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Azarga primed to ride uranium revival

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Alexander Molyneux, Chairman of Azarga Uranium (AZZ.TO), in a Bloomberg photo

Alexander Molyneux grew up with one foot in Australia and the other in Hong Kong, so he had a front-row seat to the rise of Asia and the demand for energy in a rapidly growing world.

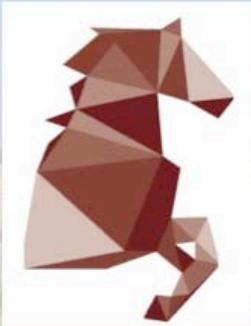
The nuclear winter brought on by Fukushima and the accompanying flight of capital afforded him the opportunity to get directly involved in the uranium sector.

The result is TSX-listed Azarga Uranium (AZZ.TO), which emerged from the combination of privately held Azarga Resources and Powertech Uranium.

The company's flagship deposit is the advanced-stage Dewey Burdock project in South Dakota, which is in the final stages of permitting on the path to production. Azarga has also assembled projects in Colorado, Wyoming and Kyrgyzstan, and owns stakes in two Australia-listed uranium explorers, Black Range Minerals and Anatolia Energy, with projects in the U.S. and Turkey, respectively.

"In the uranium downturn when no one was looking, we were able to analyze and objectively work out where the best projects on the planet were and try and buy them," Molyneux, Azarga's chairman, said in a recent phone interview from Hong Kong.

Azarga Uranium overview



TSX: AZZ

Dewey Burdock

- Highest grade US in-situ recovery (ISR) development mine
- Partially permitted with first production and revenue planned 2016/17
- PEA with US\$109.1m NPV¹

Centennial

- PEA with US\$51.8m NPV²
- Revised mine plan being prepared to move to permitting

Investments

- US\$5.2m of investment holdings in Anatolia Energy (ASX: AEK) and Black Range Minerals (ASX: BLR)

Last 12-Months Achievements

- October: Reverse merger listing on TSX, with C\$5m placement at C\$0.60/share
- August: Data purchase agreement with Energy Fuels
- April: Final Nuclear Regulatory Commission license issued for Dewey Burdock

Notes: 1. Source: NI 43-101 Preliminary Economic Assessment Dewey-Burdock Project. SRK, 17 April 2012. 2. Source: NI 43-101 Preliminary Assessment Powertech Uranium Corp. Centennial Uranium Project Weld County, Colorado. SRK, 2 June 2010.

The timing couldn't have been better.

The price of uranium has climbed to \$43/lb from multi-year lows of \$28 in the summer, prompting a rally in the shares of uranium producers, developers and explorers. The spot price has since dropped back to \$40/lb but Molyneux is bullish, telling Bloomberg TV in a recent interview he expects the price to climb to the \$70 to \$80 range.

An NI 43-101 resource estimate for Azarga's Dewey Burdock shows more than 6.6 million pounds of indicated and another 4.5 million pounds of inferred resources contained in 2.8 million tons averaging 0.198% uranium.

Dewey Burdock would mine the uranium using in-situ-recovery (ISR), a low-cost, low-impact method that gives Azarga an advantage over higher-grade deposits that require much more intensive mining methods, Molyneux says.

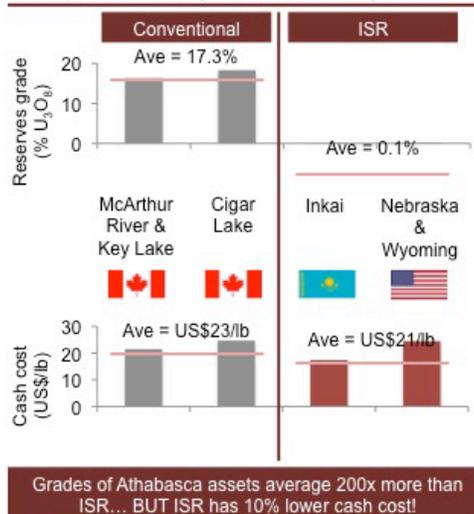
"In uranium, grade is not king, uranium mining method is king. And in-situ recovery is the lowest cost."

In an ISR process, injection wells similar to those used to access water reservoirs are driven down into the fractured host rock containing the uranium. A solution is pumped into the ground and returns to the surface containing the dissolved uranium particles.

Grade is not king!... ISR amenability is!

- In-situ recovery (ISR) has been the fastest growing source of uranium production – Now >48% of global total production
- No movement of rock, no dust or tailings
- Solution is pumped into the ground and returns to surface containing the dissolved uranium particles
- Average global cash costs are c. 25% cheaper than non-ISR
- Capital costs per lb of production around 65% cheaper
- New projects in Athabasca can be high-grade but in general fail to achieve project economics of ISR in USA or Kazakhstan
- Only sandstone hosted deposits with the right hydrological and geological conditions are amenable to ISR

Conventional vs. ISR grade and cash cost comparison using Cameco as a guide



Notes: Data sourced from Dundee's Cameco research note of 29 October 2014. Cash cost numbers are 2016F to take into account when all comparable assets are in steady state production (ie, after Cigar Lake has ramped up to 8m lb pa).



