

# Energy Fuels' Mark Chalmers addresses the impact of the coronavirus on the uranium market and steps up to the critical materials supply chain podium

written by InvestorNews | March 23, 2020

Given the recent announcement of a US\$1.5 billion (US\$150 million pa for 10 years) uranium reserve to be allocated to US uranium producers, there has been quite a buzz around the uranium sector which is currently dominated by Energy Fuels.

Energy Fuels CEO Mark Chalmers, accompanied by several members of senior management, lead an excellent Company [webcast](#) update, with a special address on the impact of the coronavirus (COVID-19) on the critical materials sector on Friday morning. During this webcast, he provided an update on the Company, covering everything from the US uranium reserve to the Company's FY 2019 results. During this webcast he identified the increasing prioritization by the U.S. government for a both U.S. sourced critical materials and the build-out of a North American rare earths supply chain. Below I touch on the key highlights.

[Energy Fuels Inc.](#) (NYSE: UUUU | TSX: EFR) is one of only three US uranium miners still in production, and has been the largest US uranium producer over the past 4 years. Energy Fuels has the largest uranium resource portfolio in the U.S. among producers, with an ability to rapidly scale up production if needed. Added

to this Energy Fuels is a leading U.S. vanadium producer. There is also some potential for future rare earths processing at White Mesa Mill.

## **The White Mesa Mill is a strategic asset for Energy Fuels and the USA**

Many don't know, but the White Mesa Mill has produced about the same amount of uranium and vanadium over its lifetime to date, or about 45 million pounds of each. White Mesa Mill can also recycle alternate feed materials and materials from land clean ups.

**Energy Fuels' flagship White Mesa Mill produces both uranium and vanadium, with potential to add rare earths processing**



## **Energy Fuels views on Russia**

Russia has a long history of manipulating markets to gain a geopolitical advantage. If nothing changes the US could be dependent on Russia, China and its allies for uranium. **Also at the end of 2020, the Russian Suspension Agreement (RSA) expires. This means Russia could potentially export even more uranium into the US market leading to a price war, as we recently have seen with oil.** It would also potentially increase the US's dependence on Russia for uranium after 2021.

## **Energy Fuels views on President Trump's FY2021 budget provision for a U.S. uranium reserve of US\$150 million pa**

Energy Fuels is positive on the recent move that the US plans to support the US uranium producers. There are no details yet on

how the US\$150 million pa will be allocated but there is a very strong possibility that Energy Fuels will benefit, especially given they initiated the [Section 232 Petition](#).

The Office of Nuclear Energy (NE) [stated](#):

*“The reserve is expected to support the operation of at least two U.S. uranium mines.”*

There are currently only three or four uranium facilities operating in the U.S. right now that have the current capability to supply a U.S. uranium reserve. These include Energy Fuels’ White Mesa Mill in Utah and Energy Fuels’ Nichols Ranch ISR Facility in Wyoming.

**Energy Fuels (blue) has been the largest US producer of uranium over the last 4 years**



## **Energy Fuels approach with COVID-19**

Energy Fuels is adopting the following procedures to support the COVID-19 battle:

- Eliminating travel and conference attendance for the time being.
- In these tough times with low uranium and vanadium prices, Energy Fuels is focusing on cost-cutting measures and maintaining balance sheet strength.
- Energy Fuels state that of very significant concern right now is that “Kazakhstan might have to shut down uranium production due to COVID-19”. This could lead to a uranium supply shock given Kazakhstan is the world’s largest uranium producing country.

# Energy Fuels FY 2019 results and current activities

- Energy Fuels end 2019 cash and marketable securities, and inventory was at \$40.5 million. Added to this is \$19.5 million from 2020 activities. There is also US\$16 million of convertible debt that matures on December 31, 2020 (payable in cash or shares at the Company's option). Net assets are therefore over \$40 million confirming a very strong balance sheet.
- Energy Fuels is currently pursuing additional cash flow opportunities in alternative feed materials, land cleanup, vanadium & rare earth elements. Energy Fuels is participating in a pilot-scale cleanup project for Navajo Nation, and is also supporting the cleanup of a private mine in Mexico.

**Note:** The White Mesa Mill is the only facility in U.S. that can recycle material into usable uranium.

## Rare Earth Elements

Energy Fuels has been approached by several entities including the US Government to process certain uranium bearing rare earth elements at the White Mesa Mill. Energy Fuels [stated](#):

*"We can play a significant part in bringing rare earth element production back to the United States."*

## Closing remarks

With the possibility that the world's largest uranium producing country Kazakhstan may have to shut down uranium production due to COVID-19, there is the very real potential for a supply shock to hit the uranium market.

