

# THE MIKE ALKIN SHOW

## TALKING STOCKS OVER A BEER



**Announcer:** Free and clear of the chatter from Wall Street, you're listening to Talking Stocks Over a Beer, hosted by Hedge fund veteran and Newsletter writer, Mike Alkin, who helps ordinary investors level the playing field against the pros by bringing you market insights and interviews with corporate executives and institutional investors. Mike sifts through all the noise mainstream financial media and Wall Street to help you focus on what really matters in the markets. And now, here's your host, Mike Alkin.

**Mike Alkin:** It is Tuesday, July 17th, welcome to the podcast, hope you had a good weekend. I had a nice time last week since I last spoke to you. I had some family visit from Tucson, Arizona. Two of my cousins, a husband and wife who I've known my whole life and just really great people. And they're retired so they have time on their hands and they came to spend time with me and my wife and kids and it was great seeing them. And they're planners, yep, they're planners. So leading up the visit, my cousin, Richard, we'll call him Richard, would call me and text me. He uses a flip phone so, thankfully, he doesn't text too often because, if you remember the flip phones, it's A-B-C and if you want to get C, you've gotta go A-B and then hopefully you get C, texts are a little slow. So Richard and Becky, they're fabulous people and they like to plan.

And so they wanted to know the itinerary and, you know, it's funny, when people come and visit you and I forget they're coming to New York, right? So we live about an hour outside Manhattan but my wife and I and with the kids, we used to live in this city until we found some sanity and moved out. But yeah, you forget, people like coming to New York City, to some people, it's a big deal. Why? I have no idea but some people really like it. So they want to do things in the city and I'm in the city as infrequently as I can be. I used to work there, I used to live there, and for a period of my life, it was great. Now, I can't deal with the traffic, I can't deal with crowds, I can't deal with the summers in the heat and running around trying to find a taxi, it's just, I don't do subways, and just not my thing.

But they wanted to go and so, for me, when you live in the city, you know places, where to go. But other times, you'll just go down whether it's Little Italy or Chinatown, you go and you just find

a place when you're there. That doesn't work with planners and my wife's busy with the kids, they're home for the summer so she really didn't have a lot of time to do a lot of planning, she's planning the kids' lives. So it was up to me, I was in charge of the planning. That didn't work out so well, I'm not a great planner. I'm good for work stuff but I've been married 24 years and my wife plans all of our stuff. She's really good at it. But like I said, she was busy so she knew better but she said, "You figure it out, you think about what we want to do in the city and what we want to do on Long Island." So I pretended, I thought, "Okay, we're going into the city this day," and we were going to go see the Tenement Museum and we were going to go to Little Italy.

And so I had that in my head but I didn't know the times of the tours at the museum, I didn't know the restaurants, it's Little Italy, I'm Italian, you just go. You'll find something good. You can't go wrong, a good slice of Pizza, a good Chicken Parmesan Hero, man it's all good. So here we are in the car, and my kids, obviously, right? On a summer day where they could be at the beach, the last thing they want to do is be with their parents and they call them Aunt and Uncle but they're their cousins because, like I said, they're retired and older and last thing they want to do is be in the car, driving into the city, sitting in ridiculous traffic in the middle of the day. Then you get into the city and it's ridiculous traffic there. And everyone looks at me. "Okay, so what's this place we're eating at?" And so, in the car, "It's a surprise, right? I'm not telling you."

Now I'm thinking, at this time, I realized, "Okay, you blew it, all you had to do is take a little bit of time this morning and figure it out." And one thing leads to another, I was doing some work in the morning, now we're in the car, next thing you know, I can't look at my phone to look up places because you can't do that when you're driving. And I said, "Don't worry, I'm going to tell you." Now we get there, and it's been a long drive, an hour turns into an hour and 45 minutes because of traffic. And then we find a parking spot and now I've got to figure everyone's hungry, where are we going to eat? I had no idea, so it tried, "You know what? There's a few places that I know we could go to," "What are the names?" "I can't recall," "Well, do we have a reservation?" "No."

So now my cousins' starting get anxious because they're planners. My wife is rolling her eyes because, by this time, she's figured out, she knows me. And she's starting to laugh and my kids, they're hungry. Well, so here we go. So now, where I park, I didn't recognize. And I know the area, I know the city like the back of my hand, but I haven't been in a lot lately. So I kind of forgot where I parked in relation to where Little Italy was. So I thought I knew,

and I take us on a walk which should have been five minutes, it's now 20 minutes. And now everyone's getting cranky. So I'm getting lambasted from every area. My cousins are getting anxious, my kids are like, "Dad, what's wrong with you?" And my wife's like, "You deserve this, this is your own fault." Luckily enough, we stumble into Little Italy, I tried reading my Google Maps on the phone, I'm pretty good directions but I was a disaster.

I can't read Google Maps when I'm walking. Driving ways, I'm fine, Google Maps walking? I mean I just can't figure it out. Anyway, we found a place, it was fantastic, they had the best Chicken Parm they've ever had in their life, and I told them, I gave them the wink, I said, "You thought I didn't know where I was going, right?" And they said, "Wow, this was amazing, it was so good." So I got off the hook and then we went to the Tenement Museum and I blew that out of the water. All the tours had gone, everything was done. But I got one out of two right. And then we sat in traffic for two hours on the way home with my cousin telling me, "I don't know how you live here." To which I tell my wife all the time, "Why do we live in New York?" But anyway, so that was part of my week, it was great spending time with them.

They were here, they sat in the backyard, had some drinks each night, friends came over, they got to meet our friends. So it was a really nice time. And then this weekend came, obviously, you know, you hear me talk about it if you're a listener, I've got lacrosse and this was our final weekend of lacrosse for the summer. So it was nice, while I love watching my son play, while he loves playing, it's a long season. They start in the fall with practice then, the winter, they play, then outdoors in the Spring is one league and they play another so it's nice for them to wind down. So he gets the next, what? Six weeks off and then football starts when he heads back to school. So here, we're just going to chill on out for the rest of the time but this weekend, I couldn't put my phone down.

I mean you might have heard last week's interview with Mark Spiegel from Stanphyl Capital, who's a very outspoken, very, very bright guy who is short Tesla, has no shortage of opinions and he's very funny. He's a lightning rod, the Bose, the real Tesla fans, the fanboys, they go crazy on Twitter on him. But he doesn't care, he's unrelenting, he's dogged, he digs, he does research. And he has a view and he doesn't care if you like or not. But this weekend on Twitter, it came out, I forget, it might have been Friday night, and I think it was Friday night, that one of the, I think it was Salon Magazine found that Elon Musk was one of the contributors, and it gets tossed around, he's a major contributor or the biggest contributor.

I think he was 49th out of 350 contributors to some Republican, yes GOP, Super PAC or PAC-PAC. Not a Super PAC. Well, my goodness, you would have thought he committed the crime of the century. To watch the anger from Musk loyalists, it was one after the other were canceling their Model 3, it's a ... how can you do this, you betrayed us. It was unbelievable. Anyone who could support the GOP is a hypocrite. He's built his loyal following on convincing people that he could change the world, that he's all about humanitarian help, he's all about reducing global warming, playing his part in it. That obviously plays into a crowd that believes in that and that doesn't really like Trump or the Republican party. And he got lambasted, he got destroyed on Twitter. And it was interesting because he could say anything and his fan base comes out and supports him. Not only do they come out and support him, they come out and annihilate anyone who says anything about him. If you have any opinion that's negative, they'll come out and try and destroy people. I've not seen anything like it.

