The Great Energy Myths
By Robert Cardwell
Stock Trader's Almanac
Investor Newsletter

Oil and gas stocks have made us a lot of money in the last five years – hardly surprising, given that the trend for crude oil was straight up during most of this period. Of course, it wasn’t obvious five years ago that oil was on the verge of an historic bull move, just as the course of the next five years is not obvious now.

But we can apply the same analysis that put us on the right side of the market back then – plus we all have learned in recent years – to give us a strong edge. Oil bottomed in 1998 at what now seems an incredible price of $10 a barrel, a lesson in how far out of line markets can get. From there oil recovered, corrected again with the stock market in 2000-2001, and then began its long ascent.

Is it as overbought now as it was oversold in 1998? Some people think so, but times have changed in a major way. The bears are trying to predict the future by looking at the past. There’s also some wishful thinking on the part of some analysts and, we have to say, most politicians. Here’s why the energy optimists (bears on oil) are wrong.

The Great Energy Myths
War Premium Myths: The bears have been using this one for years. After things settle down in
Continued on page 28

What Could Tank Uranium Stocks?
By Jay Taylor
J. Taylor’s Energy & Energy Tech Stocks

Now that uranium has climbed to an all-time high of US$120/pound, Jay Taylor, editor J. Taylor’s Energy & Energy Tech Stocks, raises the question, How much higher can it go?

“This whole exponential rise in the price of uranium is a result of government intervention. The application of uranium from disassembled Soviet nuclear weapons suppressed the price of the metal so much that all but a handful of the richest, lowest-cost mines closed down. But now, with an annual shortfall in the range of 30% or 35% from the mines to supply the existing 440 nuclear reactors around the world, there is a bit of a panic in the market due to uncertainty over where the supply of uranium will come from when these stockpiles are depleted. Until some clarity exists with respect to this still-unanswered question, speculative/panic buying is likely to occur because of the importance of uranium in fueling nuclear power plants, which supply a very significant portion of the world’s electricity.”

What Could Derail the Uranium Bull Market?
“We are in a secular bull market for commodities in general and there are many people who think this bull market is still in its early days. As long as the global economy avoids a major depression I think that view is likely correct. However, the market for uranium has been unlike any other commodity market in that it has not had any significant market correction for several years now. As such we are more than due for a correction – perhaps a significant one at that. What might cause a major decline in the price of U3O8?

Underlying the unusual behavior of the uranium market are the economic dislocations, caused by government intervention. Ultimately, to the extent governments step aside and allow these markets to work, a more stable equilibrium price will come into existence. At what price a more stable equilibrium will come is anyone’s guess. But I think it is entirely possible it could be at levels much lower than the current $120/pound that was last quoted on May 7th, although
Continued on page 9

Bull market remains on track

Dollar weakness could remain a feature as the US fiscal and trade deficits have yet to be resolved. In addition to the generally high levels of indebtedness, there is now the problem associated with sub-prime loans. On a global level there has been little or no reduction in tensions in the world’s trouble spots, and there is still the potential for a further hike in energy prices with its implications for inflationary pressures. All in all, the backdrop to the precious metals sector remains favourable.

GOLD: The gold market in recent years has seen a phenomenon whereby successive increases in the price have been fairly quickly followed by a re-adjustment of ideas, particularly in the price-sensitive physical markets, as to what constitutes a fair and sustainable price. This ratcheting up of the ‘floor’ price at which jewellery demand kicks back in and scrap supply fades away has created confidence amongst the investor community and has minimised risks from investor profit taking/stop loss selling.

The rationale for the forecast ongoing upward drift in the price floor rests upon two key assumptions – investor interest remaining at sustained levels and decent levels of GDP growth in the developing world, and in particular China and India, as this would allow for greater price resilience in their jewellery markets. Natixis Commodity Markets believes that both features will remain in place.

Even if physical demand were to prove disappointing, gold does not seem to face a supply threat. The supply from scrap should fall in 2007 (unless prices rally dramatically) as much of the loosely held or aged retail stocks were shaken out during the rally in April/May 2006. Net official sector sales are also expected to fall as European sellers remain well under their annual quota and further occasional extra-European purchases occur. The final key area of supply, mine production, in contrast, is expected to grow, if only modestly, though this will be reinforced by projected lower levels of producer de-hedging.

As for what this means in terms of actual prices, given expectations of high levels of volatility, we would not expect the above suggestions of price strength to translate into anything approaching a straight line progression for gold. Recent years have seen periods of marked weakness despite the underlying uptrend and this is expected to be witnessed again in 2007. As a result, the average for the year could well come in at a seemingly uninspiring figure around $670. The general uptrend in prices and progressive raising of the floor is expected to continue for some time into 2008. As a result, this could generate an average for that year modestly above the $700 mark.

SILVER: Silver supply is forecast little changed in 2007. Mine production is expected to register only modest growth, while producer hedging is expected to recede further on the already limited volumes recorded in 2006. Sales by the official sector may fall, largely as a result of limited (if any) sales by the Indian authorities. However, overall sales should remain significant, with Russian and Chinese selling still a feature. Scrap too should also stay sizeable, though growth may be very limited as photographic scrap continues to decline in the face of that sector’s ongoing demise at the hands of digital technology. Overall physical demand could also weaken, but only

Continued on next page

<table>
<thead>
<tr>
<th>PRECIOUS METAL PRICE OUTLOOK 2005 TO 2008</th>
<th>Cash price $/oz</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>Au</td>
<td>445</td>
<td>604</td>
</tr>
<tr>
<td>Ag</td>
<td>7.31</td>
<td>11.55</td>
</tr>
<tr>
<td>Pt</td>
<td>897</td>
<td>1143</td>
</tr>
<tr>
<td>Pd</td>
<td>201</td>
<td>320</td>
</tr>
</tbody>
</table>
Continued from previous page

marginal with the on-going loss of the photographic market being offset by the positive impact steady world GDP growth.

To conclude, with silver’s own fundamentals comparatively neutral, there is room for investment to play a decisive role and with that forecast to continue, prices should stay firm. However, it has been common in recent years that prices have shown some weakness over the summer months before posting a rally in the fourth quarter. This could again feature in 2007, with gains carrying on into 2008. In such an event, the average price for 2007 should end up notably higher than 2006’s $11.55, perhaps approaching the $14 mark, whilst the average for 2008 could well end up slightly over this level.

**PLATINUM GROUP METALS:** A number of different trends were in place, which led to the relatively modest advance in consumption of 2%. On the plus side was the greater use in diesel autocatalysts and the general buoyancy of the diesel market (particularly outside the USA). This together with higher use in other industries, more than offset platinum’s declining use in gasoline autocatalysts and a further reduction in jewellery fabrication.

Demand for palladium increased by a similar 2% to a total of 7.9m oz. Within this total, autocatalyst demand gained 8% as palladium benefited from higher use in gasoline systems and rising vehicle production in Asia. This was palladium’s first gain in autocatalyst use since 2000 and countered falls in jewellery and dental demand.

Global platinum and palladium mine output rose by around 6% and 5% last year to new records of just over 7m oz and 7.2m oz respectively. We expect that South African output will continue to advance in 2007. Amplats has suggested its output should increase by 5%. In addition, continuing ramp ups and an increased contribution from the Mototolo joint venture (Amplats and Xstrata) should provide significant additional volumes in the current year.

Norilsk’s platinum output was flat at 752,000 oz, while palladium edged up by 31,000 oz to 3.164m oz. Norilsk Nickel has suggested that may dip in 2007, with output from the company’s Polar Division and Kola mining and metallurgical combine forecast to total 3.00-3.0m oz of palladium and approximately 710,000 oz of platinum.

Scrap supplies continued to increase last year with a particularly strong surge in palladium supplies (up around 20% as against a 7% rise for platinum). On a regional basis North America is the dominant source of secondary supply, reflecting its massive car population and its early adoption of autocatalysts. The source of spent catalyst is also growing sharply from a lower base in Europe and Japan, and strong growth in secondary supply looks set to remain a feature of the industry going forward.