One of the very best ways for investors to gain exposure to the US uranium and vanadium sectors is to consider investing in Energy Fuels. They stand to benefit from any uranium supply shock/price increase, an announcement of uranium contracts to build the newly announced uranium reserve, or any further announcements to support US critical materials supply. Energy Fuels' strong balance sheet and top tier assets allow them the flexibility to turn on and off uranium and vanadium production depending on market prices.

By investing in Energy Fuels investors gain exposure to the leading US producer of both uranium and vanadium, and also a potential future rare earths processor. To gain exposure to uranium, vanadium, and rare earths (potential for processing) in one company, located in the USA, is quite unique and exceptional.

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## **Trump allocates \$150 million per annum to establish U.S. uranium reserve**

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In breaking news the US Government has just released its FY2021 budget document to go forward for approval to the US Congress.

It appears that the Nuclear Fuel Working Group's (NFWG) recommendations to support the US uranium industry have been supported, at least to the tune of a US uranium reserve per annum of US\$150 million over 10 years: a \$1.5 billion plan to

establish a U.S. uranium reserve.

Some key points from the FY2021 US budget document are [quoted below](#) from pages 45-47:

- “Nuclear energy is also critical to the Nation’s energy mix and the Budget supports an array of programs to advance nuclear energy technologies. This portfolio promotes revitalization of the domestic industry and the ability of domestic technologies to compete abroad. The Budget provides \$1.2 billion for R&D and other important nuclear energy programs, including nearly \$300 million for the construction of the Versatile Test reactor—a first of its kind fast reactor that would help the private sector develop and demonstrate new technologies.
- **Supports Nuclear Fuel Cycle Capabilities.** On July 12, 2019, the President determined that “...the United States uranium industry faces significant challenges in producing uranium domestically and that this is an issue of national security.” **The Budget establishes a Uranium reserve for the United States to provide additional assurances of availability of uranium in the event of a market disruption.”**

Furthermore, the uranium reserve amounts are shown below, with US\$150 million pa allocated for a “uranium reserve” for “purchase of uranium” each year from 2021 to 2030, as well as other discretionary funds.

TABLE 25-1. FEDERAL BUDGET BY AGENCY AND ACCOUNT, FY2021 PRESIDENT'S BUDGET POLICY  
(In millions of dollars)

Account and Subfunction Code			2019		Estimate									
			Actual		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Uranium Reserve (019-20-2296):														
Appropriations, discretionary	271	BA	---	---	150	150	150	150	150	150	150	150	150	150
Outlays, discretionary		O	---	---	45	90	150	150	150	150	150	150	150	150

## Detailed view for FY 2021 US uranium reserve funding budget

### URANIUM RESERVE

*For Department of Energy expenses necessary for Uranium Reserve activities to carry out the purposes of the Department of Energy Organization Act (42 U.S.C. 7101 et seq.), \$150,000,000, to remain available until expended.*

#### Program and Financing (in millions of dollars)

Identification code 089-2296-0-1-271		2019 actual	2020 est.	2021 est.
<b>Obligations by program activity:</b>				
0001	Purchase of uranium .....			150
0900	Total new obligations, unexpired accounts (object class 25.2) .....			150
<b>Budgetary resources:</b>				
Budget authority:				
Appropriations, discretionary:				
1100	Appropriation .....			150
1930	Total budgetary resources available .....			150
<b>Change in obligated balance:</b>				
Unpaid obligations:				
3010	New obligations, unexpired accounts .....			150
3020	Outlays (gross) .....			-45
3050	Unpaid obligations, end of year .....			105
Memorandum (non-add) entries:				
3200	Obligated balance, end of year .....			105
<b>Budget authority and outlays, net:</b>				
Discretionary:				
4000	Budget authority, gross .....			150
Outlays, gross:				
4010	Outlays from new discretionary authority .....			45
4180	Budget authority, net (total) .....			150
4190	Outlays, net (total) .....			45

Establishing a Uranium Reserve provides assurance of availability of uranium in the event of a market disruption and supports strategic U.S. fuel cycle capabilities. This action addresses immediate challenges to the production of domestic uranium and reflects the Administration's Nuclear Fuel Working Group (NFWG) priorities. The NFWG will continue to evaluate issues related to uranium supply chain and fuel supply.

