

Uranium Resources' Merger with Anatolia Energy a Clear Winner

by [Peter Epstein](#), Epstein Research

Uranium Resources' Merger with Anatolia Energy a Clear Winner

The following interview of Mr. Christopher Jones, **President and CEO of Uranium Resources Inc. (Ticker: URRE)** was conducted by phone and email in the week ending August 6, 2015. Uranium Resources (URRE or "URI.") is a small cap uranium company focused on closing a proposed merger with **Anatolia Energy (ASX:AEK)**. If the proposed merger closes (anticipated in late September), the resulting company would have a market cap of about US\$ 41 million.

Importantly, all references to the merger and pro forma company are subject to the likely, but to be determined consummation of the merger. Words like, should, would, could, anticipated, possible, might, expected, and proposed (and others) are deemed to apply, as appropriate. As this is a verbal / email interview, those conditional terms may not have been used in every reference. Mr. Jones, URI's management team and Board believe that the merger is likely to close, especially as the support of key shareholders of both companies has been obtained.

Christopher Jones joined Uranium Resources as President and CEO in April, 2013. Mr. Jones has more than 30 years of experience in positions of increasing responsibility in senior management as CEO and in operational leadership roles in the mining and energy industries. He is a member of the American Institute of Mining, Metallurgical, and Petroleum Engineers and

is a Professional Engineer registered in Utah and Alberta. Mr. Jones received a Bachelor of Science in Mining Engineering at the South Dakota School of Mines and an MBA from Colorado State University. Please see applicable disclosure(s) at the end of the interview.

Please describe Uranium Resources, Inc., Anatolia Energy Limited and the proposed combined company.

On June 3, 2015, we announced a transformational merger of **Uranium Resources** and **Anatolia Energy Ltd** to create the next ISR uranium producer in the world and a leading international uranium developer with high-quality ISR and conventional uranium projects. The merger would create a dual listed (NASDAQ + ASX) company that has the lowest Enterprise Value per in-situ pound of uranium amongst its uranium peers.

URI shareholders would benefit from near-term production from Anatolia's low-cost, high-grade Temrezli ISR Project in Turkey. Temrezli's all-in costs of approximately \$30 per pound in Anatolia's NI 43-101 compliant Pre-Feasibility Study puts the project in the lowest cost quartile in the industry. Temrezli would allow URI to resume production sooner than would otherwise be possible. There is also considerable exploration upside in the greater Temrezli district. We would target construction and initial production as soon as possible, aligning with analysts' estimates for a uranium price recovery.

Anatolia shareholders would benefit from URI's vast uranium resources within projects in the major uranium districts of Texas and New Mexico and two licensed processing plants in Texas. There are substantial cap-ex synergies, lowering the estimated \$41 million start-up capital for Temrezli by as much as \$11 million from relocating URI's idled Rosita processing plant to Turkey and using our internal engineering experience and expertise. Anatolia shareholders would gain improved liquidity

through URI's U.S. NASDAQ listing. The U.S is the world's largest nuclear market, highly dependent on imported uranium. Anatolia shareholders would gain exposure to URI's extensive inventory of uranium resources in the U.S.

The expanded URI would benefit all shareholders from a larger pipeline and large resources in some of the best uranium districts in Turkey and the U.S. We would have a geopolitically diversified and stronger platform for organic growth and corporate transactions and be more favorably positioned with customers.

We appreciate the support of major shareholder **Resource Capital Funds**, one of the world's largest mining-focused private equity funds. RCF owns 24% of URI. The merger is also supported by Anatolia's major shareholders, **Azarga Uranium**, **Sprott Asset Management** and **RMB Resources**.

Are you able to provide readers with a pro-forma capital structure?

We expect to issue about 20.5 million shares to Anatolia shareholders, who will own 41% of the combined URI. Our existing shareholders will own 59%. On a pro-forma basis, we expect to have 51.3 million basic shares outstanding and 64.9 million fully-diluted shares post merger. URI's stock options and 2.2 million warrants at an exercise price of \$2.00 are not presently in the money.

With the proposed moving of a processing plant to Turkey, would that be a high-risk undertaking?

