

# Growth Stocks Weekly

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**Performance:** 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%; 2008 -25.2%

## Junior Gold and Natural Resource Sector Report

October 30, 2008

### UPDATE

#### Uracan Resources (URC-TSX Venture)



Weekly chart, Semi-log Scale, High \$1.65, Low \$0.135, Last Trade \$0.22

#### Completes \$4.805 million Financing

Uracan closed a \$4.805 million financing on October 29, with insiders investing \$235,000 at \$0.25 per share. Proceeds from the private placement will be used to fund ongoing exploration at their 100% owned North Shore project in Quebec and the Pipewrench Lake project in Saskatchewan, as well as for working capital.

Uracan has outlined a 43-101 compliant inferred resource of 19.96 million pounds  $U_3O_8$  at its North Shore project. The Double S deposit is located eight kilometres north of the St. Lawrence Seaway, with power and a major provincial highway running through the property. This open-pitabile resource outcrops at surface, and is open at depth and along strike. A resource upgrade is expected in early 2009.

Uracan's management is teamed up with well-known M&A and mining venture capitalists Endeavour Financial to develop large, open pit uranium mines in Canada. Their targets have inexpensive exploration costs, and should enjoy low operating costs if they turn into a mine.

Management has extensive open pit mining experience from their time running the former Bema Gold. Bema was a huge success, bought out for US\$3.3-billion by Kinross Gold in February 2007.

Uracan recently made a second uranium discovery at surface at its 100% owned Pipewrench Lake property in Saskatchewan, located about 120 km south of the Athabasca Basin. Drilling in 2008 intersected 1 to 3 pounds U<sub>3</sub>O<sub>8</sub> per ton over widths up to 19.5 metres. Pipewrench Lake is hosted in the same Wollaston domain geology that forms the basement rock to many of the rich underground uranium mines in the Athabasca Basin, but here the domain is at surface. It is expected that Pipewrench Lake will receive additional drilling over the winter months.

Drilling at the North Shore property continues year round. The combined drill-defined strike length of the three zones is now 3.9 kilometres and remains open along strike in both directions. The TJ zone is three kilometres northwest of the Double S zone (hosting the NI 43-101 compliant inferred resource of 19.96 million lbs), and 1.4 kilometres northwest of the Middle zone. Once all final assay results from the TJ zone and Middle zone are in, a revised resource estimate for the combined areas of mineralization will be completed – expected January 2009.

## Uranium – Clean Fuel for the Future

Production shortfalls in uranium are now part of the mining landscape. Capital costs and ongoing operating costs have been rising dramatically, while the market price of uranium has dropped precipitously.

A higher uranium price is needed to justify developing new assets. There is an increasing appreciation for uranium as a clean source of energy, and being part of the solution to help curtail the high level of atmospheric emissions, suspected of contributing to global warming.

Recent shortfalls and a dramatic lowering of forecasts in the production of uranium are giving many analysts comfort that the uranium price is going to remain strong. A recent RBC Capital Markets report states:

*“Looking back at our supply forecasts from mid-2006 to present, we have observed a very clear pattern: the expected supply from 2006 through 2009 has dropped dramatically. Looking to our current forecast compared to that of Q3/06, we see supply reductions of 10 million, 20 million, 11 million, 2 million and 7 million for 2006 through 2010, respectively.”*

*“We do not see any reason why the problems that plagued new supply between 2006 and 2009 will disappear; rather, we think there is a good chance that future supply forecasts will again disappoint. We think this fact needs to be reflected in the current uranium price and, in our view, it is not.”*

There are relatively few producing uranium mines in the world. Every announced shortfall has an impact on the uranium price, and many significant producers are now projecting supply shortfalls. The spot market is thinly traded and minor quantities either purchased or sold can have a dramatic impact on price.

Cameco, the world's leading producer, recently cut its 2008 output forecast by 800,000 pounds as a result of its Key Lake mill maintenance shutdown. It has also been trying to solve persistent flooding at its 50%-owned Cigar Lake Mine in northern Saskatchewan. Expected 2008 production at Cigar Lake has now been pushed out to 2011 “at the earliest”. This project holds the world's highest-grade uranium, representing some 226-million pounds of reserves.