The key price driver for platinum and palladium in the short term however, rests with investor sentiment to these metals and to the commodities sector as a whole. Perhaps somewhat surprisingly, given the price advances and continued volatility in the pgms, we are leaving our price forecasts unchanged. In the previous Natixis Commodity Markets Metals Review, we had taken a bullish stance projecting an average platinum price of $1,265 per oz in 2006, which was well above the price at the beginning of the year of $1,136. Given the strong price performance so far this year our forecast implies an average of around $1,295 for the rest of the 2007. It is likely that the range seen so far this year may widen with short-lived moves over $1,400 per oz not out of the question, while bouts of profit-taking could see prices return towards the early January levels. Nevertheless our average forecast implies that the uptrend in price should continue, as does our 2008 average forecast of $1,340 per oz.

Palladium prices should also benefit from what is likely to be sustained interest from the investment community; however there will be less support from the fundamentals. Although the two metals have posted similar gains since the beginning of the year (+13%), we believe that palladium may underperform its sister metal given the higher level of above ground stocks for palladium. Natixis Commodity Markets is forecasting an average annual price of $355 for 2007. Prices up to late April averaged $346 per oz, which suggests an average for the rest of the year of around $359. As this is below prices in late April, this implies that palladium prices should level off and trade in a band based on $325-375 for much of the second half of the year.

**BASE METALS**

**The Bull Market Is Extended Once Again**

The base metal sector has registered further gains so far this year with the price of lead, nickel and tin making new highs. There has also been a sharp rebound in the copper market with a test of the 2006 high of $8,788/tonne on the cards. Zinc prices have also recovered but we doubt whether the cash quote will approach the 2006 peak of $4,620/tonne. Once again, aluminium prices have continued to underperform as most of the stock decline has taken place at the less price-sensitive producer inventories. LME stocks remain stubbornly above the 700,000 tonne level.

The key drivers of the bull market remain in place. One surprising feature of the base metals market last year (particularly for copper) was the somewhat subdued nature of base metal demand growth in China even though the economy continued to post double-digit rates of expansion. This was primarily a function of destocking rather than an underlying weakness in consumption. We have seen a resumption of Chinese buying so far this year and many of the other factors such as concentrate tightness...
and investment fund activity are still providing support as is the benign economic outlook.

**Chinese return to the market en masse.** The country's appetite for raw materials and refined metal remains undiminished. Trade data shows strong buying so far this year. Another bullish factor in some cases is the slowdown in the rate of production growth in China, which implies that its reliance on imported material will remain a feature.

There is still on a limited supply response. A combination of supply disruptions (particularly for lead and tin) as well as modest additions to capacity have supported the market. Spot treatment charges highlight the on-going shortage at the concentrate stage, which again is likely to remain a feature in the coming months for the copper, lead and zinc markets.

There has been a surge in nickel mine output, which is being converted into low-grade ferro-nickel in China. However at this stage it is merely filling the gaps left by the delays in the next generation of mega projects rather than leading to over supply. The tin market is coping with a significant reduction in production from Indonesia. The latest developments suggest that recovery in the level of “informal” output in the country will be a slow process. We have also seen a sharp rebound in alumina prices, although we doubt whether the supply of alumina will tighten sufficiently to put a constraint on the level of primary refined output.

**Demand prospects remain positive.** Most economic indicators remain fairly upbeat with the weakness primarily restricted to the US construction sector. Unless concerns about the sub-prime lending markets widen, then the base metals markets are likely to focus on strong growth outside the US. The base metals sector is also entering a period of seasonally strong demand.

The economic climate remains favourable for the base metals sector. The bull market for base metals has already lasted longer, and prices have moved higher than in previous cycles. Equally importantly, despite the exceptionally high level of industrial commodity prices the economic outlook remains benign. Typically at this stage of the commodity price cycle, inflationary pressures would have led to an extreme tightening of monetary policy and a marked slowdown in the rate of economic growth, or possibly a period of negative growth.

What does it all mean for prices? A key feature of the bull market has been the exceptional price volatility on the back of what can be only a relatively minor change in the fundamentals. For example, the copper price fell by around 35% from its May 12, 2006 peak of $8,788/tonne to a recent low of $5,226/tonne on February 8. Although inventories increased in this period to briefly exceed 200,000 tonnes, they still represented less than 1 weeks’ consumption. Since February we have seen the other side of the coin. The return of Chinese buying together with a revival of investor interest has prompted a 50% increase in prices and we may yet see new highs in the copper market.

Recent trends in the lead market reiterate just how low “buffer stocks” are for the base metals leaving the market vulnerable to unexpected supply losses or sudden surges in demand. The supply disruptions in Australia quickly returned the lead market to a position of extreme tightness and prices have more than doubled from the June 2006 low of $915/tonne to over $2,000/tonne.

**Aluminium:** As has been the case over the last twelve months or so, demand growth is continuing to be matched by higher output. As a result aluminium

<table>
<thead>
<tr>
<th>Base &amp; Precious Metals Review</th>
<th>BASE METAL PRICE OUTLOOK 2005 TO 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash price $/tonne</strong></td>
<td><strong>% Change</strong></td>
</tr>
<tr>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td>Al</td>
<td>1,898</td>
</tr>
<tr>
<td>Cu</td>
<td>3,684</td>
</tr>
<tr>
<td>Ni</td>
<td>14,733</td>
</tr>
<tr>
<td>Pb</td>
<td>976</td>
</tr>
<tr>
<td>Sn</td>
<td>7,370</td>
</tr>
<tr>
<td>Zn</td>
<td>1,385</td>
</tr>
</tbody>
</table>
continues to under-perform the rest of the base metals complex, a trend which the fundamentals suggest may continue. Our supply-demand balance analysis points to a balanced market. Natixis Commodity Markets forecasts an average annual price of $2,750/tonne in 2007. Our forecast is below the level prevailing early in 2007 as prices are being supported by speculative activity. However, the sizeable deliveries into LME warehouses support our view that there is no acute shortage of material and that prices may trend lower as the year progresses. For 2008 we project an average of $2,300/tonne.

**Copper:** Natixis Commodity Markets maintains the view that without a similar series of disruptions to those in 2006, the increases to refined output globally will continue to counterbalance the rises in demand in 2007. As a result, we forecast the market in a surplus of around 50,000 tonnes. The price drivers were the return of Chinese buying and fund interest. We expect that both factors will wane as the year progresses. We forecast that Chinese domestic output will increase in the remainder of 2007, which may reduce its reliance on imports. As such, we are forecasting an average annual cash price of $6,350/tonne in 2007 and $5,000/tonne in 2008.

**Lead:** In our previous quarterly report, Natixis Commodity Markets had assumed that Australian concentrate output would rebound sharply which would allow refined production to expand particularly in China. This rebound in output is now unlikely to emerge until the latter part of the year and our revised supply-demand balance points to a 35,000 tonne deficit this year. For 2008, our analysis points to a return to surplus. Natixis Commodity Markets forecast that cash prices will average $1,850/tonne in 2007 and $1,600/tonne in 2008.

**Nickel:** The trigger for a correction in the nickel market will most likely come from the demand side rather than the supply side given the structural capacity shortfall. Natixis Commodity Markets believes that further production cuts in stainless will emerge in the summer months, which will lead to a correction in the nickel price. During this period we could see nickel prices slip below $35,000/tonne. On an average annual basis, we are forecasting average price of $35,000/tonne in 2007 followed by $23,500/tonne in 2008.

**Tin:** Given the sharp gains in the tin price so far this year the key question is whether a further improvement in the fundamentals will filter through ever higher prices. Although we do not rule out prices briefly exceeding $15,000/tonne, for the year as a whole, Natixis Commodity Markets is projecting an average annual price of $13,750/tonne. These high prices should see more of a sharp response in 2008 from China and Indonesia that could push average prices back to $10,000/tonne.

**Zinc:** For 2007, Natixis Commodity Markets is projecting a deficit of 17,000 tonnes. We expect that mine supply will finally begin to respond to the record level of prices, which should allow both “Western World” and Chinese refined zinc output to expand. In terms of prices, we expect that these to trend lower as 2007 develops. We forecast an average annual price of $3,500/tonne in 2007 followed by $2,750/tonne next year as the market moves into oversupply.