It's not normal conversations where you can have agreements and disagreements and points and counter points, the fervor, the anxiety, and look, and there's, on the bear side, there's a lot of really smart guys doing work that come out with views and they don't hold any punches either. So it's a slug fest. But it was interesting because the Musk loyalists and the Tesla loyalists, not all of them, but unlike anything I'd seen in watching the Twitter feeds, the disappointment in him for doing that. So I was thinking, "Wow, what's he thinking," it's probably one of these moments where he's like, "Wow, I've been around 15 years with generating negative of almost nine and a half, 10 billion dollars in cash flow, we've put up so many milestones that we haven't reached, and I'm unscathed."

"We just keep cruising along, it doesn't matter. Do what we need to do, and keep selling the dream, right? Come out with the Roadster, it's going to finance the Model X, the Model X is going to finance the Model S, so you've got \$100,000 vehicle that is going to finance the \$70,000 dollar vehicle, then we're going mainstream with the Model 3 and you know, the timelines keep getting pushed out but it doesn't matter, stock keeps moving higher, or did move higher." But it took, I think it was a \$38,000 dollar donation to a Republican GOP PAC to cause many of his followers, or some of his followers, to really get pissed off at him to where they were saying, "We're canceling Model 3's." Now I don't know, it could be a few hundred, it could be a few thousand, who knows.

I don't know, but it was unlike anything I'd seen. So Mark Spiegel is out Tweeting and Retweeting and there's others out there on Twitter who were bearish that were coming out with stuff and

it was fascinating. That was Friday night, Saturday, and then, maybe it was Saturday night, I forget, it was one of the two nights. Just when you thought, "Wow," Musk comes out sometime late Saturday night or Sunday morning, not even a full news cycle away, and comes out with going after one of the cave diver's, who is an Englishman who lives in Thailand, that's mapped many of these caves in the country and especially this one, and he contacted the Thai government and said, "You should go get these cave divers and here's where I think the kids are," I know from what I'm reading. And he played an instrumental part in finding these kids.

Well, somewhere along the way he was interviewed by one of the news outlets, it might have been CNN and he said ... and during this time, by the way, somewhere along the way as this drama was unfolding with trying to figure out how to get these kids, Musk was out saying he's going to put together a vessel and they're going to go and get the kids and they've been working on it with the smartest SpaceX engineers in the world and yeah, nice deed, I suppose, right? The bears would say, "One could also say he was doing it for attention and promotion and look at me, I'm here to save the world." I don't know, who knows. If I had a guess, probably, a little bit of PR out of it. But you never know anyone anyone's intentions. So let's take it at face value, out there saying, "Hey, we're going to go get these kids." Well, for whatever reason, and he went to Thailand, I think he took the vessel with him. But it wasn't needed.

They were able to get these kids out. Well one of these guys who was instrumental, this Englishman, was interviewed by one of the sites and said, "You know what, we didn't need it, it was too late, it was a publicity stunt, he could put that vessel where the sun doesn't shine." Or something like that. Well that didn't sit well with Mr. Musk. Because he went out on a Tirade on Twitter. And he talked about how it was needed, how it was requested of him to build it, he Tweeted a picture of an email and he showed his proof positive as to how important he was to the mission and he was there if it needed it and he then went on to say something about referencing him as a pedo which was, in context, believed to be, I think, not a very nice compliment about what a pedo is, right? Some people say, "Well, he was referring to this gentleman as a pedophile" and that brought outrage, as it should, from all corners of Twitter.

Now he has 22 million followers, many of you listening may not be on Twitter, and that's fine, I got to tell you, as a communication platform, it's pretty spectacular. There's a lot of noise, there's a lot of people with beer muscles and bar muscles because they don't have their real names and, I understand it, for some people it's

because of, who needs to grieve when you've got this vitriol that's going back and forth. But just because some people have a name that's not their own name, it doesn't mean that they're not really bright but sometimes, it gives a little more bravery. But it was unbelievable what was coming out on this and the backlash was just stunning.

Picked up by every news agency, the Financial Times picked it up, Fortune picked it up, and you look at and say, "Oh my god, you run, I don't know, four or five companies if you're Musk," you were just interviewed by Bloomberg where you talked about you've got one foot of the hole on Model 3 and the mass market car to get them to the promise land but it's still, in his words, a production hell but they're getting better and whether or not you believe that, that's up to you. But that's what they say, but really entrenched in trying to get Tesla going, he's got SpaceX and he's spending his time on Twitter fighting with people all the time. And I look at him, I'm like, "My god, running one public company's hard enough, running two, three, be involved with private companies, and that's a lot."

But it was, I don't get too down in the noise, but I try and step up and say, "What's the bigger picture here? Like this is a guy running a 60 billion dollar company, and he sleeps on the factory floor trying to get production going and some will say my god, he's a hero, look at that, others will say okay, name me another 60 billion dollar company where the CEO's sleeping on the factory floor to try and figure it out, somethings' not right here, right?" Again, you've got both camps. But to get in the weeds and to start street brawling like that and to go out and calling names like that, I mean it really makes you wonder like what the heck is going on. But it's just entertainment value, I couldn't stop reading it, I mean this company is unlike anything I've seen that the CEO is unlike anything I've seen, right? Again, some say he's a genius, some say he's not and that he's full of empty promises. Again, you've got both camps. I find it just fascinating.

So anyway, I had the cousins here, I had the normal weekend, that was it. But now we're going to talk about something near and dear to my heart, Uranium. There's a lot going on in the world of Uranium. And I wanted to bring someone is because one of the things that's the moving the Uranium markets or are keeping it on, temporarily, hold right now I should say, is a section 232 petition that was filed by two US companies, Ur-energy and Energy Fuels, with the US Department of Commerce that is petitioning the Commerce department to force the US utilities to buy upwards of 25% or 25% of their Uranium from US miners on the grounds of national security versus where they buy one to two percent now. So I'm going to bring on Jeff Klenda, who is the CEO of Ur-energy,

now for full disclosure, I am the general partner of an entity that owned shares in Ur-energy so take that for what it's worth, right? But I want to disclose that so that you know that.

But we're going to talk a lot about the Uranium macro-environment, he's going to then touch upon a little bit about Ur-energy so without further ado, here is Jeff Klenda. Jeff Klenda, welcome to the Podcast.

Jeff Klenda: Great, thanks for having me, appreciate it.

Mike Alkin: Yeah, it's great, it was good seeing you a few weeks ago at the Nuclear Fuel Marketers conference out in Monterey.

Jeff Klenda: Yeah, same here, and interesting time, I came away from that conference genuinely excited and I don't mind telling you this after all the years that we've kind of labored in the post Fukushima environment. The WNFEM conference in Monterey, there was a lot of exciting things that came out of that conference. So it was great for morale, I think, for the industry, or at least for those of us who that are producers in the industry.

Mike Alkin: You know, Jeff, I've been to a number of these conferences now and, the WNA conferences, you're right, it has been really a downer to go to these things but it certainly had a different tone to it. And at these conferences, it's not a Wall Street conference, it's not a bunch of companies sitting around with a bunch investors and you have bulls scratching the bulls back and bears poking away it and here, you really get to see what's going on in the field. Stuff that you see every day because you deal with utilities in the market and you're talking with traders and whatnot but it's nice when you get a gathering of them because it's in the air, it's in the ether, it's in the body language, and you really can get a feel and for me, I walked away saying, "Wow, this is an environment that's much more optimistic now than it has been." So speaking of that, so you're the CEO of Ur-energy, why don't you give listeners a little bit of your background? Talk about how you came to the Uranium industry and what you've done since you've been in it.