As announced, we expect savings totaling up to \$11 million to reduce the estimated start-up cap-ex for the Temrezli Project in Turkey. Of the \$11 million, we expect to save \$8 million by relocating our Rosita processing plant and \$3 million in Engineering, Procurement and Construction savings by using in-

house expertise. A rebuild would take about the same time as new construction.

The Rosita plant design was submitted by Anatolia as part of its environmental permitting process for Temrezli. This project already has its operating license but needs to secure environmental and construction permits to begin building. Rosita is a perfect fit. It was designed and built using proven processing methods, and a design capacity of 800,000 pounds per year. The plant was designed for expansion to double capacity cost-effectively with incremental capital expenditures.

Assuming the merger closes, why sell pounds out of Turkey's Temrezli, even if profitable, at such a low uranium price?

Good question Peter, long-term contracts would be possible and we are seeing interest. Anatolia's **CEO Paul Cronin** and I met with prospective customers and investors in Hong Kong and Australia during a recent trip. Paul is having preliminary discussions with utilities for off-take agreements. Utilities are increasingly interested in evaluating long-term agreements with lower-cost projects located in stable jurisdictions.

We keep on top of what analysts and consultants like UxC project regarding the impending shortfall in uranium supply as nuclear generation expands globally in China, India and elsewhere. Many analysts anticipate a uranium deficit between 2017 and 2021, which would strengthen uranium prices in line with uranium market fundamentals.

Subject to the timely receipt of permits, Anatolia's Pre-Feasibility Study projects full production for Temrezli in 2017. While the timing of permits could slip, Temrezli is Turkey's first uranium mine being permitted and will be held to the same high standards seen in the U.S. and Europe.

Peter, you are correct that uranium prices in the mid \$30s are quite low by historical standards. However, when we look at a long-term price of \$44-\$45 per pound, Turkey's Temrezli would generate a solid margin even at these price levels. Temrezli is in the lowest cost quartile. This project has all-in sustaining costs of roughly \$30 per pound, allowing it to operate profitably at very low prices. Like most emerging uranium companies, we believe that uranium prices will rebound in 2016 or 2017, coinciding with the commencement of our pipeline of projects.

What does Anatolia think of Temrezli at \$55/lb uranium instead of the assumed \$65/lb?

We'd enjoy a strong margin at \$55/lb and higher. Looking at the sensitivity analysis in the PFS, Temrezli would have an NPV of ~US \$135 million based on a \$55/lb uranium price. This has the potential to be an exceptional project generating cash at virtually any uranium price.

Assuming the merger closes, when should readers expect a Feasibility Study at Temrezli incorporating the proposed relocated of the mill?

We expect to issue a JORC-compliant report early in 2016 from our ongoing technical work and are considering the appropriate report to deliver. We will be better able to discuss possible enhancements when a report is issued, rest assured the relocation of the Rosita plant remains part of the plan. Optimization also involves identifying and removing bottlenecks to enhance on-time on-budget construction and start-up.

Approximately when might Temrezli commence production? How long to ramp up to its capacity of 800k pounds per year? What about 1.6 million pounds?

Initial production is projected in late 2016 under Anatolia's

PFS. It could take up to two years to reach full production, peaking at over 1 million pounds per year. The 1.6 million pounds figure is the expansion potential of the Rosita plant. The PFS projects a 12-year mine life, providing URI time to conduct district exploration on properties like Sefaatti, quite near the Temrezli site.

Please describe the Company's historical, non-compliant resources vs its NI 43-101 compliant resources.

We will build value for our shareholders from assets in our pipeline by advancing the development or monetizing assets to pull forward lower cost production opportunities. The merger with Anatolia does this. Our Texas and New Mexico projects, including our remaining processing plant in Texas, provide diversification and a large resource base leveraged to a rebound in the uranium price.

The Canada National Instrument 43-101 and the Australian JORC standards are recognized internationally. We are committed to JORC as the expanded URI will be listed on the Australian Stock Exchange, serving our new shareholders after the merger.