Tournigan Gold Developing High Grade Uranium and Gold Deposits in Slovakia

*Company has built a portfolio of highly prospective uranium and gold deposits on two continents*

Tournigan Gold Corporation (TSX.V: TVC; Frankfurt: TGP) is much more than its name would indicate on first glance. This is a company that not only has a substantial gold project at the pre-feasibility stage, it also is advancing a high-grade uranium deposit and actively exploring a broad portfolio of uranium and gold projects on two continents.

The company’s flagship property is the Jahodna uranium project in Slovakia, a democratic EU country that is a major producer and user of nuclear power. The company’s advanced Kremnica gold project is also located in Slovakia. Other highly prospective gold and uranium projects are located in Northern Ireland, (gold only,) as well as in the Western United States.

The quality of Tournigan’s projects has attracted a 45% share ownership by institutional investors who recently ponied up a massive $45 million private placement. The financing was underwritten by Cormark Securities Inc., Dundee Securities Corporation and Canaccord Capital Corporation.

**High-Grade Uranium Deposit Found at Jahodna Property in Slovakia**

Tournigan has staked four historical uranium deposits in Slovakia in areas that have been mined extensively for uranium – producing 280 million pounds of uranium through the 1990s. Slovakia is the world’s third-largest per capita producer of nuclear-powered electricity – more than 58% of the country’s energy use. Currently, most of the country’s demand for nuclear fuel is supplied by Russia, a situation the country will be able to change as local deposits of uranium ore are moved into production.

Tournigan, which was already developing its Kremnica gold project, acquired the 32 square kilometer Jahodna uranium project in 2005. Uranium mineralization was discovered on the property in 1985 with exploration continuing until 1992 when both uranium prices and the former political regime fell. The property has excellent infrastructure and ready access to electrical power, natural gas and transportation.

An inferred resource estimate of 18.2 million pounds of U3O8 or 1.25 million tonnes at 0.66% U3O8 has been delineated on the property. A new resource calculation for Jahodna, which will include approximately 6,000 meters of infill and step-out drilling conducted during 2006, is expected before the end of June 2007.

“We are pleased with the results of this drill program, which confirm that the high-grade mineralization at Jahodna continues at depth and along strike,” says Tournigan President and CEO James Walchuck. “We expect to have a new resource demonstrating the growth capabilities of this deposit calculated on this project later this quarter.”

A positive independent preliminary assessment at Jahodna, completed in April 2006, modeled an underground operation with a yearly production rate of 100,000 tonnes at an operating and production cost of $92.50 per tonne of ore. This equates to a net value of $9.15 per pound of uranium oxide produced, before any molybdenum by-product credit.

The assessment also reported a 44% after-tax...
value of $65.5 million with an internal rate of return based on a conservative price of $35/lb of uranium oxide. With prices currently exceeding $70/lb, the economics will be substantially improved.

Tournigan will conduct a multiphase exploration program this year at Jahodna with the goal of updating and improving the confidence level of its resource calculation. The deposit is open both at depth and along strike. The company is also planning a regional exploration program, including airborne radiometrics, a magnetic geophysical survey, ground geophysics and prospecting at its Novoveska Huta uranium deposit, also in Slovakia.

Meanwhile, Tournigan has also optioned from Sweetwater River Resources uranium claims covering more than 130 square kilometers in Arizona, Wyoming and South Dakota. The company currently has 85% and has the right to earn up to a 100% interest in the property portfolio.

Exploration work on 89 potential breccia pipes has identified 22 priority targets in Arizona. Drilling is expected to begin on the first 12 targets in late May 2007. The company is also compiling information on 12 Wyoming and South Dakota uranium claim blocks.

Exploring Multiple High-Grade Gold Projects on Two Continents

Tournigan acquired 100% of the Kremnica open pit gold project in Slovakia in 2003. The property, located in one of Europe’s largest historic gold mining areas, produced over 1.5 million ounces of gold and 7.7 million ounces of silver since 770 A.D. and still hosts a significant open-pit resource for both metals. The property currently has an estimated measured and indicated resource of 1,074,100 gold equivalent ounces (combined gold and silver), as well as an additional inferred resource of 296,000 gold equivalent ounces. A preliminary assessment has calculated an after-tax 33% internal rate of return based on a $425 gold price. Exploration at several identified gold and...
silver mineralization zones is continuing and a pre-feasibility study is nearing completion.

The company’s 100% owned Curraghinalt gold property in Northern Ireland appears to host a high-grade deposit with substantial exploration potential. Aggressive drilling since 2003 has confirmed and expanded the historic resource and identified three new parallel gold-bearing vein system. The 346 square kilometer Curraghinalt deposit has a current inferred resource of 262,018 ounces of gold from 527,700 tonnes of material averaging 15.45 g/t gold at a cutoff of 6.0 g/t. Two drill rigs are currently on the property in an effort to expand the existing resource through infill and step-out drilling and underground development work.

Tournigan also has optioned two epithermal gold and silver projects and a mesothermal metal-volcanic hosted gold-silver project in Nevada which lie within a 65 kilometer land package from AuEx Ventures. Tournigan can earn up to 51% in the joint venture.

Management Builds Large Portfolio of Gold and Uranium Projects

Tournigan Gold is led by a highly experienced management team that has built an impressive portfolio of uranium and gold properties with the goal of advancing its projects to profitable production.

“We intend to establish Tournigan as a mining force in the industry,” says Tournigan President and CEO James Walchuck, a mining professional with more than 25 years of international experience. Prior to joining Tournigan, Walchuck was mining manager for Barrick Gold’s Bulyanhulu Gold Mine in Tanzania where he oversaw the building of a multi-million ounce, high-grade underground mine. He has also worked as manager of mining and manager of corporate operations for Royal Oak Mines and as chief mining engineer for Tarkwa Goldfields in Ghana.

Tournigan’s COO Mike Mracek has over 35 years of in-depth engineering, operational and industry experience. He served as general manager at Barrick Gold’s Bulyanhulu Gold Mine, director of operations for Sterlite Gold’s open pit, underground and tailings treatment facility in Armenia, deputy managing director for Ashanti Goldfields in Ghana, and general manager for Royal Oak Mines operations in Ontario, Newfoundland and Northwest Territories.

The balance of Tournigan’s management team brings broad international expertise to Tournigan’s exploration and development efforts, including project financing, property acquisition and management, engineering, and exploration. Officers and directors have worked with well known companies as Deloitte & Touche, Gold Fields, Newmont, Placer Dome, and Bema Gold.

Investment Considerations

Tournigan holds an impressive portfolio of high-grade uranium and gold properties in economically and politically stable Europe and North America, headed by its flagship Jahodna uranium deposit. The price of uranium has risen sharply since 2003. In just the last year, uranium prices more than doubled – a trend that is expected to continue amid a world economy pressured by diminishing supplies of oil and concerns over global warming. Nuclear energy currently supplies 16% of the world’s power. The current and expected demand for uranium fuel has created a surge in exploration for new uranium deposits. Tournigan is at the forefront of that search.

A noted analyst maintains a “Buy” recommendation on Tournigan Gold. Another leading analyst notes Tournigan has substantially increased both the uranium and molybdenum grades, and says there is a “reasonable chance Jahodna could become a large uranium district.”

Disclaimer: This material is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. References made to third parties are based on information obtained from sources believed to be reliable but are not guaranteed as being accurate. Recipients should not regard it as a substitute for the exercise of their own judgement. The opinions and recommendations are those of the writers and are not necessary endorsed by The Bull & Bear Financial Report. Any opinions expressed in this material are subject to change without notice and The Bull and Bear Financial Report is not under any obligation to update or keep current the information contained herein. All information is correct at the time of publication, additional information may be available upon request. The companies featured in this newsletter have paid The Bull & Bear Financial Report a fee for their investor awareness program. The directors and employees of The Bull & Bear Financial Report do not have a position in the securities referred to in this report. The Bull & Bear Financial Report is not affiliated with any brokerage or financial company.
spot prices could remain high for some time, not only because it takes a long time to begin producing from new mines, but also because other available technologies, such as the following, require great amounts of capital in an industry that is always uncertain of the future, thanks to heavy government intervention:

- Greater enrichment would allow for more efficient use of U_3O_8 and require considerably less of this metal to be mined.
- Greater use of fast breeder reactors, which can use spent fuel (after reprocessing), thus utilizing material that would otherwise be stored away as waste. This too would reduce the amount of U_3O_8 that must be mined.
- Reprocessing of spent fuels could go a long way toward closing the gap and would also reduce the amount of U_3O_8 required to fuel nuclear power plants. According to Brew Barron, group executive and CNO of Duke Power, if all the spent fuel currently in storage in the U.S. could be reprocessed, the result would be 250 million lbs. of natural uranium.