Azarga is currently updating its April 2012 PEA that shows a pre-tax NPV of \$109 million (8% discount) with an IRR of 48% based on \$65/lb uranium and initial capital costs of \$54.3 million. Production costs average about \$33/lb.

Even at \$50/lb uranium, Dewey Burdock has healthy profit margins, Molyneux says, and capex will be lower in the new PEA.

"We have projects that can be built in the current uranium price environment at the current time. There's almost nobody else on the planet that has that."

Molyneux's connections to high-net-worth individuals and Asian capital pools could come in handy when it comes time to build Dewey Burdock, which has initial capex of \$54.3 million according to the current PEA.

Earlier this year, the U.S. Nuclear Regulatory Commission approved an operating licence for Dewey Burdock, but the project still requires environmental permits before it can start mining. Molyneux expects those to land in early 2015.

The Australian entrepreneur views uranium as a big part of the answer to the global energy riddle, where population and economic growth threaten a changing climate.

The big-time move into uranium came after a somewhat messy exit from SouthGobi Resources, the Mongolian coal miner that he grew to a \$4-billion-plus market capitalization.

His partners in the new venture include Azarga's director and VP of international operations Curt Church, formerly SouthGobi's chief operating officer.

"We decided uranium had to be a core component of our next 30 years," said Molyneux, former head of metals and mining investment banking, Asia, at Citigroup. "It's the only energy that can solve the world's climate crisis in that time horizon."

The bullish demand outlook for uranium is well-documented. Japanese nuclear reactors are set to slowly come back online, with the first reactors likely restarting in January or February, Molyneux anticipates. More importantly, he says, the psychology of Japan's return is helping to "normalize" the uranium market.

The growth of nuclear continues apace in China, which represents 40% of new nuclear power plants under construction. Molyneux believes China is actually accelerating their nuclear program, with the possibility of tripling nuclear capacity by 2020.

China is not the only country ramping up nuclear – even the United Arab Emirates is expanding its nuclear capacity – and nuclear still generates 20% of American electricity.

As the price of uranium increases, attention will shift from exploration to production and development stories, Molyneux predicts.

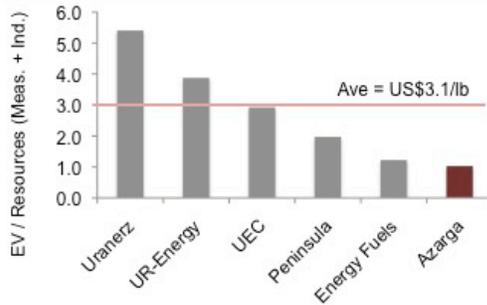
"The Fissions of the world are going to have interesting projects, probably in about 8 years when finished all their exploration and pre-development work. But who knows what uranium prices are going to be in 8 years time," says Molyneux. "When uranium prices go up, more attention is paid to fundamentals and companies that can generate cash flow from higher uranium prices."

"Sophisticated investors have been ignoring the sector."

Two ways to look at value

Peer trading comparison

Trading valuations of US asset owner peers



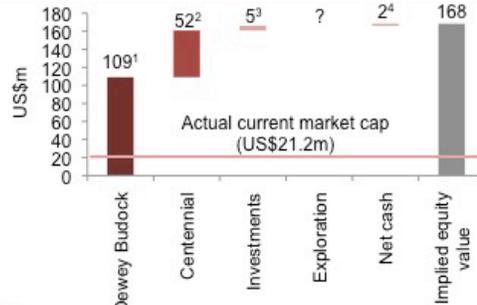
- Azarga currently trades at US\$1.1 per pound of Measured plus Indicated Resources – A 3x re-rating would bring it in line with peers

Notes: Share prices selected as at 3 November 2014. Net debt calculated based on last reported. Resources are calculated as the sum of Measured plus Indicated NI 43-101 Resources other than for Peninsula where it is the sum of Measured plus Indicated JORC Resources.

Azarga URANIUM

Sum-of-the-parts valuation

Equity valuation – Proj. NPVs and market



- Using project PEA NPVs for DB and Cent. plus market value of investments and book value of net debt implies a value assessment 8x current level

Notes: 1. Source: NI 43-101 Preliminary Economic Assessment Dewey-Burdock Project, SRK, 17 April 2012. 2. Source: NI 43-101 Preliminary Assessment PowerTech Uranium Corp. Centennial Uranium Project Weld County, Colorado, SRK, 2 June 2010. 3. Market value as at 3 November 2014. 4. Balance sheet pro-forma as at 31 October 2014.

