

Growth Stocks Weekly

www.gsweekly.com

Publisher: Agilis Capital Corporation ~ **Since:** May, 1995 ~ **Editor:** Richard Reinhard ~ **E-Mail:** reinhard@shaw.ca

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

April 20, 2009

URANIUM SECTOR UPDATE

Charts of the leading uranium producers suggest to us that the price of uranium is about to move higher, as they are often leading indicators of future prices. And so we are now getting positioned for the next wave of uranium stock rallies – focusing on the juniors with large, high quality pounds in the ground.

For ready evidence of what is happening in the sector, we first want to look at two charts – one of Uranium One (UUU-TSX), the other of Paladin Energy Ltd. (PDN-TSX).



UUU-TSX daily chart

Both producers have doubled under steady accumulation, over a 6-month period, with relatively low volatility.

This has happened during a time when the spot price of uranium was actually falling. (Most uranium sales in the world, about 80%, are done at the long term price of \$70, which has held steady, so why people even bother with spot pricing is a mystery, but such is reality).



PDN-TSX daily chart

The spot price of uranium is now US\$40.50, down 23% for the year and is even below the low of \$44 set during the height of the panic in October 2008.

Significantly, both Paladin and Uranium One are low grade producers. Paladin operates bulk tonnage, open pit mines in Namibia and Malawi in southern Africa, and Uranium One operates In-Situ Leach (ISL) mines in Kazakhstan.

The high grade, underground producers – Cameco and Denison – have not seen any significant movement off the bottom of their stock charts. They have however, been able to raise significant equity during this time.

A couple of uranium companies on the next rung down – the advanced explorers and near term producers, have also started moving. Mega Uranium (MGA-TSX) has a diversified portfolio of compliant resources, and tripled in price from 60 cents to \$1.80. UR Energy (URE-TSX), which is putting the Lost Creek uranium deposit in the state of Wyoming into production, has moved from 60 to 80 cents, despite pushing back its expected timeline for permitting.

At this point in the uranium cycle, we see the big upside leverage in the high quality junior uranium companies with cash and large deposits. These stocks have not yet moved. Our number one pick for this sector is Uracon Resources (URC-TSXv).

Uracon has more than 40 million compliant, inferred pounds of uranium in Quebec, Canada – the top mining jurisdiction in the world according to a conservative think tank, The Fraser Institute.

Each week Canadian brokerage firm Canaccord Capital issues a report on the junior mining sector, which compares the value of about 20 uranium companies. Uracon has the lowest valuation of roughly 40 cents per pound of resources, compared to a peer group average of \$2.41 per pound (April 15, 2009).

With immediate upgrade potential to the company's resources, and significant exploration upside with many new zones discovered, the prospect for one of the largest resources in the world is significant.

Uracon's grade is 0.012% U₃O₈ – the same grade as Forsys Metals' Valencia deposit, which is now being bought out for roughly \$9.50 per pound.

So there is a huge valuation gap for investors to profit from – 40 cents to \$9.50. Valencia also has many challenges – it's in Africa, and water for any mill is expensive to get.

In 2007, uranium industry giant AREVA, out of France, purchased the Trekkopje deposit from Uramin Resources for \$2.5 billion. It also had the same grade as Uracon and its 229 million pounds went for just over \$10 per pound.

Uracon is currently trading at 20 cents per share and has cash of \$2.5 million, enough to get them through the end of 2009.



URC-TSXv weekly chart

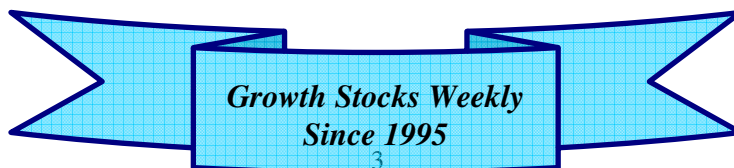
Uracon's share price was in steady decline since its peak at \$1.65 in June 2007, until its recent 12 cent low at the height of tax-loss selling last December. Price quickly bounced to 36.5 cents in January and convincingly broke its 19-month downtrend – the first time in years. The recent price pullback formed a higher low and saucer-bottom at 17.5 cents, and is slowly working higher under technical accumulation. Price is now testing minor overhead resistance at 20.5 cents, with the Stochastics, RSI, MACD and OBV supportive of higher prices to come.

Fundamentally, I like the fact that Uracon's uranium deposits are all right at surface. The deposits are low grade enough not to cause any environmental or health issues, and are so close to infrastructure – power, highway and ocean port – that they can be easily developed.

It's these bulk tonnage lower grade deposits that, outside of Hathor (HAT-TSX), have gotten all the investor attention. Over \$3 billion in buyouts of lower grade deposits, and the price action of PDN and UUU, tell me that a URC-style deposit is the best bet for investors to profit from during the coming uranium price renaissance.

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