The problem with all of these solutions to the nuclear fuel shortage problem is one of scarce capacity and capital costs to build more capacity in an industry that is highly uncertain, thanks to constant government intervention and concerns about “security.”

Gradually, supplies from uranium mines will begin to rise. For example, Moukhtar Dzhakishev, president & CEO of NAC Kazatomprom, is suggesting his company will increase production of U3O8 from 13.2 million pounds in 2006 to 38.5 million pounds by 2010 and 59.4 million pounds by 2017. To put that in some context, in the U.S. we consume 55 million pounds in 2006 to 38.5 million pounds by 2010 and 59.4 million pounds by 2017. To put that in some context, in the U.S. we consume 55 million pounds of uranium per year at our 104 nuclear reactors. We have about 24% of the world’s nuclear reactors and the capacity of our reactors is approximately 27% of the world’s electricity generating capacity. At present, the U.S. produces only about 4 million pounds of U_3O_8. The 51-million-pound shortfall represents a large percentage of the global shortfall, so if Kazakhstan is able to produce quantities of this metal, as they project, it isn’t difficult to see the production deficit being narrowed fairly quickly.

What Could Tank Uranium Stocks?

Recently, David Miller, president of Strathmore Minerals Corp., was quoted as saying there is something like 1.5 billion pounds of U_3O_8 identified around the world as “reserves.” By definition, reserves must be mined at a profit or they are not defined as reserves. If the price of the metal were to fall significantly, the pounds of “reserves” in the ground would no doubt fall considerably as well. But what could trigger longer-term uranium contract prices in the not too distant future?

In my view, it is very possible if not even very likely that there will be one or more very significant new high-grade deposits found in the Athabasca Basin or some similar geological setting that could quickly render prospects for many lower-grade mines non-economic. Keep in mind that mining exploration companies are really looking into the future, and share prices for these companies rise dramatically during the discovery phase. But the prices paid for deposits being found in the ground are based on at least some vague sense of future metals prices. If some new major source of uranium is discovered such that the current future gap between supply and demand is met, longer-term contract prices will decline and with them so will the price of junior exploration companies.

Over the past two or three years, with the rise in the price of U_3O_8, there has been a great deal of exploration in the Athabasca region. The footprint of the mines in the Athabasca are small, even when you add them together. Yet, they are so incredibly rich that 30% of the world’s uranium comes from this region. Most important is that the grades of these mines are so incredibly high that they will remain in production no matter how low the price of uranium were to fall. For example, based on $52 uranium, the “lowest-grade” mine is the Rabbit Lake Mine with per-tonne values of $1,409. There are two other mines with amazingly higher values including Cigar Lake ($21,896/tonne) and McArthur ($27,857/tonne). It is my view that the chances are quite good that there could be one or more new high grade uranium discoveries in the making right now that could help fill the gap and take future U_3O_8 contracts down and thus hurt junior uranium exploration stocks in the process.

The risk of any imminent high-grade discovery is a speculation on my part, but it is not without some basis in fact. For example, AREVA/UEX Corp. recently announced a decision to sink a $100 million exploration shaft to develop known uranium resources at their Shea Creek Project. The deposits were discovered through drilling programs conducted over the last 15 years, but defined within the past 3 years. The Shea Creek Project is expected to be the third-largest uranium production center in the Athabasca, following McArthur River and Cigar Lake. Also, Denison Mines Inc., a recommendation of this letter, recently reported high-grade intersections of between 13.5% and 22.6% U_3O_8 in surface mineable terrain on the Mae Zone of their Midwest Project joint venture with AREVA. Exploration work on the Mae Zone was first initiated in 2005. Another one or two Cigar Lake or McArthur discoveries and the projected shortage of uranium could disappear in a hurry. That would not be good news for the speculative uranium exploration sector. And so I think we do not want to
forget some junior exploration stocks that have a chance of coming up with a major high grade discovery in the Athabasca Basin.

One of the best prospects for doing so among the juniors might be CanAlaska Uranium (TSX: CVV Pink Sheets: CVVUF, www.CanAlaska.com). Following is a review of that stock. It hasn’t done much since we added it to our list in December 2006. However, the company is getting ready for some aggressive drilling now which could very quickly make this stock come to life. I think this is one speculative uranium exploration play that bears watching. They could come up big in the Athabasca.

CanAlaska Uranium (CVV) is still rated as a “D” progress company because it has yet to outline a resource which would qualify it as a “C.” The market has rarely taken notice of the fact that the company has been spending some Cdn $19 million on its massive Athabasca Basin claims since late 2004 to set up drill targets. Markets generally do not get excited about preliminary geological work required to establish drill targets. They do get excited however about drilling. Now that this company will be carrying out one of the most aggressive drill programs in the Athabasca Basin, I think it is time for speculative investors to take note and acquire a few shares especially given recent weakness in the stock. CVV holds one of the largest prospective land portfolios across the Athabasca Basin. At close to 4,000 square miles, its land holdings surpass the combined holdings of leading producers Cameco and Areva combined.

One of the things I like most about CVV is its project generation model in the uranium sector. The beauty of this model from a shareholders perspective is that dilution is reduced as other companies spend their cash to fund drilling.

One such company is Mitsubishi Development Pty Ltd, a subsidiary of Mitsubishi Corporation. Mitsubishi is a partner on CVV’s West McArthur Project shown on the map above. Mitsubishi is required to fund Cdn$11 for exploration on this project to earn a 50% interest. But there are a number of other companies such as International Arimex Resources Inc., Northwestern Mineral Ventures (Also a recommendation of this letter), and Yellowcake plc. Management reports that it is continuing to hold discussion with other significant international parties regarding strategic cooperation. Over all, CVV holds 19 projects in what is legitimately described as the “Saudia Arabia of uranium.” Now with drilling getting underway on a number of projects in an aggressive manner, things could get very exciting for CVV shareholders in the weeks and months to come.

Management

A word is in order about the management and exploration team put in place at CanAlaska. The President of the company is well known to your editor. He is Peter Dasler, an exploration geologist with over 30 years of experience. The Chairman of the Board is Harry Barr, an experienced mining executive and fund raiser. The exploration team, which has 13 geologists, and 3 technicians is headed by Dr. Karl Schimann, one of the co-discoverers of the giant Cigar Lake Mine. Also, CVV recently announced the addition of former U.S. Ambassador Thomas Graham Jr. to its board of directors. As a noted authority in international nuclear non-proliferation Ambassador Graham brings with him a sense of potential government intervention that has effected the nuclear power industry in a significant manner in the past.

Summary

We don’t want to mislead you into thinking this is anything other than a very speculative uranium play. But it is a good one given its massive holdings in the richest uranium producing area in the world and a strong management team. Now that the boring preliminary geology is out of the way and aggressive drill programs set over the remainder of 2007 and with its share price considerably off its highs, we think CVV is one of the more exciting junior uranium stock plays in the market now. As always we strongly advise subscribers not to allocate more than 5% of your portfolio to this one stock. If one of the properties on CVV’s claims begin to show signs of a major U₃O₈ discovery, that 5% should bolster your overall portfolio returns very considerably. If it falls short of those hopes and expectations, you won’t go broke and your wife won’t leave you at least not on the basis of CVV alone.”

Editor’s Note: Jay Taylor is editor of J. Taylor’s Energy & Energy Tech Stocks, Box 770871, Woodside, NY 11377, 1 year, 12 issues, $179. For more information on this highly recommended newsletter visit www.JaysEnergyStocks.com.
CanAlaska’s Strategic Partnerships
Accelerate Exploration Progress

CanAlaska Uranium Ltd. has, since 2004, established itself as a leading uranium explorer in Canada’s Athabasca Basin. With a huge land position in this strategic uranium district, an experienced and talented management team, and an aggressive exploration strategy, the Company has single-mindedly pursued its goal of finding a new major uranium deposit.