Access to those investors and to pockets of capital in Asia is another of Azarga's unique advantages, says the well-connected Molyneux. He describes Azarga as a "hidden story" whose valuation has become disconnected from those of peers including: Uranerz, Ur-Energy, Uranium Energy and Uranium Resources.

Despite the recent sector-wide rally, Molyneux believes uranium equities still offer leverage to the spot price. He thinks uranium will normalize at the \$70 level but probably double from current prices to the \$80 level.

"The uranium sector revival is a 2015 to 2017 event."

[\\$AZZ.TO](http://$AZZ.TO), AzargaUranium.com, and [@AzargaUranium](https://twitter.com/AzargaUranium) for more information. They have put together an impressive web site which is worth checking out [here](#).

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Cautionary Note Concerning Technical Information

Unless otherwise indicated, technical information on this website regarding the Dewey Burdock Property is derived from the Company’s technical report entitled “Updated Technical Report on the Dewey-Burdock Uranium Project Custer and Fall River Counties South Dakota” with an effective date of March 1, 2010 prepared by Jerry Bush P. Geo. Such information is based on assumptions, qualifications and procedures, which are not fully described herein. Reference should be made to the full text of these technical reports, which were filed under the Company’s profile on SEDAR at www.sedar.com, you may also find the report here. Richard Clement is a Qualified Person under National Instrument 43-101 – Standards of Disclosure for Mineral Projects and is responsible for and has approved the technical disclosure on this website.

Unless otherwise indicated, technical information on this website regarding the Centennial Property is derived from the Company's technical report entitled "NI 43-101 Preliminary Economic Assessment Powertech Uranium Corp. Centennial Uranium Project Weld County, Colorado" with an effective date of June 2, 2010 prepared by Allan V. Moran, R.G., CPG and Frank Daviess, MAussIMM. Such information is based on assumptions, qualifications and procedures, which are not fully described herein. Reference should be made to the full text of these technical reports, which were filed under the Company's profile on SEDAR at www.sedar.com, you may also find the report here. Richard Clement is a Qualified Person under National Instrument 43-101 – Standards of Disclosure for Mineral Projects and is responsible for and has approved the technical disclosure on this website.

Unless otherwise indicated, technical information on this website regarding the Aladdin Property is derived from the Company's technical report entitled "Technical Report on the Aladdin Uranium Project Crook County, Wyoming" with an effective date of June 21, 2012 prepared by Jerry Bush, P. Geo. Such information is based on assumptions, qualifications and procedures, which are not fully described herein. Reference should be made to the full text of these technical reports, which were filed under the Company's profile on SEDAR at www.sedar.com, you may also find the report here. Richard Clement is a Qualified Person under National Instrument 43-101 – Standards of Disclosure for Mineral Projects and is responsible for and has approved the technical disclosure on this website.

Unless otherwise indicated, technical information on this website regarding the Kyzyl Ompul Property is derived from the Company's technical report entitled "NI 43-101 Technical Report on the Kyzyl Ompul Licence, Kyrgyz Republic" with an effective date of April 14, 2014, prepared by Stephen Hyland P. Geo. and Samuel Ulrich P. Geo. Such information is based on assumptions, qualifications and procedures, which are not fully described herein. Reference should be made to the full text of these technical reports, which were filed under the Company's profile on SEDAR at www.sedar.com, you may also find the report here. Curtis Church is a Qualified Person under National Instrument 43-101 – Standards of Disclosure for Mineral Projects and is responsible for and has approved the technical disclosure on this website.

Disclosure of Mineral Reserves and Mineral Resources

Readers are advised that National Instrument 43-101 ("NI 43-101") of the Canadian Securities Administrators requires that each category of mineral reserves and mineral resources be reported separately. Readers should refer to the most recent annual information form of Azarga Uranium Corp. ("Azarga") and other continuous disclosure documents filed by Azarga, available at www.sedar.com, for this detailed information, which is subject to the qualifications and notes set forth therein.

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Indicated Mineral Resources will ever be converted into Mineral Reserves. United States investors are also cautioned not to assume that all or any part of an Inferred Mineral Resource exists, or is economically or legally mineable.

Tommy Humphreys

Tommy Humphreys, 28, is an entrepreneur, investor and writer from Vancouver, Canada. He founded CEO.CA, one of the top resource development investment web sites, known for its professional interviews of dynamic mining and energy entrepreneurs, in 2012. He has been the President of Pacific Website Company Inc., a privately owned marketing consulting and investment firm, since 2007. Tommy is an occasional contributor to Globe and Mail's Streetwise and other publications. He speaks at select conferences. Reach him by email: tommy@ceo.ca. Follow him on Twitter: [@TommyHump](https://twitter.com/TommyHump)