Jeff Klenda: Well, I'll tell you. I came to the Uranium industry in one word, reluctantly. Really, I was on the board of directors of multiple companies and the group of guys that I was working with out of Ottawa and Toronto, came to me and said, "Look, we think it's just a great time to be in the Uranium space." I wanted nothing to do with it, I reluctantly agreed to come on the board, I said that I would give them a two year period of time and of course, that's the way some of these things start. But now [crosstalk 00:22:06] years later-

Mike Alkin: Now why listen to his account?

Jeff Klenda: This was in 2004. So actually, it was, Uranium space was a very exciting place to be in between 2004 and 2007 and we, at that time, it's important to keep in mind that it was a very hot space, I mean there were nearly 600 Uranium companies globally, of course, today there's less than 40 and more than half of those are simply exploration companies in Canada and Australia but we set out, from the very beginning, to try and distinguish ourselves among that very large group of Uranium companies at the time and intended to be a low cost producer here in the United States and provide U<sub>3</sub>O<sub>8</sub> or Yellowcake to the United States utilities. And while we have been tremendously successful in that underrating, because Fukushima occurred almost seven and a half years ago, it's been a difficult time but for us as a company, as I mentioned, we've been up and we're going for 14 years now.

We spent about half of that time as a Permitting and Licensing [story 00:23:10] but finally got our Record of Decision in October of 2012, we filled out our processing plant, the world's state of the art ISR facility in nine months, on time and on budget which, as you know, is a rarity in just about any of the extractive industries. Spent a couple of months in commissioning and now, next month, as we get into August, we will have now been in production for five years and during that time, we have emerged as the lowest cost producer across all publicly traded companies globally. So we're very happy with our production performance, but one of the things that we've learned in no uncertain terms is that it's not good enough to just be a low cost producer, you have to have good off take agreements and high valued contracts to coincide with that and we're fortunate in that we felt that there could be some downtime after Fukushima and that we needed to make sure that our company was protected.

So we did a good job of putting long term contracts in place sort of protected our shareholders quite well. And those remain in place through the end of this decade into 2020 and 2021 so we're in a unique position, you might say, as far as the industry is concerned.

Mike Alkin: Great, well, we're going to touch a lot on Ur-energy but I want to step back if we can and let's talk Uranium macro, and as you just referenced in march of 2011, a Tsunami off the coast of Japan caused a Nuclear meltdown at Fukushima and I'm doing this for the benefit of those who may not be familiar with the Nuclear power and Uranium industry. So that took all of the 54 Japanese reactors offline. And that was about 13% of world demand. And so an interesting thing happened because of the unique market structure of the Uranium industry that work off of seven to 10 year contracts, even though a big chunk of demand came offline, a lot

of the Uranium miners were selling Uranium off of old contracts. So while, in any commodity, when there's a lot of excess supply, you see the price go down. But even though the price was going down, there was not an immediate response from the Uranium providers.

One, they had longterm contracts in place, and even the Japanese were still taking deliveries and it really wasn't until that waterfall of expirations started to hit that you started to really see it start to back up. So the seven to 10 year deals really gave a false sense of security to, I think, the miners. And it went on and it went on and it's interesting to me as I started really examining the industry two and half, three years now, that delayed response from the big guys and really taking the big production offline was somewhat surprising to me. And you mentioned the cost of production and how some of them, the low cost providers are in the \$20 dollar per pound, for context for people listening. Uranium was \$137 dollars at its peak in 2007. When Fukushima occurred, it was about \$73 dollars. And since then, it's been a slow march downward, toughed at about \$17 dollars about a year and a half ago or so. And now it sits at about \$23 dollars per pound. But Jeff, give if you can, listeners, since you were in the industry.

You were in it as it was on its ascent to '07 peak, and then you were there as it started to slowly drift down after the financial crisis, when I say it, the price of Uranium. And demand was slow, obviously, when world demand, when the global financial crisis it, you saw a little slowdown and then Fukushima comes. Walk listeners through the mindset of a CEO running a Uranium company in 2012, '13, '14, what your thought process was and maybe, what you thought the industry should have been doing instead of what it was doing? Can you kind of walk us through?

Jeff Klenda: [crosstalk 00:27:27] sure, I'll be happy to do that. And look, I think you make a great point and that is that the legacy contracts that were held by the Uranium producers, both large and small, very few of the small players, by the way, had legacy contracts. It was primarily the large players. We are really the exception rather than the rule in terms of our long-term contracts that extended through the end of the decade. But what it served to do was delay the consequences of Fukushima because, quite candidly, the descent of price in the Uranium space should have occurred much more quickly. Few people understand-

Jeff Klenda: Iranians. They should have occurred much more quickly. Few people understand that the uranium price stayed upwards of the high 50s, low 60s for more than a year after Fukushima. I'm just old enough to remember Three Mile Island and because of that I look at this as - even then, Three Mile Island was something that

was really a testimony to the safety and security of the uranium industry and the nuclear industry, rather than an indictment of it.

Yet the industry suffered for many years after Three Mile Island. And so, frankly, because we saw those prices in 2011 and '12 and '13, the very time frame you're referring to, we utilized it as an opportunity to put long term contracts in place that have protected our shareholders very well.

But I think you're spot on when you say that this is something where the market did not react appropriately. We had these long term contracts in place that unfortunately served to distort the market to a large extent. And what I mean by that is that ... for example, in 2015, we had Cigar Lake come online. Well, in a market that is declining and who's fundamentals were deteriorating, you wouldn't be bringing on the second largest producer on the planet during that period of time. Only to then turn around in the fourth quarter of 2018 and have the same company - which is Cameco - shut down McArthur River, the absolute largest producer on the planet.

Now, I'm sure they had internal reasons for doing that. But these are the very type of distortions that I'm talking about in the marketplace. And just as we opened this conversation, I think one of the things that we're seeing here are just a lot of very, very good things happening from a demand standpoint. And I mean, on a macro level. Overall, the Japanese were have - it's taken much longer than everybody thought, but let's face it. In the fourth quarter of 2017, a little more than six months ago, there were only four reactors up and running in Japan. Today, that number is nine and a 10th will soon be online. We'll have more than a dozen reactors online in Japan by the end of the year and perhaps nearly double that number by the end of 2019. So big things are happening from a demand standpoint on the macro level.

Meanwhile on the opposite side, on the other side of that equation on the supply side, we're seeing a tremendous amount of supply destruction with both Cameco coming out and announcing shutdowns in their U.S. facilities. They're Rapid Lake facility, their McArthur Lake facility that I already mentioned. And then in addition to that, you've got the old Kazakhstan shutting down facilities in Africa and most importantly you've got the 800 pound gorilla in our industry, Kazakhstan which is responsible for 40% of global primary production announcing very large production cuts themselves over a three year period of time. So you have these, all of sudden, very real increase in demand which we have not seen since Fukushima.

Simultaneously, we're seeing very real supply destruction taking place. But from a macro level, I think the thing that we probably ought to be discussing, at least to a limited extent ... are the big variable. The big "x" factor out there. And that's global inventories. And that's something that not enough people understand, that that's really kind of the deciding factor on our industry right now. And it's something that is a bit of an unknown.

Mike Alkin:

Yeah, you know, I ... it's interesting, Jeff. I've spent a lot of time doing the inventory work, and as I think about it, the inventories are ... you think about inventories, and you see there's a big number. Some people say one four, some people say \$1.8 billion pounds. There's a lot of different numbers that are thrown around.