Uranium One recently placed its Dominion Uranium Project in South Africa on care and maintenance due to a significant deterioration in the project's economics and slower than expected ramp-up. It expected production of 1.1 million pounds of uranium from Dominion in 2009. It simply makes no sense at current prices.

There is additional corroboration from the World Nuclear Association on projected production declines. The difference between their 2005 and 2007 report was a decline or flat no growth in annual production for every year going forward all the way to 2017. No year was a huge reduction, but it sets a trend.

RBC sees the spot uranium price going to \$90 per pound next year and staying there until 2013, and then slowly easing off to \$70 as 2020 nears.

RBC highlights that the challenge on the supply side is the rapidly expanding operating and capital costs endemic in the mining industry. Investors in mining stocks are certainly aware that regardless of the commodity, costs have increased dramatically. The cost of building a mine has often gone up 100% or more over the last 3-5 years, as steel and energy costs skyrocketed. Operating costs are also way up. Sulphur, used in many of the chemical processes in mining, is up 1300% over the last 5 years.

Uranium prices, like those of other metals, need to stay high to encourage new mine supply. Recent published operating costs for new producing mines of US\$40 per pound in the industry suggests that prices cannot remain anywhere near the current spot price of US\$45 for long. The capital costs involved in developing a uranium mine given this slim margin are simply not an economic investment.

Except for potential low-cost open-pitabile deposits, a severe slow down in supply seems inevitable, or prices must move higher. Therein lies Uracon's potential competitive advantage.

## Conclusion

Uranium stocks across the board are badly beaten up right now. The virtual collapse of the uranium price, largely a reaction to the credit crunch and expectations for a worldwide slowdown, has pounded down share prices. Cameco, the world's uranium leader, had its stock price cut from over \$50 to a recent low of \$12 per share over the last year, with 75% of that decline realized over just the last four months. Similarly, Uracon has seen an 85% decline in its share price over the last year, even while enjoying exploration success, and outlining an initial 20 million pounds U<sub>3</sub>O<sub>8</sub> of potential situ valuation.

With continued upward movement in the uranium price from the current \$45 per pound to RBC's estimate of \$90, uranium stocks would regain investor interest. The handful of producers like Cameco, Denison, Paladin and Uranium One would likely be the first to recover, but it's the juniors where the big money will be made. They will recover in the weeks or months to follow as confidence and investment dollars trickle down. Companies that have established deposits and are only a couple years away from production offer the lowest risk-reward profile amongst the juniors.

Uracon's potentially open-pitabile resource would enjoy a low capex and low production cost profile. Additional drilling at the TJ zone and Middle zone discoveries within the main Double S trend continue to identify significant widths of near-surface uranium mineralization within multiple stacked zones. Continued drilling is intended to expand these strike zones farther. Given the outcrops right at surface and a deposit that continues to be open at depth and along strike, we could see a significant increase their coming resource upgrade as early as January 2009.

Canaccord Capital's "Uranium In-Situ Chart" tracks the value investors give to compliant resources in the ground. A record low of \$4.06 cents a pound was just set, versus \$12 in June of 2007, and down 33% from \$6 per pound only a few months ago. Uracon's 20 million pounds at \$4.06 provide an \$81 million "in-situ value buffer" going forward, which may see a doubling with the next resource update. This compares to a current market cap of only \$19 million, of which approximately \$5 million is cash.

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Current Price: C\$0.22

52 Week Range: C\$0.98 - C\$0.135

Shares O/S: 86.5 million basic

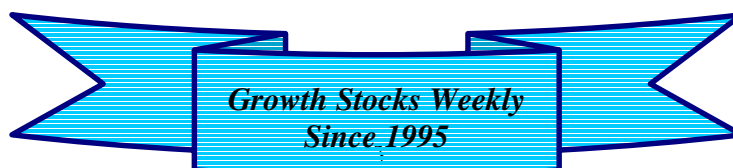
Shares O/S: 113.2 million fully diluted (including 16.8 million deep out-of-the-money options at \$0.80 - \$1.25)

Market Cap: C\$19.03 million

Cash on hand: C\$5.0 million (estimated Oct 31, 2008)  
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