## A response from the Department of Energy's Office of Nuclear Energy to the uranium reserve proposal

The Office of Nuclear Energy (NE) [stated](#):

*"NE is asking for \$150 million to set up a uranium reserve to further protect the nation's energy security interests. **The new program will help to reestablish the nation's nuclear fuel supply chain through the domestic production and conversion of uranium. The reserve is expected to support the operation of at least two U.S. uranium mines** and will ensure there is a backup supply of uranium in the event of a significant market disruption that prevents entities from acquiring fuel. NE would begin the procurement process for the reserve in FY21."*

The "at least two US uranium mines" would suggest the two that brought forward the original [Section 232 petition](#) – [Energy Fuels Inc.](#) (TSX: EFR | NYSE American: UUUU) and [Ur-Energy Inc.](#) (NYSE: URG | TSX: URE).

Ur-Energy Inc.'s Chairman, President and CEO Jeff Klenda added: "After years of sounding the alarm, Ur-Energy is pleased the Trump Administration has recognized the national security implications of ceding the nuclear fuel cycle to our geopolitical rivals and is now taking definitive action to shore up the domestic industry by establishing a national uranium reserve that will be supplied by domestically-mined uranium. The President's proposed budget includes up to \$150M per year from 2021 through 2030 to purchase domestic uranium. According to today's issue of *The Energy Daily* DOE Undersecretary Mark Menezes commented on Monday that, "This is the beginning of a long process" to address the nuclear fuel cycle. "It won't stop with the creation of the uranium reserve."

Curtis Moore, VP Marketing and Corp Development from Energy Fuels Inc. (NYSE American: UUUU | TSX: EFR) commented: "Now that



we've had a day or so to digest yesterday's budget news, we are increasingly optimistic about what it all means for Energy Fuels. The Office of Nuclear Energy within the U.S. Department of Energy stated that this money is '[expected to support the operation of at least two U.S. uranium mines](#) ...' There are currently only three or four uranium facilities operating in the U.S. right now, that have the current capability to supply a U.S. uranium reserve, including Energy Fuels' White Mesa Mill in Utah and our Nichols Ranch ISR Facility in Wyoming. So, at the very least, we think this money should go toward supporting these existing, proven, low-cost facilities and saving existing jobs and expertise.

In addition, Energy Secretary Dan Brouillette and others have stated that the Nuclear Fuel Working Group will announce more recommendations in the coming weeks. It is our belief that yesterday's announcement will support sustainable domestic uranium production of about 2-2.5 million pounds per year. However, if the U.S. wants to have an industry capable of supplying 5-10 million pounds per year, additional actions are required. The U.S. consumes about 48 million of uranium per year, not including military requirements. So, 2-2.5 million pounds only represents a tiny fraction of total U.S. demand; even 5-10 million pounds isn't much. So, we are interested to see what else the government has in mind. Indeed, government officials, including Wyoming Senator John Barrasso, who has been a staunch defender of President Trump, are calling for the government to do more. And, as an American, I'd like to see the government do more.

Finally, yesterday's announcements clearly indicate that nuclear fuel has become a major priority for the U.S. government. It is our belief that no matter which political party leads the U.S. government, this program alone has the strong potential provide Energy Fuels and perhaps a couple of other companies with a nice

baseline of production and revenue, enabling us to save jobs and uranium production capacity. The alternative is to become massively dependent on Russian uranium and nuclear fuel, which nobody in the U.S. wants to see.

There's still more work to do – in particular, how to implement this program to ensure its success. However, we believe yesterday's announcement was a huge step in the right direction."

Western Uranium & Vanadium Corp.'s (CSE: WUC | OTCQX: WSTRF) Founder and CEO George Glasier commented: "We are very pleased that President Trump provided for a national uranium reserve and acknowledged that the domestic production of uranium is a national security issue in his Fiscal Year 2021 – A Budget for America's Future. The multi-year efforts of the President, Nuclear Fuel Working Group, and Department of Commerce were ground-breaking for addressing domestic critical and strategic mineral requirements and initializing the rebuilding of America's nuclear fuel cycle. We look forward to the release of additional recommendations from the Nuclear Fuel Working Group report. In the short-term supporting domestic mining will reinvigorate hardworking mining communities, but in the end the result will be the advancement of national defense, nuclear infrastructure, and energy independence goals."

### **Closing comments**

The budget document is a positive response by the Trump administration to the NFWG's recommendations to support the domestic uranium industry. At this stage it is still too early to know any details on terms – what price will the uranium be bought etc., we will provide updates as we secure them.