And in a market, if we round up demand to say 200 million pounds - it's a bit shy of that - but people look at that and say, "Oh my goodness. You might have nine years' worth of supply and normally the utilities keep 3ish years of supply." Well that's a lie. But you really have to break it down into context. 'Cause inventories come in various forms. It comes in U308. It comes in UF6, which is the liquid form. It comes in EUP in rich uranium product. It comes in fabricated assemblies.

And there's different stages. There's a pipeline stage, there's the strategic. How much is being held for security of supply purposes? How much is noncommercial, held by governments? When I do that work, I come up with ... north of three years, shy of four years. So I don't think it's too crazy. I think it's within the realm of where we've seen it at prior troughs. And when the cycles have turned. But the thing that strikes me is there's that ... it's the structure of the market that I'd like to talk about. Which is how much ... the spot market versus the long term market.

In the spot market, really, how much of that inventory is mobile? So if you're not a financial intermediary, there's a handful of physical traders of the commodity around. And they move it around and they move it around for a quarter of half a dollar a pound. But then there's the buyers. There's the utilities that are coming in and topping up their needs and they're buying some uranium. How much of that can they really get access to?

And when I think about, I try to put a number on what global, mobile inventories. In other words, I go into market today. How much can I buy? And I come up with somewhere around 25, spot, 40 million pounds. And if you look back over ... years, and before Kazakhstan in 2009 really started selling heavily into the spot market because of transfer law pricing that was initiated in that country. That kind of forced them to sell into the spot market.

Yeah, and they were a much smaller player at the time. The spot market was very thin.

So not as I think about it, one of the things ... you know, you mentioned just now, these big supply cuts. By my math, is 20% of supply. And I could get to a number in the primary mind supply and I've modeled out every mine in the world. I could easily see 135 million pounds of supply, and then there's secondary supply of maybe 40ish million pounds, and I think I'm aggressive there. And demands north of 190, shy of 200 and you're kind of starting to see where a deficit is starting to develop. But ... and so you've seen all these cuts yet the price in the spot market of uranium sits at about \$23. And it's up from 20 from not too long ago. But it hasn't soared.

And people say to me, "Well Mike, how come with all the supply destruction, prices haven't gone through the roof if there's a deficit forming? If the inventories in the global market are reasonable?" And I come back to for me, it's the structure of the market which has been these long term contracts. And a lot of the utilities as we look forward ... when you look into 2020, about a third of the uranium they need is not under contract. And they normally buy about two years ahead of time. And I know you know this, I'm talking about for the benefit of the listeners.

So that means that the contracting cycle - the prior peak cycle - is expiring. They need to come to the market and true price discovery. Big size, real contracts. Half a million pounds a year. It does occur frequently in the uranium market. It occurs in the long term contracting market.

And more recently in the shorter term carry trade market, which I won't get into, but it's had a change in the dynamic of the market. And that's where financial intermediaries go out and secure supply. Use their low cost of capital and provide the utilities. Uranium may be on one, two, and three year contracts. But for the most part, the big deals get done in the seven to 10 year range. So with that being said Jeff, price discovery occurs when the big guys come to market. Now you have been involved in something that's kind of transforming the big guys when they come to market. And that's through what we call a "Section 232 Petition."

So, can you explain to listeners what UR Energy, and your partner in the 232 Petition energy fields have done with Section 232? And the implications for the uranium market?

Jeff Klenda:

Yeah, I'll be happy to. And look, I think that this is probably ... there are a number of things that I think have the potential to be

very impactful and act as cattles for the uranium marketplace. And for our company and the domestic producers in particular, the few of us that remain. And I think that it's going to happen here in the second half of 2018.

But one of the things that I think is critical to - it's just kind of a basis for this, a foundation of knowledge to understand this market is that ... One, when we were talking about those inventories, you used the correct word. What is the mobility? What is the actual number of pounds that are mobile and that would be transferred or would be sold or potentially sold into the marketplace? And that number is substantially less that what global inventories are thought to be.

And the other thing that I think is critically important is that ... you talked about price discovery, but you need to understand something. And I think your listeners need to understand something. Through price discovery is something that absolutely has not been occurring in this industry. The trade that has taken place in the uranium space, and keep in mind once again with Kazakhstan it's 40% of global primary production.

To put that in perspective, they are twice as impactful in uranium as OPEC is in oils. So when you talk about Kazakhstan, they are really something of the environment rather than calling them the industry. So what they do matters. And what they have been engaged in is ... for geopolitical purposes, they have an advantage. And they have used this as a very well-orchestrated strategy to grab control of the nuclear fuel cycle worldwide. And their end of it specifically is the very front end of the fuel cycle, uranium production. But you've got heavy government subsidies that they enjoy there. There have very low cost labor which is nearly slave labor. They have virtually no environmental standards whatsoever. And over the course of the last four years, they have devalued their currency by more than 85%.

So all told, you create this scenario where they're producing in [inaudible 00:39:04] with virtually no environmental standards, no remediation, no restoration. Virtual slave labor and heavy government subsidies, and it's being done so that they can assert themselves geopolitically around the globe. And their partner, their JV partner and half of their large projects over there are the Russians, Vladimir Putin and their subsidiary entity that for all things nuclear throws at them.

So what you have is you have a market that has been just tremendously distorted for geopolitical purposes. And we've seen this before out of the Russians in both natural gas and oil. This is nothing new. Those are the two largest income producers for the

Russian economy. Our natural gas and oil. And Vladimir Putin has never missed an opportunity to use those geopolitically as weapons against his allies and his adversaries. And so I think the idea that they would not do that in uranium is something that is naïve at best and dangerous at worse. So this is something that we've felt we could no longer allow this to happen. The United States quite frankly is in danger of losing the fuel cycle.

And the fuel cycle, you already described it.

Mike Alkin: Jeff, yeah. If you could explain that for people. 'Cause I don't think ... I've talked about it in the talks I've given, but it's so important. [crosstalk 00:40:24] Can you walk people through the pounds that we used to produce and where we are now and all that stuff?

Jeff Klenda: We don't just produce uranium and then it becomes fuel for a nuclear power plant. The reality is that it must go through a variety of steps and enhancement to become fuel for a nuclear power plant. For our civilian reactors it must first be mined as uranium. We deliver it in 875 pounds as yellow K2. The conversion facility in south central Illinois called ConverDyn which is owned by Honeywell and General Atomics, there it's converted to UF6. That UF6 is then enriched at a separate enrichment facility. And then that enriched uranium is formed into fuel pellets which are later fabricated and assembled into fuel rod assemblies that are then used as fuel for a nuclear power plant.

So this is an involved process that typically takes somewhere between two and three years to accomplish. And the reason that we felt that this Section 232 trade action absolutely had to be filed was because back in January, when we filed it, we felt that the industry ... the fuel cycle would not endure a full year after that. We felt that if not us, who? If not then, when? It had to be done. Already, there were only ... the reason that we filed this without co petitioner's energy fuels was because already the two of us constitute more than 50% of U.S. primary production.

And this year, in 2018 was still further falling production. We will actually be closer to 75 to 80 of the total amount of production that's produced in the United States. And yet it's a very anemic number. We're going to produce probably less than a million pounds in the United States. And the United States is not produced that small an amount of uranium as primary production in the United States sense back in the late 1940s since before we had a nuclear power for civilian use industry in the United States. So not only that, ConverDyn, again owned by Honeywell and General Atomics announced a shutdown. They've been shut down since November. And the only enrichment we do in this country is contract enrichment. [inaudible 00:42:38] so we contract

enrichment for the Russians for delivery to U.S. utilities here in the United States. And even then it's a very small number.

