product yet anyway. There's still the original Nord Stream pipeline and its total annual capacity of 1.9 trillion cubic feet (55 billion m³) of gas that hasn't been discussed in any press releases I've seen so far. Likely because it's still winter and Germany isn't about to let its citizens freeze, and realistically it doesn't have any other quickly available, viable options. If those united against Mr. Putin actually grow a spine and put a hard stop to all Russian oil and gas purchases, Russia could simply sell most, if not all, of it to China and current Chinese supply will redistribute to other parts of the world. This could certainly create some interim price volatility but it's highly improbable (in my opinion) that actual Russian oil and/or natural gas production will be cut and thus there will be no dramatic swings in supply.

In fact, I believe China probably has the most sway over how this whole situation unfolds. Mr. Putin obviously doesn't care about sanctions from the rest of the world given those sanctions were signaled well in advance and it doesn't appear to have dissuaded him in any way, shape or form. China can likely absorb a lot of the commodities that Russia is currently selling to the rest of the world, should sanctions actually start to have an impact, but I'm pretty sure Mr. Putin isn't that trusting of his giant neighbor who happens to have an even larger economy and army. But if China decided that enough is enough and threw its weight behind the opposition of the rest of the world then this incursion ends immediately. If China is on board with sanctioning Russia along with everyone else, Russia no longer has an economy to speak of. But I suspect China plays along for a while, at least until they have Chinese troops on the ground in Taiwan, but we can hope that's not a story for another time.

Ultimately, I have no idea what Mr. Putin's end game is. Why has he manufactured some alternate reality regarding Ukraine that supposedly required Russia to invade? We may never know. To quote Winston Churchill from 1939 when he defined Russia as "a riddle, wrapped in a mystery, inside an enigma," it would appear Mr. Putin has taken this description to heart. In the meantime, it might be time to start nibbling away at North American commodity producers and explorers of just about everything because this event has taken security of supply to another level. It should also reshape the perspective of any ESG funds and investors as I'm pretty sure an unwarranted invasion of a neighboring country violates both Social and Governance mandates, and if it doesn't then it should. With that said, let's be clear, these are the actions of Mr. Putin and his political and financial supporters and not necessarily the Russian people. Regardless, I'm glad I don't own any Russian equities or companies with Russian backing right now.