

29 October 2019



## Yellow Cake plc (“Yellow Cake” or the “Company”)

### QUARTERLY OPERATING UPDATE

Yellow Cake, a specialist company operating in the uranium sector with a view to holding physical uranium for the long term, is pleased to report its performance for the quarter ended 30 September 2019.

#### Highlights

- Estimated net asset value at 30 September 2019 of £2.32 per share <sup>(1)</sup> or US\$252.2 million, comprising 9.62 million lbs of physical uranium ( $U_3O_8$ ) valued at a spot price of US\$25.65/ lb <sup>(2)</sup> and other net assets.
- Value of  $U_3O_8$  held by Yellow Cake increased over the quarter from US\$237.5 million <sup>(3)</sup> to US\$246.7 million <sup>(4)</sup>.
- Total  $U_3O_8$  holdings of 9.62 million lbs acquired at an average cost of US\$21.68/ lb.
- Total increase in value of  $U_3O_8$  held by Yellow Cake of 18.3% to US\$246.7 million <sup>(4)</sup> relative to the aggregate acquisition cost of US\$208.5 million.
- The Section 232 investigation into uranium imports into the US concluded during the quarter, with a decision by the US President not to implement new trade restrictions on imports. As part of this, a Nuclear Fuels Working Group was established to review the nuclear fuel supply chain, with their recommendations expected in mid-November 2019.
- The Company notes that Yellow Cake shares are currently trading at a significant discount to net asset value. Should this significant discount persist, it is the intention of the Yellow Cake board to consider implementing a share buyback program as a means of cost effectively acquiring additional exposure to uranium.

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(1) Net asset value per share on 30 September 2019 is calculated assuming 88,215,716 ordinary shares in issue, the Bank of England’s daily exchange rate of 1.23200 on 30 September 2019 and the month-end spot prices published by UxC LLC on 30 September 2019.

(2) Month-end spot price published by UxC LLC on 30 September 2019.

(3) Based on the month end spot price published by UxC LLC on 24 June 2019

(4) Based on the month end spot price published by UxC LLC on 30 September 2019.

**Andre Liebenberg, CEO of Yellow Cake, said:**

“Trading activity in the uranium market remains subdued as we await the findings of the US Nuclear Fuels Working Group. Though this uncertainty continues to weigh on the uranium price in the near term, we are positive about the medium and long term outlook for uranium.

We expect activity to increase in due course as buyers re-enter the market and we see a return to more normal levels of term contracting, in particular from US utilities who have been holding off making purchase decisions. We believe the longer term supply characteristics of uranium make the commodity a compelling investment opportunity, further emphasised by the recent decision by the world’s largest producer Kazatomprom to extend production caps. This will remove nearly 15 million pounds of uranium from the market in 2021, a material 10% of estimated future global supply. We remain confident in our strategy and investment proposition.

With our share price trading well below NAV, this presents an opportunity for us to acquire additional exposure to uranium at a discount to the spot price, through a share buyback programme. The Board will consider this if the significant discount persists.”

## **Uranium Market Developments and Outlook**

### Uranium Market Developments

During the quarter, Kazatomprom announced that its plan to reduce uranium production by 20% (from previously planned levels) would be extended through 2021 due to persistent low market prices. That decision will remove nearly 15 million lbs U<sub>3</sub>O<sub>8</sub> from anticipated global primary supply in 2021.

On 12 July 2019, following the Section 232 investigation initiated by the US Department of Commerce (DOC) into uranium, the President of the United States announced his decision not to impose new trade restrictions on uranium imports into the country. While the Secretary of Commerce found that uranium was being imported into the United States in such quantities as to threaten national security, the President did not concur with the DOC’s finding. However, the White House agreed that the DOC’s report raised significant concerns regarding the impact of uranium imports on national security and domestic uranium mining and that a more comprehensive analysis of national security considerations with respect to the entire domestic nuclear fuel cycle was therefore necessary.