So we are in danger in allowing the fuel cycle to entirely go away in the United States. And let me just make one comment about that. This isn't just about our own energy industry here in the United States and our own national security. Even though it has huge implications for both energy policy and our own national security. Which by the way is the true use and should be the use of Section 232. But this is a ... there's a larger issue at stake here.

For the last 70 years, the United States has been the primary deterrent to nuclear proliferation around the globe. And we need to continue on in that role, as it is right now. We've got the Iranians, the Saudi Arabians, the North Koreans. All of whom want to build out nuclear power programs in their countries and we want to have a voice in what type of plants they can build. We want to be able to inspect them. We want to make sure they're not going to enrich beyond a certain level so that it can be weaponized. We have a very much invested interest in the activities in these countries. If we allow the fuel cycle to die in the United States, we are essentially forfeiting that place at the table. That's why Section 232 is not just critical for our energy policy in the United States. Not just critical to our national security. It is critical to nuclear proliferation and the prevention of nuclear proliferation around the globe. To the global community, this is an issue that we cannot afford to lose.

Mike Alkin:

Well you know Jeff, it's interesting. You mentioned a million pounds in production. For context to our listeners, the U.S. consumes upwards of 50 million pounds per year of the uranium. And it accounts for 20% of the United States electric grid. And I think sometimes if you're new to learning the nuclear power story, in the western world, people think nuclear power's a dying business. And I don't think they understand how entrenched it is and how significant it is. So what Jeff is saying is that the U.S. producers produce one million pounds a year. And the U.S. utilities consume 50 ... well, that means we're [crosstalk 00:44:57] of virtually all of our uranium.

So where do we get some of that from? We get upwards of half from very Russian friendly states. We get Kazakhstan, Russia, Uzbekistan, and then we get some from -

Jeff Klenda:

And increasingly China.

Mike Alkin:

And increasingly China. And Niger, right? So we don't control something that controls 1/5 of our power grid. And like Jeff said, we can't enrich it. We can't convert it now that [inaudible]

00:45:28] the converter has gone on care and maintenance. It's a very serious issue.

So Jeff, for the listeners, explain what 232 is. Explain where it's at and what you hope to accomplish with it.

Jeff Klenda:

Well it's a very simple process actually. This was brought about as part of the trade enhancement act of 1962. This was Section 232 under that act. And what it is intended for is that it is intended to address critical commodities that are potentially being manipulated by uneven or unequal trade activity. Which is precisely what we've been seeing out of Russia, Kazakhstan, and Uzbekistan. And where that uneven trade or that lack of free trade in a particular commodity constitutes a national security issue. Now, what we've seen here ... and this is important to understand. Is that there's been two other Section 232 trade actions, actually three. One in steel, one in aluminum, and one in foreign automobiles.

The steel and aluminum really I think that you ... there's been criticism there that the Section 232 has been misused because really neither one of those I think rise to the level of national security. And foreign automobiles certainly don't. That was being used by the Trump administration to put pressure on our NAFTA trade partners, Canada and Mexico. So unfortunately, we've been laboring a bit under that.

We filed this on January 16th of this year. It has now been six months to today, on July 16th since we filed that. We believe that there will be action very soon. The way Section 232 works is that once the investigation has been initiated ... and to give commerce proper credit, the fact is that they have been really having to deal with the tremendous amount of workload because of steel and because of aluminum. But the way it's supposed to work is that once the investigation is initiated by the Department of Commerce, they then have nine months, 270 days to conduct their investigation to write the report and present that report to the President.

In steel and aluminum, it was 264 days. The President then has 90 days or three months to either accept or reject the proposals of the Department of Commerce or propose their own remedies. But they have 90 days to do it. In the case of steel and aluminum, the Trump Administration took 14 days. So I think that this is a very effective trade action to take. The remedies are very straight forward and I think it should be emphasized. We are not asking for [inaudible 00:48:11]. This is not intended to be a protectionist move. What we are simply saying is just as you pointed out. We are importing at this point 97, 98% of our nuclear fuel needs in an industry as critical as nuclear in the United States. We're not

alternative energy. We're 20% of the base. We're 64% of carbon free emissions in the United States. So this is a firmly entrenched industry that is critical to our national security.

And so what we have said to the Department of Commerce in our Section 232 filing is we're not asking for terrorists that would propose a hardship or pose a hardship for our utility customers. What we are asking for is a quota. We are simply saying, "Ladies and gentlemen, rather than being 98% dependent on foreign producers or foreign inventories of nuclear fuel, let's keep the fuel cycle alive and let's carve out 25% for domestic producers in the United States. Preserve the front end of the fuel cycle and make sure that we maintain our relevance as a country and that we retain that seat at the table when it comes to halting nuclear discussion around the globe." That's what we're asking for with the Section 232.

And I believe that this is probably the single Section 232 filing that has the greatest importance to our national security. Uranium is a very very unique commodity. We, under national treaty, under international treaties, we must use domestically produced uranium for all things nuclear industry. Not for civilian industry, but for military. For our nuclear deterrent, for our nuclear navy. And for [inaudible 00:49:49] production, et cetera. So this is something that we absolutely must keep alive. It's critical on a number of different levels. But I think that once the investigation is open, I think that all facts will be revealed. And I believe that the outcome will be one that will result in higher contracts for domestic producers and that will serve as a lifeline for the nuclear fuel cycle in the United States. And one that will particularly benefit those few of us that will still be regarded as uranium producers in the United States. And we're a dying number at this point.

Mike Alkin:

So Jeff, let's talk about ... you said when the investigation ... I was watching Wilbur Ross testify a couple of weeks ago before one of the Senate Committees. And we asked by the Senator from Wyoming whether or not - which in Wyoming is a big producing state of uranium - where they are. And he said that they expect a decision as to whether or not to open a case very shortly. And that he had been in touch with Secretary Perry and there was some issues they had to work through.

What's your sense in the timing of an investigation being at least open? And what would be ... what would be the reason they wouldn't open an investigation? If I'm Wilbur Ross, I can't imagine wanting my legacy to be, "Yeah, I didn't even look into it." I mean, what would be the point of not opening an investigation?

Jeff Klenda: Well for one thing, if Secretary Ross were to do that I think it's ... And I've met with Secretary Ross, I was in his office just two months ago. Met with him personally. And I think ... I also met with Secretary Perry. Secretary Perry does view this as a national security issue. Wilbur Ross is a business man and he understands the business implications of this. And when you let an industry die in a country like the United States ... I think that first and foremost it needs to be understood Ross, if he fails for whatever reason to initiate an investigation into the 232 Petition filed in uranium, he will be doing so in violation of federal law. The simple fact of the matter is is that he is required by federal statute to open an investigation.

Now it was supposed to have been done immediately. I can understand given the circumstances in steel and aluminum why that didn't take place. But we have very strong reason to believe that the investigation will be initiated and in the very near term. I won't say anything more on it at this point because I'd speaking out of school. But I will say that we have every reason to believe that that's going to happen. It's going to happen very soon. And we think that when it does, it's going to set a number of things in motion.

Look, we're either going to be successful in this or the legacy of this administration will have been that they let the fuel cycle die on their watch. And if for any reason that massive amount of material that we have become so dependent on from Russian, Kazakhstan, and Uzbekistan, ceases to be delivered under our trade agreements ... and that can happen at any time for geopolitical purposes. It could be a retaliatory sanction after we've put numerous amounts of sanctions on the Russians and some of their confederates and [inaudible 00:53:09]. So the legacy of this administration would be their failure to save the fuel cycle. And I don't think they're going to let that happen.