Located in the Canadian provinces of Saskatchewan, Manitoba and Alberta, the Athabasca Basin is one of the best places in the world to explore for uranium. Total production and current resources from all major deposits in the Athabasca Basin has almost reached 1.5 billion pounds, and is presently worth over $100 billion dollars at a spot price of US$72 dollars per pound of U₃O₈. From two mines, the Basin currently produces 30% of world’s mined uranium, and recent discoveries have continued to affirm the reputation of region as host to the world’s largest and richest uranium deposits.

While these rich uranium deposits exhibit many different geological features, they possess distinct similarities from an explorer’s standpoint. First, they are associated with hydrothermal alteration halos, and generally occur along major structural breaks in the earth’s crust. Further, they are usually located along the boundary, or just below the boundary, of the sandstones, conglomerates and shales that make up the Athabasca Basin and the underlying metamorphic rock. This discontinuity between the rock types is known as an “unconformity” and it trends from the surface to depths of 1 mile deep in the center of the Basin. Finally, the deposits found along this unconformity are of very high grade – regularly in excess of 22 pounds per ton (1% per ton), orders of magnitude greater than other known uranium deposits worldwide.

Along the south-east of the Basin, CanAlaska has secured a large land position, directly adjacent to the trend of giant uranium mines. Along the northwestern rim, new geophysical technology has allowed CanAlaska to look beneath the blanketing of clay sediments on the bottom of Lake Athabasca, and CanAlaska holds the dominant land position in this area. A greater understanding of uranium deposits and their deep root systems has also led CanAlaska to acquire ground to the north east of the Athabasca basin in search of basement hosted uranium mineralization.

CanAlaska’s management team is lead by Mr. Peter Dasler, as President and CEO, with over 30 years of experience in the mining industry. He is assisted by Mr. Emil Fung as Vice President, Corporate Development, who brings a wealth of financial and business experience to the company as an entrepreneur, former nuclear engineer investment banker and venture capitalist. The Company’s exploration team is headed by Dr. Karl Schimann, a veteran Athabasca uranium geologist and one of the discoverers of the giant Cigar Lake mine.

CanAlaska’s hand-picked exploration team comprises experienced exploration personnel and seasoned uranium veterans, complemented by employee’s and consultants who have developed considerable expertise on the current projects over the past 3 years.

In mineral exploration, the ability of management to make value-generating deals is a hallmark of a successful and credible team. Without the ability to bring on board deep-pocketed partners who can push exploration projects forward, the full value of these projects can rarely be realized. A striking example of the calibre of the CanAlaska management team is the strategic agreement formed between CanAlaska and Mitsubishi Development Pty. Ltd. – a wholly-owned subsidiary of Mitsubishi Corporation. Mitsubishi is Japan’s largest trading conglomerate and its interests in the nuclear and uranium industry extends to the construction of nuclear power plants and supplier of uranium to Japanese electrical utilities.

The demand for nuclear energy continues to grow daily, as reflected by increases in the spot price of uranium from US$7 in 2001 to a present-day price of US$75 a pound. This growth shows no sign of slowing as Asian economies demonstrat an insatiable appetite for power, leading to significant increases in the number of nuclear power plants planned for construction. With the long term uranium price outlook so strong, the time to explore for, and develop uranium deposits has never been better. The Company’s ability to bring on board partners for exploration and development will undoubtedly accelerate the time period of discovery and development.
THE BULL & BEAR FINANCIAL REPORT  •  © June 2007  •  www.TheBullandBear.com

EMERGING INVESTMENTS
R.O. Box 97, Williamsport, PA 17703.
Monthly, 1 year, $129.

Commodities return to the fore

Gregory Dorsey: “Crude oil isn’t the only commodity soaring these days. In fact, commodities of all stripes are garnering greater attention. And this isn’t just a flash in the pan. On a per-capita basis, the Chindian juggernaut consumes only a tiny fraction of the resources we in the West use each year. But that gap will continue to shrink for many years to come. And as it does it will force prices for the world’s finite resources much higher than where they stand today.

One such commodity that’s enjoying a meteoric rise these days is uranium. Uranium prices have continued to soar since we last discussed them in the December 2006 EI. The price of the ore was around $60 a pound just a few months ago but is now at $113 a pound. That represents a tenfold rise in the last four years! Moreover, we see nothing on the horizon that will cause uranium prices to fall back in any meaningful way.

The bullish case for uranium is fairly straight forward. There are some 435 nuclear reactors generating electricity around the world today. Most, if not all of them, are operating near maximum capacity. Another 28 reactors are under construction, while more than 60 others are in the planning stage with construction slated to begin in the next couple of years. And at least 150 more nuclear reactors are under consideration.

After 20 years of under-investment in new production capacity and a steep drawdown in uranium stockpiles, prices have no where to go from here but up. Consider that uranium consumption this year is expected to top production by more than 50 percent. And no significant increase in mining capacity is slated to come on stream for several years.

We’re holding three uranium plays in our portfolio, all of which will benefit from the on-going uranium bull market. Our lone pure play is Canada’s Cameco (CCJ), the world’s largest uranium producer.

The stock has been held in check by uncertainties surrounding remediation and remaining construction costs of its 50 percent-owned Cigar Lake project. The company is now putting the price tag on its share of repairing the flooded mine at around $440 million, which while costly, is lower than many were previously expecting.

The mine, located approximately 660 miles north of Saskatoon, Saskatchewan, is the world’s largest undeveloped high-grade uranium deposit. Proven reserves at the project are 232 million pounds. Production at the mine should begin sometime in 2010, climbing to 18 million pounds of uranium by 2013. Once under full production, the mine’s output will represent roughly 17 percent of the world’s uranium output.

Cameco’s management has traditionally locked in a good portion of its sales under long-term contracts. As a result, while its profits this year should rise substantially over the previous year’s, the company won’t enjoy the full benefit of skyrocketing uranium prices. We’re looking for profits of around $1.60 a share from the company, followed by earnings of around $3 a share next year.

We also have stakes in uranium through our positions in London-based Rio Tinto (RIO) and Aussie-based BHP Billiton (BHP). Moreover, both of these companies are riding the boom for many other commodities as well.’

Rio Tinto is a heavyweight in quite a few areas. It’s the world’s largest producer of titanium dioxide slag, borates and tale, and the largest exporter of industrial salt. It’s also the Western World’s second-largest producer of iron ore and coal, the third largest producer of uranium and gem-quality diamonds, the fourth-largest copper producer and the sixth-largest aluminum producer.

BHP, too, is a dominant player in its wide range of operations. In addition to uranium, it’s one of the world’s top producers of copper, aluminum, silver, nickel, manganese, lead and zinc. It’s also a major supplier of iron ore globally along with hard coking coal used in steel production. BHP also has a position in diamond and titanium. Let’s take a look at just one of these commodities: copper.

New Love for Red Gold

In the second half of 2006, U.S. investors’ fears that weakening demand for copper would lead to a large surplus sent prices for the red metal reeling. After briefly crossing the $4 a pound mark, copper fell sharply before bottoming in the $2.40 a pound range. Copper is back above $3 a pound now, and it should stay strong going forward.

The typical U.S. home uses about 400 pounds of copper, so the softening housing market here in the U.S. has reduced demand for copper. In fact, weak demand for autos and other items as well have also led to slower domestic copper consumption. But rising demand from other quarters, most importantly – you guessed it – China, has more than offset our reduced need for the metal.

Last year China used 22 percent of the world’s copper production, double what it used a decade ago. And this trend shows no signs of abating as Chinese consumers swap their bicycles for autos, adopt air conditioners to cool their homes and demand larger new apartments and homes.

The World Bureau of Metals Statistics recently estimated that China’s copper demand in January rose 34.5 percent year over year. Globally, copper demand is expected to grow by 4 percent this year. Given China’s hunger of copper and other metals,
U.S. industrial production could contract sharply without having an adverse impact on overall demand (and prices). Both Rio Tinto and BHP will be direct beneficiaries of this rapid growth, but much of that growth is already reflected in their share prices. Since they’re commodity plays, these stocks will always trade at relatively low price-to-earnings multiples, but by book value and other measures, they’re no longer cheap. We still see upside potential in the pair, but nothing on the order of what they’ve enjoyed in the past few years. Both stocks are undervalued to the tune of 15 to 20 percent at present.