In order to evaluate the nuclear fuel cycle, the President established a Nuclear Fuel Working Group (NFWG) comprised of thirteen federal government agencies/departments which was to report back to the White House within 90 days (i.e. on 10 October), advising of the group’s findings and making recommendations to further enable domestic nuclear fuel production, if required. The White House granted the NFWG a 30-day extension to mid-November in order to complete the inter-agency review of the group’s recommendations

Market uncertainties associated with the Section 232 investigation and the subsequent formation of the NFWG contributed to a significant reduction in spot uranium volumes during the third quarter when a total of 12.9 million lbs U<sub>3</sub>O<sub>8</sub> were transacted <sup>(5)</sup> compared to 34.9 million lbs U<sub>3</sub>O<sub>8</sub> during the third quarter of 2018. According to UxC LLC, aggregate spot market volumes for the nine months to

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(5) Ux Weekly; 30 September 2019; Vol 33, No 39 / Ux Weekly; 2 September 2019; Vol 33, No 35 Ux Weekly; 5 August 2019; Vol 33, No 31.

30 September 2019 approximated 42.5 million lbs U<sub>3</sub>O<sub>8</sub>, a decline of almost 65% compared to the same period in 2018 <sup>(6)</sup>.

Unlike the third quarter of 2018 when record-setting spot market volumes led to a price rise from US\$22.55/ lb U<sub>3</sub>O<sub>8</sub> to US\$27.35/ lb U<sub>3</sub>O<sub>8</sub>, the comparable three month period in 2019 saw a more modest spot price increase from US\$24.70/ lb U<sub>3</sub>O<sub>8</sub> to US\$25.65/ lb U<sub>3</sub>O<sub>8</sub> at the end of September.

During 2018, the United States implemented further economic sanctions against the Republic of Iran. At that time, sanction waivers were granted which allowed the continuation of several nuclear non-proliferation projects within Iran being carried out by Russian, Chinese and European entities. These waivers must be renewed on a periodic basis (currently 90-days) with the current waivers expiring at the end of October. In the event that these waivers are not renewed, international trade in nuclear fuel could be significantly impacted, especially the importation of Russian-sourced nuclear fuel into the United States where nuclear utilities rely upon Russian-sourced enrichment services for approximately 20% of reactor requirements. Non-Russian-origin nuclear fuel components could then be expected to gain additional value.

On 5 September, the World Nuclear Association released the 2019 edition of the bi-annual market study, *"The Nuclear Fuel Report – Global Scenarios for Demand and Supply Availability 2019-2040."* Significant changes from the previous edition included the three uranium demand scenarios all showing varying but positive growth rates through 2040, so-called secondary supplies declining through the next decade, as well as a clear acknowledgement that the global uranium market is heading into a period of supply uncertainty where as yet-to-be identified supply sources ("unspecified") will be required in order to balance demand and supply.

Several new reactors have entered commercial operation thus far in 2019. Shin Kori-4 was connected to the South Korean grid in April with Shin Hanual-1 expected before the end of the year. In Russia, Novovoronezh II (second unit) entered operation in May. In April, approval was granted in Egypt to commence construction of four VVER-1200 reactors at the planned El Dabaa site. Duke Energy announced that it would be filing for additional 20-year operating license extensions for its fleet of eleven reactors.

### Market Outlook

Submission of the NFWG report findings and recommendations originally scheduled for 10 October was expected to clarify the US Administration's policy regarding the domestic nuclear fuel cycle, thus reducing market uncertainty attributable to that policy review process. The 30-day extension has delayed that process until mid-November.

Failure to extend the current waivers of nuclear-related economic sanctions applied by the US on Iran could lead to significant market disruption and incrementally higher values for non-Russian-sourced nuclear fuel components.

There remains a general expectation that market activity will likely increase as utilities, producers and financial buyers re-enter the market. Furthermore, term contracting, especially by US nuclear utilities is expected to increase in order to address future uncovered uranium requirements.

