Growth Stocks Weekly

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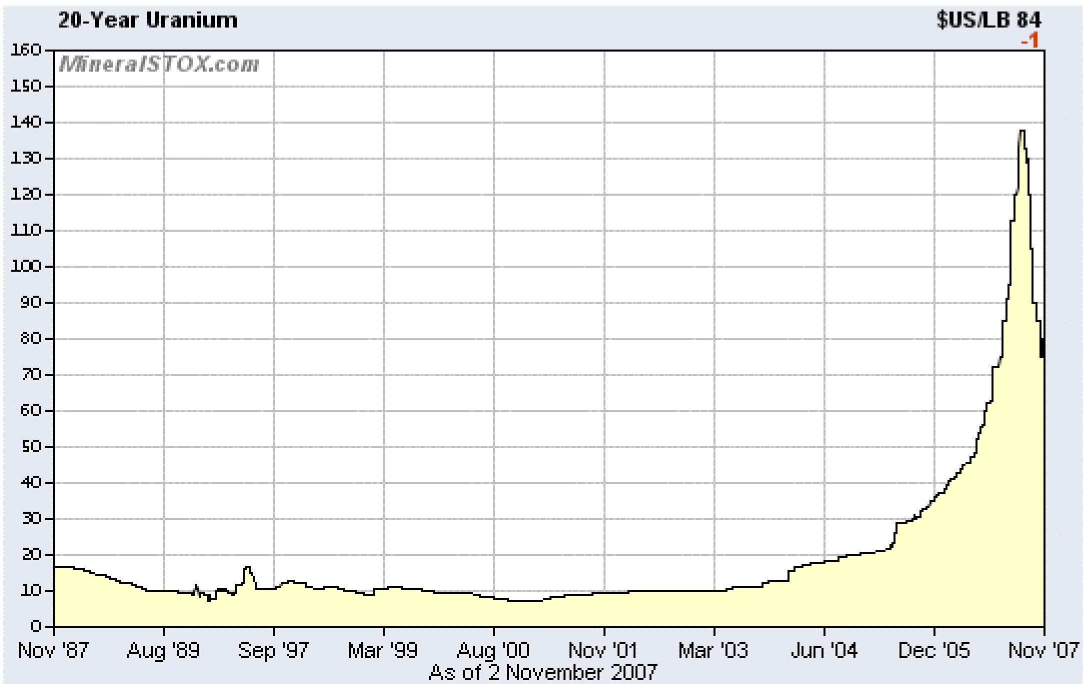
Performance: Year ended April 1996 **116.9%**; 1997 **28.1%**; 1998 **36.4%**; 1999 **39.4%**; 2000 **180.9%**; 2001 **-50.5%**; 2002 **18.7%**; 2003 **28.8%**; 2004 **166.7%**; 2005 **28.2%**; 2006 **153.3%**; 2007 **8.8%**

Junior Gold and Natural Resource Sector Report

November 2, 2007

HOW LOW CAN WE GO AND STILL MAKE DOUGH?



A mining analyst once told me that he expects that the grade of economic deposits will move lower and lower over time. As the obvious elephant-size, high-grade deposits get found and are depleted, mining companies will have to develop the technology to process lower grades efficiently.

We saw this clearly in the gold and copper markets over the last 25 years. Barrick Gold Corp. developed the "no-see-um" gold in Nevada in the early 1980s. Then came heap leaching, which made oxide gold and copper of lower grades very economic.

The uranium market is now going through a similar process – where investor attitudes are coming around to understanding that low and lower grade uranium can be economic – wildly profitable even. It's not that there has been new technology driving this, however, it's just that uranium has been so far off investor radar screens for almost 30 years that people forgot how much low grade uranium is actually being mined in the world.

High Grade, but Low Odds

When this uranium cycle broke into high gear in late 2004, the investment community was fixated on the high-grade uranium of the prolific Athabasca Basin in Saskatchewan, Canada. Somebody called this basin a "geologic freak of nature" because it has 10-times the grade of uranium anywhere else on earth – around 20%. No other mineral has this type of situation. Athabasca produces more than 40% of the world's uranium – most of it from just two mines.