Mike Alkin: I mean, just in the past couple of months in the Russian Duma they've passed a legislation that allows them to sanction important materials. And one ... [crosstalk 00:53:27]

Jeff Klenda: That is something that was largely misunderstood. And I'll just interject something there. Initially, it named nuclear fuel. Then it was later removed in the utilities that consume uranium and nuclear fuel in the United States took that as victory. Seeing we knew they would never halt the transfer of nuclear fuel. No. What it became is they removed mention of any trade material or trade goods whatsoever. And it effectively became an omnivorous bill which gave Vladimir Putin the ability, the authority by the Duma, to halt the transfer of anything he sees appropriate as a retaliatory trade action. So it threw the door wide open. It did not shut it off

to nuclear fuel as the utilities would have the press in the United States consumers believe. But rather it threw the door wide open on that.

Mike Alkin: Yup. So speaking of the utilities, one of the things we talked about earlier in our conversation was price discovery. And we're up against that window for these utilities to come into the market and start to get to contracting. And last year, there were some requests for proposals that were out in the marketplace. And I saw some of them. The utilities really were thinking that, "Okay, I know it costs the global average uranium miner \$50 to pull it out of the ground. Let's see where we could keep pushing them."

And they wanted to pay 28, 29, 30, 31, 32 dollars. And I don't they really appreciated that there was real resolve on the part of the miners. They weren't going to pay that. So now ... but they need to come back to market. So nothing really got filled last year of any size. And now, first quarter of '18 comes along and the plans were, "Okay, let's go back and test it again." And then 232 comes. You guys file that ...

And as I understand, that's putting kind of a hiatus on the purchasing in any size from U.S. utilities which are 30% of global purchases. So explain why a utility would do that. Educate our listeners for what would cause them to just step back for the moment until they get some clarity? Which now prevents real price discovery from taking place in the short term.

Jeff Klenda: Well ... and Mike, I'll tell you what. That's a great point. And I'll tell you why it is. Because you mentioned earlier when we started this discussion. People question you and ask the question all the time, "Why have we not seen it? We're seeing all these great things happen from a demand standpoint. Significant portions of the inventory are being consumed because there's a significant deficit." Real legitimate supply -

Jeff Klenda: ... the significant deficit, real legitimate supply destruction is taking place. Why haven't we seen it in pricing? I hate to have to confess it, but in large part, that may be due to my actions because when we filed ... It's not a good thing for a producer to saying, but the fact is is that-

Mike Alkin: No, but I get it. I understand it, but it's good for listeners to understand.

Jeff Klenda: Well, and they did. Yeah, and what happened here was that, and we know this to be the case, is that the utilities said, "Wait a minute. If we may very well ... " because they understand. This is a legitimate issue. We didn't bring some frivolous Section 232

action here. Uranium is critical to this country's national security and to our energy policy overall, and if you really want to be serious about fighting climate change, we have to be part of that solution. There's no getting around it.

So the utilities looked and said, "Look, if I'm going to have to buy now a certain percentage of my uranium from domestic producers," if Section 232 is successful, and I think they believe that it is going to be successful, the immediate response by them has been to, "We're going to sit on the sidelines. We're not going to go in, and then we're not going to aggressively going to push up price even though we see all these new great demand fundamentals that are reasserting themselves." As we, we talked about some of those that came out of the WNFM conference just a couple of weeks ago, and it's really causing them to sit on the sidelines now, so price has really kind of stagnated down here in this kind of 22-24 very small range because the utilities are not willing to commit themselves to additional large-scale, long-term purchases, which makes sense because they need to wait and see what the outcome of this is going to be.

I think that actually, this is a good development, and in this case, while I would normally certainly as a producer be in favor of higher prices, the fact that the utilities are now sitting on the sidelines in deference to what a very positive outcome could be for me and my shareholders at your energy, I think this is a positive development, not just for us as a company, but for the industry in the United States.

If the United States allows the fuel cycle of that, it won't be because we didn't take up the battle. We were fighting the battle as best we can. We believe we're going to be victorious in this, despite the fact that we are very small compared to the size of the utilities in the United States, but we're fighting a ... It's a righteous and just fight, and we believe that we will prevail because of that. But that is probably the primary reasons why price has stagnated, so I'm afraid I must accept a certain amount of culpability in that.

Mike Alkin: Well, Jeff, I think ... I know how the negotiations work. People who are not familiar with the industry think it's as simple as a utility calling a uranium miner and say, "Hey, let's get a deal done," and it takes place overnight. There's a lot of work that goes into these things, and it takes a while.

Jeff Klenda: It does.

Mike Alkin: If I'm the utility, why would I want to enter into contracts if they might have to get undone down the road? I would want some more certainty [crosstalk 00:58:58]

Jeff Klenda: Well, and I think that one of the things that unfortunately has come of this Section 232 filing is that we have really truly gotten a sense for how oversupplied the utilities have allowed themselves to get because of the Kazakhstan, Uzbek and Russian dumping in the market. I use that term very carefully because typically, when you're referring to dumping, you're talking about a method of selling a given product that violates international trade rules and regulations, where they are discounting to current market at uneconomic prices and doing it for the purpose of giving themselves an unfair advantage in a trade situation. But that has absolutely been the case.

You mentioned earlier that Kazaks, because of legislation within their country when they were a much smaller producer, decided for whatever reason, that they would only sell into the spot market. Well, we know that they've been heavily discounting to the market over the course of the last several years. This has been one of the primary reasons that we had gone from \$44 a pound in the fourth quarter of 14 to now the third of 18, being at \$23 a pound, has been almost 100% due to the Kazak actions in the market, undercutting the market and grabbing market share, which has been a brilliant move on their part, but it has absolutely worked to the disadvantage of our nation, our country's best interest, and it has really strengthened our adversaries around the globe that don't necessarily share our democratic values, so this is a critical issue.

Mike Alkin: Well, Jeff, one of the other question I get asked a lot is, "Okay, so why won't the Kazaks just keep dumping?" I mean from the work I've done, I think there is a big misunderstanding what their actual costs are. I mean they produce, and we'll talk about this in a minute, they use ISR mining, which is a method of mining that has lower upfront cost, but a lot of actual maintenance cost, and when you look at all-in cost to produce, it's higher than their cash costs and not nearly as low as some people think they are. But when pricing was higher, it still allowed them to benefit from it. But people say, "Why won't they just keep doing it?"

I point to the fact that the company is now, it's a state-owned company that now is selling a portion of itself to the public. You know, as the CEO of a public company, when you have shareholders to report to and you have much different accountability, that requires discipline to come in. They also have, I think have to understand that the Kazaks didn't wake up one night and say, "Okay, we're going public." 20% of their state budget is really oil and gas related. In 2014, when oil and gas cratered, that created quite a hole in their balance sheet. That's when they really went on a mission to privatize a lot of their state-owned assets. They brought a big major consulting firm in. They did a lot of work. They tried to really understand how they can improve

it. There was a lot of change that needed to take place because it really was like an old Soviet-style mentality of produce, produce, produce and at the expense of cost. Don't worry about it. Now, that seems to be shifting. What's your sense of that?