Ta Ta Taseko

Despite our bullish outlook for copper, we’re selling our speculative position in Taseko Mines (TGB). The British-Columbia-based company is on the right track, having produced positive results from drilling at the Gibraltar Mine, and it’s increasing its proven reserves. Ultimately, we suspect Taseko will be taken over by a larger company. But when such a takeover may occur is anyone’s guess. In the meantime, the company may have to return to the capital markets to fund its expansion. That will hurt existing shareholders. And since the stock isn’t widely followed on Wall Street the share price could languish for some time. Sell Taseko.”

BI RESEARCH

R.O. Box 133, Redding, CT 06875.
1 year, every 6 weeks, $120.

I’m sticking with Taseko

Thomas Bishop: “Taseko (ASE: TGB; $3.00, +176% Avg.) operates the Gibraltar open-pit copper mine in British Columbia, and also has in development one of the largest open pit gold-copper deposits in North America, Prosperity, with 4.5 million recoverable ounces of gold and 2 Billion recoverable pounds of copper. One of the big advantages of investing in Taseko is that its operations are all located in North America which removes a lot of uncertainty. Also the shares are arguably undervalued on the basis of the reserves behind each share (25 pounds of copper and 0.33 ounces of gold), as well as on the basis of its earnings (where I believe it has earnings power in the C$3.35 range this year to C$7.0 range next year once it completes a 50% capacity expansion at Gibraltar. Note this is arguably nearly a 100% expansion based on the production Taseko is actually been getting out of the old inefficient mill as it is today (45 – 50 million tons of copper annually). The expansion should be in operation in 2008. The Company is paying for the Gibraltar mill upgrade and expansion out of the cash drawer which is still stuffed with nearly C$90 million in cash last I

looked... and no debt.

Meanwhile, China has stopped selling off its strategic copper reserves (which it did throughout much of 2006) and begun buying copper with enthusiasm again this year (February purchases were double the year ago level). So copper is back on the rise, despite a weak US housing market. That’s just one spoke in a worldwide wheel. After sinking to $2.50 a pound earlier this year, the metal has recovered to $3.54. Indeed, with copper futures trading at $3.25 two years out, I think Taseko would be well advised to lock some production in at that price. In the wake of the conclusion of the strike at Goodyear, Taseko finally has an adequate supply of tires though production remains tight. It has also purchased three additional trucks to provide the feed stock for an expanded mill. By the end of the calendar year the Company should leave the miserable play dough ore at the bottom of the Polyanica pit and move to the Granite Lake deposit which is being stripped down now and where the ore is... in layman’s terms... way better. So by 2008 we should have an upgraded and expanded mill that can handle nearly twice what the old mill was able to crank out and be much more reliable without the bottle necks and breakdowns of the old mill. And we could be in better (easier to process) ore with higher grade and higher recovery rates. And if the Company is smart enough to lock in most of its production at $3.25, it almost just becomes a math exercise in making money...that accountants could run, just show ‘em the green button... Just kidding guys. But seriously I can see life getting a lot better for Taseko, financially and operationally, as long as it doesn’t have to worry about the price of copper collapsing. This is why I picked it as my Favorite Stock for 2007... and I’m sticking with that- Buy.”

***************

THE PERSONAL CAPITALIST

6811 S 66th Ave., Ste. 301, Tulsa, OK 74133.
1 year, 24 issues, $195.

Markets will hold up during the summer

Sean Christian: “It is our belief that the markets will hold up during the summer, especially as a prelude to the Olympics in China. In fact, we understand that the Chinese intend to invest a good portion of their considerable dollar reserves in equities globally. This will provide a continuing liquidity cushion that should support stocks.

One of the areas in which the Chinese may well invest is in the metals and mining companies. They could be interested in any of our holdings in this area including BHP Billiton, Freeport Copper, Southern Copper, or Zinifex.”
Aura Silver Exploring for Silver in Proven Mineral Districts and Safe North American Jurisdictions

Company acting as exploration arm for producer partners

Aura Silver (TSX.V: AUU) is a small exploration company that certainly does not act its size. By partnering with successful silver producers and near producers, the company is now exploring some of the best silver ground in North America – a region that provides a safe legal and political environment for mining companies.

“We are able to operate in established producing silver districts in the U.S. and Mexico by joint venturing with mining companies. Acting as their exploration arm has proven to be quite a winning strategy for us,” says Aura Silver CEO and Chairman Jeffrey Klenda.

Aura Silver has partnered with the Sterling Mining Company to explore its potentially rich silver properties in the famed Silver Valley in Idaho, and with Intrepid Mines Limited to explore an exciting silver-gold epithermal property in Mexico. In addition, Aura is exploring a highly prospective silver and base metal property within an Archean Greenstone Belt in Canada.

Pine Creek Property Located in Silver Valley Coeur d’Alene District

Aura Silver is exploring some key ground in northern Idaho’s prolific Silver Valley as part of a joint venture with the Sterling Mining Company. The Pine Creek property is part of Sterling’s extensive land holdings in the famed Coeur d’Alene Mining District and lie adjacent to the former New Bunker Hill Mine and Sterling’s Sunshine Mine.

The Sunshine Mine was the largest single silver mine and the seventh largest silver producer in the world. Bunker Hill produced 162 million ounces of silver before it closed in 1985 and still contains large mineral ore reserves. Historically, the Coeur d’Alene district has produced more than 1 billion ounces of silver over a 115 year period. The area still has many producing mines.

Aura Silver can earn a 50% interest in the Pine Creek claims by 2010 by spending up to $3 million in exploration. As part of the joint venture, Aura Silver has access to Sterling’s extensive database. The company expects to combine this information with modern exploration techniques to identify important new silver discoveries. Exploration will first concentrate on the known Eureka vein system.

Under the agreement, if Aura Silver discovers an NI 43-101 compliant deposit of greater than 25 million ounces of silver, Sterling Mining will become the operator with 51% control, and will issue to Aura 20,000 shares of Sterling and reimbursement of 15% of its exploration expenses.

“This agreement with Sterling Mining is an excellent opportunity for Aura Silver to fast-track the company and will help build value for our shareholders,” says Klenda.

Aura Silver hopes to develop a long-standing relationship with other producers in Silver Valley as the company searches for new deposits to fuel existing mills. Says Klenda: “It’s our intention to be regarded as ‘the explorer’ in Silver Valley.”

The prospects for Aura Silver to find new silver mineralization is very good since, despite the area’s long history of production, 85% of Silver Valley has...
never been explored using modern technologies.

**Exploring Prolific San José District in Oaxaca, Mexico**

Last year, Aura Silver signed an agreement with Intrepid to explore in the prolific San Jose district in Oaxaca, Mexico. The 13,724-hectare Taviche project is held by Intrepid under option from Plata Panamericana S.A. de C.V., a wholly owned subsidiary of Pan American Silver Corporation.

The property is underlain by a large number of gold- and silver-bearing quartz veins. The western part of the concession surrounds the San José silver-gold deposit being developed for production by Continuum Resources and Fortuna Silver Mines. The 3 kilometer San José vein extends for another 9 kilometers into the Taviche property. Two significant vein systems have been discovered on the Taviche property.

“We are excited with the potential that this property offers for discovery of high grade silver-gold veins,” says Aura Silver President Paul Pitman.

Aura Silver plans to “fast track” exploration on its Taviche property and will have drills turning by June. The company has initiated an aggressive field program to sample and map the vein systems to define drill targets.

The company can earn a 50% interest of Intrepid’s interest in the property. Aura Silver committed to spend $115,000 in exploration and $60,000 cash on signing to Pan American and another $80,000 in the second year. Intrepid Mines is managing the field programs and has a five year option to earn a 70% interest in the property. The Joint Venture must spend $4 million in exploration and $790,000 cash to Pan American, which can recover 40% of the project if 50 million ounces of silver are found.