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(6) Ux Weekly; 30 September 2019; Vol 33, No 39.

## Net Asset Value

Yellow Cake's estimated net asset value at 30 September 2019 was £2.32 per share<sup>(7)</sup> or US\$252.2 million, consisting of 9,616,385 lbs of U<sub>3</sub>O<sub>8</sub> valued at a spot price of US\$25.65/lb<sup>(8)</sup>, a derivative financial liability of US\$2.7 million<sup>(9)</sup> and other net assets of US\$8.2 million<sup>(10)</sup>.

Based on the spot price of US\$24.00/lb published by UxC LLP, Yellow Cake's estimated net asset value as at 28 October 2019 was £2.08 per share<sup>(11)</sup>. As at close on 28 October 2019, the Company's share price was £1.90 per share, which represents a 9% discount to the above estimated net asset value of £2.08 per share.

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(7) Net asset value per share is calculated assuming 88,215,716 ordinary shares in issue, the Bank of England's daily exchange rate of 1.23200 on 30 September 2019 and the month-end spot prices published by UxC LLC on 30 September 2019.

(8) Based on the month-end spot prices published by UxC LLC on 30 September 2019.

(9) Estimated current value of the Kazatomprom repurchase option under the framework agreement, which is a potential liability of US\$6.5 mm and may only be exercised if the spot U<sub>3</sub>O<sub>8</sub> price exceeds US\$37.50/lb for a period of 14 days during the period between 4 July 2021 and 30 June 2027.

(10) Includes cash and cash equivalents of US\$8.8 million.

(11) Net asset value per share is calculated assuming 88,215,716 ordinary shares in issue, a GBP/USD exchange rate of 1.2863 and the spot price published by UxC LLC on 28 October 2019.

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) no 596/2014

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#### **ABOUT YELLOW CAKE**

Yellow Cake is a London-listed company, headquartered in Jersey, which offers exposure to the uranium spot price. This is achieved through its strategy of buying and holding physical triuranium octoxide ("U<sub>3</sub>O<sub>8</sub>"). It may also seek to add value through the acquisition of uranium royalties and streams or other uranium related activities. Yellow Cake seeks to generate returns for shareholders through the appreciation of the value of its holding of U<sub>3</sub>O<sub>8</sub> and its other uranium related activities in a rising uranium price environment. The business is differentiated from its peers by its lower cost base and ten-year Framework Agreement for the supply of U<sub>3</sub>O<sub>8</sub> with Kazatomprom, the world's largest uranium producer. Yellow Cake currently holds 9.62 million lb of U<sub>3</sub>O<sub>8</sub>, all of which is held in storage in North America.

## **FORWARD LOOKING STATEMENTS**

Certain statements contained herein are forward looking statements and are based on current expectations, estimates and projections about the potential returns of the Company and the industry and markets in which the Company will operate, the Directors' beliefs and assumptions made by the Directors. Words such as "expects", "anticipates", "should", "intends", "plans", "believes", "seeks", "estimates", "projects", "pipeline", "aims", "may", "targets", "would", "could" and variations of such words and similar expressions are intended to identify such forward looking statements and expectations. These statements are not guarantees of future performance or the ability to identify and consummate investments and involve certain risks, uncertainties and assumptions that are difficult to predict, qualify or quantify. Therefore, actual outcomes and results may differ materially from what is expressed in such forward looking statements or expectations. Among the factors that could cause actual results to differ materially are: uranium price volatility, difficulty in sourcing opportunities to buy or sell U<sub>3</sub>O<sub>8</sub>, foreign exchange rates, changes in political and economic conditions, competition from other energy sources, nuclear accident, loss of key personnel or termination of the services agreement with 308 Services Limited, changes in the legal or regulatory environment, insolvency of counterparties to the Company's material contracts or breach of such material contracts by such counterparties. These forward-looking statements speak only as at the date of this announcement. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based unless required to do so by applicable law or the AIM Rules.