Jeff Klenda:

Well, I think that's absolutely correct. I think that when you take a look at what the potential catalysts are for our industry in, let's just restrict it to the second half of 2018. Forget about the supply demand fundamentals and the ramp up in demand and the real supply destruction that we talked about. I've always said that I felt that those supply demands fundamentals would begin asserting themselves in the second half of 2018. I've been saying that for more than a year now. Actually, I believe that that's already occurred in the first half of 2018. Let's also take off the table the idea that there could be a black swan event geopolitically that just causes the cessation of any transfer of nuclear fuel to the United States and the West coming out of Kazakhstan, Russia, Uzbekistan, and China and what kind of dislocations that would cause. They would cause massive ramp-up in price overnight immediately.

The two things that I think are going to serve as the biggest catalyst for our industry this year are going to be one, I believe that there will be a positive outcome from our Section 232 finally. But the other thing that I think it could have an equally strong impact on our market in the second half of 2018, is the Kazak IPO. Now, what they're going to be doing here is that this being led by a number of very large houses. It's a very large IPO. The Kazaks have actually made a lot of plans for that money. They've written a lot of checks against that successful IPO. They're not going to have a successful IPO where they're going to have a less successful IPO at \$23 a pound. They really need pricing north of 30, probably even at 35 or greater to really have a successful IPO.

They've already said, their chairman has been very vocal. He's come out, and he said, "We will use this to develop other forms of energy. We will use this for further exploration and development of our uranium assets, and most importantly, we intend to pay upwards of the next 10 years of social programs from the proceeds of this IPO."

If you take a look at the Kazaks and remember that they are 40% of global primary production, they're selling 25% of themselves, so effectively, what's on the block here is 10% of global primary production. That's big in any commodity.

What kind of an impact could this have? Well, their chairman has come out as recently as three weeks ago. He's been very vocal in the marketplace saying, "This IPO will go off in October. We are all set to go." They are going to be doing it on the London AIM

exchange, probably also in Astana, their home market. I believe that they will likely also include the Hang Seng in Hong Kong as a third market where they will do the IPO.

He has already said, their chairman has already come out and said, "We will cut production as necessary to facilitate higher prices to make sure that we have a successful IPO." Out of his mouth. I mean this is what their chairman is saying to the marketplace.

I think this is going to have a tremendous impact on the global pricing of uranium, whereas our Section 232 will have more of a domestic impact here in the United States. But I believe that since they are such massive producers and providers of uranium globally, if they significantly cut production and decide that they want uranium at \$35 a pound, uranium's going to be at \$35 a pound. They have that type of influence over the market.

I believe that those two issues, the Kazak IPO and Section 232 are going to be probably the two biggest market drivers in the second half of this year.

Mike Alkin:

We're going to talk Ur-Energy. Before we do, I just want to put a disclaimer there I am the general partner of an entity that owns shares of Ur-Energy, so for listeners, understand that. Do your own work. I'm a shareholder of Jeff's company. I think that's important to always, to disclose.

Ur-Energy is, you're an ISR miner. Folks, for those of you who are not familiar with it, it's in situ recovery. There's really two ways to mine uranium. One is conventional, which would be either hard rock or underground ... It's hard rock, but it's underground or open pit, so you go underground like you would see mine shafts or a big open pit where you would see a lot of trucks, or you have in situ recovery, and you kind of could think about that like an oil and gas drilling where you put a drill down on the ground, you lay some pipe, you put a solution down, you separate the mineral, and it comes up through some pipes, and it goes into a processing facility.

Now, the open pits and the conventional ones typically cost more on the upfront side to build, a little bit lower maintenance, whereas the ISR facilities could probably get done for a little bit less, but they have maintenance costs. They have to replace wellheads, and they have to spend money doing that.

Ur-Energy, Jeff, why don't you explain what Ur-Energy is and the type of mining you do and give a little background on the company?

Jeff Klenda:

I think you fairly well summarized it, but effectively, think about us solutions miners. If you can envision the five spot on a dice, the four corner wells would be injection wells. The center well would be an extraction or a production well. What we do is that we pump a bicarbonate of soda, effectively highly enriched with oxygen Perrier water, through the formation, dissolve the uranium in place or in situ, we pump out that impregnated solution. Comes in where it goes into our ion exchange columns where it's coated onto millions of tiny polymer beads. Then, it attaches itself, the uranium does to these millions of tiny polymer beads. It is then diluted where we take a saline solution, and we wash the uranium off the beads. The beads go back for reuse in the ion exchange column. Then, what we do is that we take that highly-enriched eluent, and we run it through a series of circuits in the plant where it is precipitated [inaudible 01:08:15] watered and then filtered, pressed, dried, and packaged as yellow cake, and we ship it out the back door in 875-pound drums. That's the process. It is very environmentally friendly.

The thing that's important to understand is that 10 years ago, less than 10% of global production in uranium was done by an in situ. Today, that number is in excess of 50%. There's no question that it is far and away the most cost-effective and environmentally-friendly method for producing uranium. Unfortunately, the bulk of that is done in Kazakhstan where they are entirely in situ producers, and they leach with sulfuric acid, which is much more toxic, and it's actually left in the subsurface. This is one of the complaints we have, and one of the reasons why we feel that this has not been a level playing field.

But nonetheless, despite the fact that we have much higher environmental standards of the permitting and processing, is a permitting licensing rather than I should say, is a much more involved process. We spent seven years in permitting and licensing here in the United States. But at the end of the day, we still emerged as one of the lowest cost producers in the world.

Now, the Kazaks had the advantage of producing in Tenge and selling in dollars, which gives them a big advantage, and with the heavy state subsidies. That's why they have grown to the size that they have and are able to influence the market the way that they do. But yes, I think that what we are going to see here is that we will see more and more of the global production represented by in situ recovery because there's no question about it. It is without a doubt the most cost effective and the most environmentally friendly when done properly.

Mike Alkin:

So Jeff, so talk about your flagship project, Lost Creek.

Jeff Klenda:

Well, Lost Creek is out in the Great Divide Basin, which is in the South central part of the State of Wyoming. It's right in the middle of uranium country there. We've been working on it. It was very much a greenfield project when we acquired it back in 2005. We spent, as I mentioned, seven years in permitting and licensing. It has two million pounds per year capacity, and we've run it as high as produced about 800,000 pounds there in 2015 when we had a larger number of contracts and could justify it.

One of the things that happens is that the economies of scale really kick in with Loss Creek. The more we produce, the lower our costs, and so we actually got down into the mid, kind of 16 and 16 and a quarter range, mid-teens, when we were producing at a higher level back in 2015.

Since that time, we've actually reduced our production to where now, in response to market conditions, we're only producing about 300,000-350,000 pounds this year there at Loss Creek because our contracts were such that we can produce that amount and justify it. We're really doing a good job of containing costs. One of the things that we've done is that in response to the very challenging market conditions, we have cut staff. We've now had three reductions in force since Fukushima, so that's something difficult and that you don't like having to do, but we have felt that we've had to do it to respond to market conditions.

But the thing that we have maintained is what we call operational leverage. We have really focused on keeping our operational staff on. The fact is, is that we lose our operational staff ... For example, we let them off or we lay them off. We're going to lose them to the oil patch, and we're never going to get them back. That's something that we absolutely don't want to do. We've got a great staff there that has demonstrated that they can produce some of the lowest costs in the world. We want to make sure that we retain them because if we are successful in Section 232, we want to have the ability to tell the United States utilities we can ramp up. We can ramp to 2 million pounds a year. We can do it very quickly, and we are one of the few companies that can do that.