**Greyhound Lake Highly Prospective for Silver and Base Metals**

Aura Silver’s Greyhound Lake property is a high grade silver and base metal prospect located in the Churchill region of Ominite. The high grade veins in Greyhound Lake are one of the highest grade silver occurrences ever discovered in the area. Aura Silver has initiated a comprehensive program to map and sample the property to define drill targets.
Nunavut in Canada. The company has staked 25,000 acres, giving it a strategic land position over the highly prospective parts of an Archean greenstone belt. Sampling of near outcrop has returned silver values of 47 and 99 ounces per tonne.

Several strong airborne conductors were discovered following an airborne survey in 2006. The company is considering a drill program later this year. Klenda believes there is “tremendous upside potential” on its Greyhound property where, in addition to a possible high-grade silver deposit, there is also the potential for significant zinc, copper, and other base metal mineralization.

“This is truly bonanza grade,” says Klenda, adding that Intrepid was so impressed with the property, that it spent $200,000 last year to earn a 25% interest in the property, reimbursed Aura Silver’s staking costs, and holds an option to spend an additional $150,000 this year to earn an additional 25%.

Management Team Has Demonstrated Success

Aura Silver boasts a management team with demonstrated success in finding and developing economic deposits for junior mining companies.

Chairman and CEO Jeffrey Klenda has more than 25-years of investment banking and venture capital experience. He has worked with companies that have since become some of the largest companies on major exchanges. As Chairman of Ur-Energy Inc., a TSE listed (URE) uranium company, in less than three years Mr. Klenda has taken URE from a market capitalization of less than $300,000 to over $400 million.

Aura Silver President Paul Pitman has over 35 years experience as an exploration geologist, working for such major companies as Gulf Minerals, Union Miniere of Belgium and BP Resources Canada. He has consulted for over 60 clients, serves on the board of other public companies as a consulting geologist, and is vice president of exploration for Ur-Energy Inc.

Another of Aura Silver’s major assets is its board of directors which the company shares with Ur-Energy Inc., a sister company. One of those board members is James M. Franklin, a past president of the Geological Association of Canada and of the Society of Economic Geologists, and former chief geoscientist of the Geological Survey of Canada. Few upstarts such as Aura are privileged to have such highly qualified directors.

Investment Considerations

Aura Silver plans to spend over $1.5 million this year exploring its highly prospective properties in major mining districts located in safe jurisdictions. There are enough outstanding warrants to double the exploration budget.

Aura Silver is in the enviable position of sharing with its partners the risk of exploring, and gaining in return access to its partners mining expertise. The company is also firmly committed to operating in the safe political jurisdictions of North America.

The company has no plans to run mines, instead, it brings its stellar management team and first-rate staff of exploration geologists to the task of finding significant silver deposits for itself and its partners who have the skills to carry out mine planning and operating. Aura Silver does indeed have some impressive partners – and the potential of some serious elephant hunting in major silver districts.

Only 20% of the company’s shares float publicly with the remainder closely held by insiders and close associates. As a result, says CEO Jeffrey Klenda, the stock is “very responsive to buying on the upside”.
Continued from page 13

DICK DAVIS DIGEST
P.O. Box 26774, Tamarac, FL 33320.

United States Steel:
Positive view of 4th quarter

Dick Davis Digest offers investment ideas from the best minds on Wall Street. Below Bill Selesky, editor Argus Weekly Staff Report, focuses on United States Steel Corp.

Bill Selesky: “We are raising our price target on United States Steel Corp. (NYSE: X, 107.00) to $117 per share from $99. We have a positive view of the 4Q results and our view of the stock has become even more favorable over the past few months. We do not anticipate a recession and believe that moderating economic growth globally is still a favorable environment for continued earnings growth for U.S. Steel. The stock has risen steadily in the past two months, but valuations still appear attractive. Service center inventories could rise again, or China could become a bigger steel importer, but we believe that the short-term risk/reward balance is tilted in favor of U.S. Steel shares.

On March 29, U.S. Steel announced a definitive agreement to acquire Lone Star Technologies, Inc., a leading manufacturer of welded oilfield tubular goods, for a total of $2.1 billion. The buyout for $67.50 per share in cash was unanimously approved by the boards of both companies. U.S. Steel expects the transaction to be accretive to 2007 earnings per share before considering expected synergies and excluding the accounting effects of the sale of inventory and other customary adjustments. Management estimates the merger will generate annual operating synergies of at least $100 million pretax by the end of 2008. The transaction is expected to close in the second or third quarter of 2007.

Considering the expected long-term growth of the energy sector, we think that this consistent with U.S. Steel’s strategy. We think operating synergies will ultimately exceed management’s $100 million estimate. Overall business trends in 1Q07 suggest higher demand for the company’s Flat-Rolled division. Pricing trends have been stable and have even showed improvement and the order book remains encouraging. This segment is on the upswing and we expect positive 1Q results from U.S. Steel.

We expect solid order patterns in the Europe division and also expect strong results from the Tubular division. We are maintaining our earnings per share estimate of $10.55 for FY07 and $8.77 for FY08. Our long-term growth rate estimate remains 8%. U.S. Steel has focused on profitable growth in a wide range of geographic markets, especially in regions where it can produce products at a lower cost than its competition. Over the past few years, the company has developed plants in Slovakia and Serbia that serve the Eastern European market. It also recently announced plans to expand its steelmaking operation in Slovakia. Construction of additional facilities started late in 2005, with operation scheduled to start in 2007.

Management plans to pursue geographical expansion, but only in areas where it can develop low-cost operations. The steel industry is extremely cyclical and highly competitive. It is also affected by excess global capacity, which has restricted price increases during periods of economic growth and has led to price decreases during periods of economic contraction.

In addition, the steel industry faces competition in many markets from producers of such materials as aluminum, cement, composites, glass, plastics and wood. U.S. Steel also faces risks associated with commodity prices, interest and exchange rates, asbestos liability and environmental issues.

The shares are trading at 10.1x our 2007 earnings per share estimate and at 12.2x our 2008 forecast, at the low end of the average range for the past 10 years. The shares are trading below their 10-year average for price/cash flow and price/EBITDA. Our two- and three-stage discounted cash flow modeling suggests that the shares are significantly overvalued. However, the company’s cyclical limits the usefulness of DCF analysis. The shares appear reasonably valued in comparison to peers. In all, our blended analysis suggests that the shares are still attractive.”

Editor’s Note: Bill Selesky is editor of Argus Weekly Staff Report, www.argusresearch.com, (212) 425-7500, 1 year, 52 issues, $750.

***************

CONTRA THE HEARD, 42 Rivercrest Rd., Toronto, ON M6S 4H3. 1 year, 4 issues, $500.

Stornoway: Interesting diamond play

Benj Gallander & Ben Stadelmann: “An interesting diamond play is Stornoway Diamond Corp. (TSX: SWY). After a bitter battle, the company successfully took over Ashton Mining to add to its earlier purchase of Contact. The explorer now has a number of promising candidates for the next commercial diamond mine in Canada, so the law of averages would seem to dictate that it’ll hit the jackpot somewhere. Miner Agnico-Eagle holds a substantial interest.

South American Gold has confirmed its perennial canine status. New management is trying to jumpstart a joint venture with Anglo-American, and a recent private placement worth $1.4 million provided enough cash to pay off some debt and keep the lights on. That will tack about another 28 million shares to an already bloated float, which may ultimately lead to the dreaded consolidation. South American does appear to have an excellent property in Chile, though, and it was in production mode before an avalanche hit, forcing its closure. The facility will likely be operational again before the end of next year.”

Continued on page 20
Canarc Resource Corp. Accelerates New Polaris High-Grade Gold Mine Project Towards Production

High-Grade New Polaris Gold Mine on Road to Production by 2009

The core asset of Canarc Resource Corp. (OTC BB: CRCUF; TSX: CCM) is its 100% owned, past-producing, high-grade New Polaris Gold Project located in northwestern B.C. Between 1988 and 1997, Canarc conducted extensive exploration drill programs to discover major new high-grade gold zones below and beyond the old mine workings. Resource studies at that time estimated 1.2 million oz. contained gold, still open along strike and to depth.