Since joining URI in 2013, our new management team has produced three independent NI 43-101 compliant reports for Roca Honda, Cebolleta and Juan Tafoya, all in New Mexico. Cebolleta is ready to advance to the next stage of a Preliminary Economic Assessment. The other reports recommended infill drilling at Cebolleta and Juan Tafoya to upgrade the resources to the Indicated category. We have an independent Feasibility report for the Churchrock Project in New Mexico that has federal permits for production of up to 3 million pounds. URI has produced 8 million pounds of uranium in Texas. The Company shut production in 2009 as it was no longer economic. URI has reserves of 664,000 pounds contained within 419,000 short tons at an average grade of 0.08% in South Texas and non-

reserve mineralized material of 118 million pounds of uranium in 39 million short tons at an average grade of 0.15% in New Mexico.

U.S. investors are cautioned that, “mineral resources” are not recognized and do not have economic support to demonstrate that the, “resource” can or ever will be converted to reserves.

Tell us more about the value of the existing URI pipeline while the uranium market has been in a slump.

In the past nine months we have done four transactions, rapidly reshaping Uranium Resources with near-term ISR production potential in Turkey and an improved mid-term production profile in the U.S. We divested our conventional underground Roca Honda Project in two strategic steps to pull forward our ISR production potential through the Butler Ranch and Alta Mesa Este projects in Texas.

Most recently, we purchased for \$150,000, an historic data set for our Butler Ranch properties with a historic non-compliant resource estimate of 1.3 million pounds within 427,100 tons at an average grade of 0.15%. We also obtained geologic logs for over 2,000 exploration drill holes, maps and cross sections. That works out to about 10 cents per pound in acquisition costs.

Might Resource Capital Funds help fund the project cap-ex in Turkey?

Resource Capital Funds has stated that it will support our merger and participated with us in the due diligence review of Anatolia. RCF also indicated it will evaluate providing project finance for the Temrezli Project in Turkey which I believe speaks volumes as to the quality of that project.

Roughly what uranium price is required and how much capital and time to get into production in the U.S.?

Before the proposed plan to relocate one of our two processing plants, Rosita to Temrezli, we estimated all-in costs in the low \$40s/lb to restart Rosita or Kingsville Dome. We believe these costs are at a similar level to other ISR production in Texas. We have two long-term sales contracts for 5 million pounds with no specified time delivery, which average a price just above the spot price. We need an increase in prices to provide a 10% margin for safety. It would take us about six-nine months to restart initial production in South Texas.

For my final question, are there misconceptions about Uranium Resources Inc. or Anatolia that you would like to address?

URI was founded in 1977 and has produced 8 million pounds from ISR operations in Texas. So, we really are an old name with a new story. This combination of Anatolia and URI affirms that the new story. Temrezli enjoys established infrastructure of power, roads and water. There will soon be high-speed rail service nearby. I saw Turkey's rapid growth first hand when I was there in April.

Turkey has a forward-thinking energy policy to develop energy independence, including nuclear power generation with construction underway of the country's first nuclear power plant.

We have transformed URI with this proposed merger to pull forward production at one of the best uranium deposits in the world.

Over the past 2.5 years, we have made great strides:

- We expect to close the pending merger with Anatolia this fall and to fast track Temrezli to production.
- Doing more for less, we reduced our cash expenditures and ongoing overhead from \$17 million in 2012 to \$9 million (not

including the proposed merger) in 2015, even while expanding the scope of work.

- We completed Phase one drilling on Butler Ranch and Alta Mesa Este in the first half of 2015 showing an extension of the mineralized zone at Butler Ranch.
- We delivered three NI 43-101-compliant reports for the Roca Honda, Juan Tafoya and Cebolleta projects in New Mexico.

If one is looking for a growth story, and exposure to a rebound in uranium prices, I urge readers to look at **Uranium Resources, Inc. (Ticker: URRE)**. We believe the proposed merger with Anatolia and prospective synergies would make us a meaningful mid-tier uranium company. Please review our **corporate presentation** for more information. Note that our presentation specifically addresses the attributes of the proposed merger. Readers are encouraged to also read more about Temrezli on Anatolia's **website**.

I have no prior or existing relationship with **Anatolia Energy, AEK** (Australian listed). I do not own shares of AEK at this time.