I think that this is something that really is an important distinction for our company because typically, when you take a look at the uranium players, what they have done is that they have touted their optionality, if you will, what they consider to be their leverage in the marketplace is all these pounds in the ground. Well, in another era, that might've made sense because you could just look at it and say, "Well, gee. This is what constitutes optionality, and this will ultimately allow them to be a much larger producer." Those days are really [inaudible 01:12:42]

What I mean by that is that we believe now, the leverage that we have maintained, the operational leverage, the ability to go from 350,000 pounds to say 2 million pound a year run rate in about a two-year period of time, if far more relevant in today's market than pounds in the ground that, let's face it, we all know the reality of this. 95% of those pounds will never see the light of day. So operational leverage is now the most critical form of leverage, and that is what we have worked hard to maintain as a company.

Mike Alkin: A couple of things here. For listeners who aren't familiar with ISR mining, can you talk about cash cost and what your all-in cost to produce is? And then also, the reference you just made, most of those pounds aren't coming out. Can you explain why?

Jeff Klenda: Well, first of all, I think that it's important to understand that there are ... And it's not just in uranium. Let's clarify this and put it in a broader context.

Mike Alkin: Yep.

Jeff Klenda: Whether you're talking about zinc and copper and you're talking about tons of ore that you are ... or tons that you have in the ground or you're talking about gold and silver and you talk about ounces in the ground or you're talking about uranium where you talk about pounds in the ground, there are a number of different cost structures there that need to be applied to the actual production and development of those resources. Unfortunately, the exchanges, in our case, the Ontario Securities Commission or the SEC, they have very strict definitions of what you can call, resources are just inferred or ...

Mike Alkin: Measured and indicated.

Jeff Klenda: Indicated or [crosstalk 01:14:17] categories of resources. But they don't have clear guidelines as to how you express those in your press releases, so one company may be expressing purely in C1 cash cost. Others in C2 or C3 because there's a lot of different levels of cash cost that go in, and then you have an all-in cost that brings in the acquisition of the actual property itself, all of the costs associated with the production of that resource, all the way through to full restoration and reclamation of the property. That's your all-in cost.

For us, for example, when we were able to produce at 800,000 pounds a year in 2015, we got our C1 cash cost down to about \$16.26 a pound. Now this is a forward-looking statement, but we've always felt that if we could go to a million to a million and a quarter pounds a year at Loss Creek, that we could get cash cost down perhaps as low as \$13-\$14 a pound. Again, a forward-

looking statement. We'll have to find out when we get there.

But then all-in cost at that time were right about \$10 more. They were just under \$27 a pound, all in, and that includes the acquisition of property from the beginning of time to full reclamation and restoration and every cost of production in between. Right now, our costs have risen because we've lowered the amount of production down to 300,000-350,000 pounds this year, so our actual cash cost have risen to just under \$30 a pound and with all-in cost now over \$40 a pound.

For us, it's a function of whether or not we get those economies of scale, and you only get those through producing more uranium, and we need to have larger long-term contracts in place to be able to justify that. Right now, we're producing at a level that's consistent with current market conditions. But we're hopeful that with a successful outcome on Section 232 that we will have larger long-term contracts for a couple of millions pounds a year at a price that incentivizes us to ramp up production and sustain that production and be the long-term, dependable provider to the US utilities that we always intended to be.

Mike Alkin: And not to give away your negotiating leverage at the table, but what is an incentive price for you?

Jeff Klenda: Well, I think that for us, first of all, I think that ... It's important to understand that we don't operate in a vacuum. Section 232 will include our co-petitioners and what their cash costs and all-in costs are and potentially other producers in the United States as well. That remains to be seen. But I think that for us, you mentioned it earlier that the average cost globally is thought to be somewhere in the \$50 range that's necessary just as breakeven price, so it would have to be north of that figure. We have demonstrated because we have contracts in place that average about \$50 a pound, we have demonstrated that we can be slightly positively cash flowing. In fact, to the best of my knowledge, I think we are the only cash flow positive company remaining in the entire nuclear industry ... or uranium industry right now, and we're doing that at \$50 a pound.

I think that our shareholders obviously don't buy us because they just want to break even or they want to be slightly cash flow positive. Obviously, we'd like to have contracts in place that incentivize us to build out and to ramp up production, and so it's going to have to be something higher than that number.

Mike Alkin: I think sometimes people myopically look at cash cost, all-in cost and forget about your other costs. You got to run the place.

Jeff Klenda: Well, they do, and then ... Yeah, the corporate costs, which of course overlie everything, and so yes, I think that we can be ... And our Section 232 finally, clearly demonstrated this. Even if you factor in all the advantages, the heavy government subsidies, the devaluation the Tenge to our dollar and the other advantages they have in production, on a level playing field, you factor for those things. There's only one project in Kazakhstan that we could identify that we think had slightly lower cost overall than our Loss Creek project, so it's not that we're uncompetitive.

When we're talking about Section 232, this is not some 1930s style Smoot-Hawley type of protectionist trade policy that we're advocating. Once again, we're not advocating for tariffs. We're simply saying, "Guys, preserve a certain percentage of the domestic consumption market for US producers. Let's keep the fuel cycle alive and make sure that we have that place at the table internationally." That's what it's really all about, and our national security is really critical.

One of the things that I think a lot of people don't like to talk about is what happens? What if Vladimir Putin decides one day we're going to halt the transfer of all nuclear fuel to the United States and anybody else we think it's appropriate as a retaliatory sanction? Our United States utilities would be in crisis almost overnight. This is something where it would have just a tremendous impact if ... In fact, if Vladimir Putin ... He just said there will be retaliatory sanctions. He hasn't decided what those are yet. He's being very slow and very deliberate in his responses, but I believe that if he wanted to have the most impact on the United States, nuclear fuel would likely be the way to do it, and that, I'm sure is not lost on Mr. Putin.

Mike Alkin: Well, Jeff, I can't thank you enough. I really appreciate your time.

Jeff Klenda: It's absolutely my pleasure. You know, I love to talk shop any time. I think that we have done everything we possibly can as a company. We've responded appropriately to a very difficult market. We have absolutely done everything we ever said we would do as a company, and unfortunately ... I mean if somebody would've told me five years ago, "Hey, you're going to get into production. You're going to become the lowest cost producer in the world. You're going to have these long-term contracts protecting your shareholders through the end of the decade, and your stock's going to trade under a dollar," I would've thought that would never be possible.

But yet, it's the situation we find ourselves in, and as a small company, one of the things I will give us credit for is that there are not many instances where a micro-cap stock can actually engage

in its own industry in a manner that may very well change the industry and have long-term impact on that industry. But yet, that's what we've done with our Section 232 filing. I think it's not only something that is going to preserve the fuel cycle in the United States. I think that it's going to do something that will legitimately contribute to the national security of all the citizens of the United States and preserve our seat at that table in the global discussions as well. We're proud to do the things that we've done.

Mike Alkin: Good stuff. I'll be in touch soon. Thanks, Jeff.

Jeff Klenda: Mike, thanks so much. I appreciate you having me.

Mike Alkin: You bet. Take care.

Jeff Klenda: All right. Bye for now.

Mike Alkin: Okay. I hope you enjoyed the conversation with Jeff. I speak to a lot of guys in the uranium world, a lot of CEOs, and Jeff really has a great handle on the macro uranium market. He's an eloquent speaker and a really, really sharp guy. I always enjoy speaking with him. I had breakfast with him out at the ... in Monterey a couple of weeks ago, maybe three, four weeks ago ... Four weeks ago now. At the nuclear fuel marketing conference. We spent some time talking and really enjoy speaking with him. I hope you enjoyed it, and until next time, hope you have a great week, and we'll be back next week. Thanks.

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