As the brokers & financiers brought more and more uranium companies public to take advantage of investors, er, I should say this mania, management teams started searching for new uranium deposits for the first time in 30 years – using much more modern exploration methods than ever before.

Only two companies dealing with high grade Athabasca uranium have made investors any money - industry giant Cameco Corp. (CCO-TSX; CCJ-NYSE) and UEX Corp. (UEX-TSX). Everybody else – and we're talking dozens of exploration companies now - has come up with ZERO in the basin. No new uranium deposits found so far, despite tens of hundreds of millions of exploration dollars spent.

Low Grade, but big Money
Low grade uranium has been mined for decades. Rio Tinto's Rossing Mine in Namibia started producing in the 1970s with grades of only .02% - .03% U_3O_8, or roughly one-half to two-thirds of a pound uranium – and it was producing when uranium was just $12 a pound.

And many of the big investor wins in uranium this cycle have indeed come from well-known low-grade deposits going into production. Uramin got bought out in 2007 by French-owned uranium giant AREVA for $2.5 billion, or $8 per share – with a grade of only 0.012% U_3O_8, or one-quarter of a pound. The cut off grade is half that - .006%!! And at current uranium prices of US$85 per pound, these grades are not marginal – they are exceedingly profitable. Uramin's Trekkopje Project has an internal rate of return (IRR – the most common measure of return on equity) of 67%! Most mining assets go into production with an IRR of 20% or better. They expect to make a profit of over $45 per pound at today's uranium prices.

And then there's Forsys Metals (FSY-TSX) Valencia project with a grade of 0.12%, and estimated to have an after tax IRR of 61%. Forsys went to $10/share.

What About Canada?
All these assets were in Africa. What about Canada? Could low grade uranium assets in Canada be profitably mined? This is where a major portion of the world's hard rock uranium exploration is happening.

The obstacles are obvious. Operating costs, primarily because of higher wages, would be greater in Canada. But infrastructure costs could be much lower, depending on how close to civilization any deposit might be. Africa generally does not have good infrastructure – power, water etc.

What do investors say? Aurora Energy (AXU-TSX) was the pioneer of lower grade uranium in Canada. They have assembled a resource of almost 100 million pounds of uranium in Labrador grading 0.07% U_3O_8, or just 1.5 pounds per ton. It would have high infrastructure costs because it is in a remote area. Yet the market gives it a market cap of over $1 billion, and a stock price as high as $20/share. So investors clearly believe it has an excellent chance of being economic at today's prices.

Crosshair Exploration (CXX-TSXv) is reporting grades of 0.1% U3O8 or 2 pounds per ton in their Labrador exploration, and the market is giving them a market cap of almost $200 million based on only a few drill holes.

How Low Can We Go?
Now we see uranium grades in Canada being reported as low as one-half or one-third of a pound – 0.025% down to 0.012%. Uracan Resources, run by the Bema Gold team, has come up with some very large intercepts at these grades, right at surface. However, with a market cap of $35 million, investors don't appear to give those grades a lot of credibility. Their property is only 5 km from power and 6 km from a highway, so infrastructure costs will be significantly lower than in African or Labrador.

As discussed earlier, in Africa these grades can generate huge cash flows. Independent technical reports on the Forsys and Uramin assets showed operating costs of about $25 -$30 per pound. This is in line with operating costs for most other large open pit mines, regardless of the commodity, around the world – even in first-world countries.

In Canada, it appears that investors aren't yet convinced. Should these companies develop large deposits, at worst they will produce a highly leveraged call on uranium. At best, they could be the sleeper stocks of the uranium market - at least until drill results and a feasibility study confirms the viability of such deposits.

LATE BREAKING NEWS
The two industry heavyweights, Cameco and UraniumOne, just announced production issues that are very bullish for uranium. Cameco's Cigar Lake now won't be in production until 2011. And Uranium One says their Kazakh production will be much lower than anticipated – all this in the face of a very tight physical uranium market.

Uranium stocks will now be heading higher again – especially the lower grade ones that have big tonnage and therefore big leverage to the uranium price.

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