In February 2007, an updated, independent, NI 43-101 compliant resource estimate was announced, Bradford Cooke, Chairman and CEO, commented, “This updated NI 43-101 resource estimate was a key first step in advancing the New Polaris gold project towards the feasibility stage. We are thrilled to beat our minimum resource target, even though we only infill drilled the C vein system to a depth of just 500 m and did not drill any of the other historic resource areas in the Y and AB veins, which are mostly at shallower depths.”

An aggressive feasibility and mine development program is now underway in order to bring New Polaris into production by 2009.

Diverse Portfolio Includes Large Gold Exploration Property in Suriname

Canarc has accumulated an impressive portfolio of gold properties – one that is already producing royalty revenues; the advanced-stage former producing high-grade mine slated to resume production by 2009; an intriguing early-stage project in South America the company says has extensive gold potential and recently announced attractive gold-silver acquisitions in Mexico with a promise of more to come. This growth-oriented, gold exploration company is also looking for an advanced-stage project suitable for near-term gold production.

Canarc plans to initially use the estimated $500,000 annual royalty revenues from the Bellavista open-pit, heap leach gold deposit in Costa Rica to help finance development of its high-grade New Polaris Mine in British Columbia and exploration at its Benzdorp Project in Suriname. Long-term, the company plans to sell the Bellavista interest, to accelerate development of the other projects.

Largest Undeveloped High-Grade Gold Mine Project in Western Canada

Canarc Resource’s flagship New Polaris gold project encompasses about 3000 acres, located in British Columbia about 60 km north-east of Juneau, Alaska. Gold was discovered at the mine site in 1929. Historically, 232,000 oz. gold averaging 0.35 oz/t was produced by the mine between 1938 and 1951.

Canarc, started drilling in 1988 and soon discovered major gold zones below and beyond the historic mine workings. High-grade gold with a high degree of continuity and uniformity was found in three major shear zones. Gold mineralization averages about 10 feet thick but ranges up to 100 feet in thickness and the average grade is 0.4 oz per ton or better!

By the mid-1990s, Canarc was well on its way to proving up sufficient resources to consider reopening its 100%-owned New Polaris Mine. Work halted when the gold market collapsed in 1997. Now that the gold sector has significantly rebounded, New Polaris is once again the company’s main focus.

Canarc has spent over C$18 million to date evaluating New Polaris as a new producing mine. It should take only three years to bring the mine to production of about 65,000 oz. a year of high-grade ore. Historically, gold recoveries averaged 90% with concentrate grades ranging from 3.5 to 5.0 oz/t gold.

New Polaris hosts refractory gold that historically was mined and processed year-round. Gold concentrates were barged seasonally to a smelter in Tacoma, Washington. Canarc will also consider utilizing barges, and is considering autoclaving concentrates either at its own site or shipping concentrates to existing processing facilities in Nevada.

Existing buildings, including sleeping quarters, a kitchen facility, warehouse, dry and machine shop, have been refurbished and are capable of supporting...
35 people. A dewatering program to open up the mine’s lower levels has begun to allow construction of a 2500-foot decline into a large vein deposit outlined in recent exploration. The deposit remains open down dip.

Once in production, Canarc plans to first mine the upper portion of the deposit to provide cash flow to continue development deeper underground where there appears to be the greatest potential for additional high-grade ore.

**Benzdorp Project Located in Prolific Suriname Gold Belt**

The company’s 80% optioned Benzdorp property in Suriname, South America, encompasses 1,390 square kilometers and is located in one of the largest gold belts in the region – over 1 million ounces of gold have been produced by artisanal miners.

Gold production at Benzdorp began in the late 1800s. The Jungle Queen dredge operated in the mid-1900’s and introduced modern mining to the region.

Canarc has identified multiple surface gold prospects including a large, low-grade zone of gold porphyry mineralization. Drill intercepts include 0.48 gpt over 400 m (0.014 opt over 1312 ft) and 1.14 gpt over 120 m (0.033 opt over 394 ft). High-grade gold zones have also been discovered, such as 12 oz per ton over 6.6 feet in one deep auger hole.

Canarc has explored only a fraction of the Benzdorp property, which is accessible by charter aircraft, boat and ATV. From 2003 to 2005, the company drilled 51 holes into the gold porphyry zone with several holes yielding an average grade of 0.6 g/t gold. In 2006, an extensive grid-based soil-sampling program, and a high-resolution airborne magnetic and radiometric survey identified several new gold prospect areas on the property. A more aggressive, Phase 1, 2007 work program of ground geophysics, bulldozer trenching, additional soil geochemistry and poknokker pit mapping and sampling is already underway in order to define targets for drilling in a Phase 2 work program starting later this year. To date, Canarc has spent about US$5 million on exploration.

**Canarc Management Highly Qualified**

Canarc is led by a highly qualified, diverse team of exploration and mining professionals dedicated to the company’s strategic goal – to become a significant gold producer.

CEO Brad Cooke is a geologist by trade who has more than 32 years of experience in the mining sector. He has broad expertise in project management and financing and has worked for such majors as Shell Minerals, Chevron Minerals, and Noranda Mines. He operated his own geological consulting firm discovering and developing several high-grade gold vein deposits for clients in British Columbia. Cooke has raised over C$200 million in equity and joint venture financings.

Canarc’s President and COO Bruce Bried is a professional mining engineer with over 28 years experience in the engineering, development, operation, reclamation and management of producing mines. He specializes in underground vein gold/silver mines, having worked for many years with Dickinson Mines (now Goldcorp) in Red Lake, ON and New Denver, BC, and then with Homestake Mining, where he was Mine Superintendent at the Hemlo and Eskay Creek gold mines and General Manager of the Snip and Lead gold mines.

Canarc’s Board of Directors and other officers have equally broad backgrounds in exploration for precious metals, metallurgy, mine engineering and operations, mining law, finance and management.

**Investment Considerations**

Canarc is well positioned to take advantage of the continuing positive outlook for gold. Merrill Lynch recently forecast spot gold will average $675/oz in 2007. The favorable outlook for gold was based on anticipated “declining global gold output, lower net central bank sales, a rebound in fabrication demand, and still-strong investment demand.”

Much of the coming year will be spent dewatering, and deepening the mine shaft and then developing a decline into the gold mineralized zones in order to estimate proven and probable reserves, conduct test mining and take a bulk sample for final metallurgical testing. If there are 1.2 million ounces in the top 1500 feet at New Polaris, there is strong potential for substantially more ounces within 5000 feet of surface.

Canarc also hopes to acquire a large late-stage gold project somewhere in the Americas. Two new gold opportunities have recently been acquired in Mexico and several more are of sufficient interest to justify continued due diligence and discussions with the owners.

2008 activities will focus on permitting, financing and building an operating mine in preparation for the commencement of production in 2009 at New Polaris.

“The upside for gold in general and Canarc in particular is very attractive,” says Canarc CEO Brad Cooke. “We believe the New Polaris Gold Project has the potential to be the next producing high grade gold mine in British Columbia.”
Resource Stocks: Gold, Silver & Oil & Gas Shares

Continued from page 17

Russ Kaplan’s HEARTLAND ADVISER
5002 Dodge St., Ste. 302, Omaha, NE 68132.
Monthly, 1 year, $150.

Occidental Petroleum: Rock solid financial shape

Russ Kaplan’s newest buy recommendation is Occidental Petroleum (OXY).

“Yes it is in the oil industry, but that is where we finding value so we are recommending it.

Occidental Petroleum for years has had a wonderful string of earnings reports and we don’t see any let up in the future. So far in our opinion, the investment community has not given these earnings the respect it deserves, but we expect that to change.

The company is in rock solid financial shape and this gives it the ability to engage in future acquisitions, something especially important in the petroleum industry.”

Steven Halpern’s THESTOCKADVISORS.COM

Editor Steven Halpern has developed the first interactive forum for newsletter advisors and individual investors. Here are a few excerpts by leading investment advisors posted on www.TheStockAdvisors.com.

Schlumberger: The premier oil service play


The advisor adds, “We’re playing the strengthening environment for oil and gas with a slew of services, equipment, and exploration firms including Schlumberger (NYSE: SLB), the world’s premier oil services play.”

“OPEC’s current oil output isn’t high enough to allow global oil importers to build their crude stocks ahead of the summer driving season. The fundamentals of strong growth in demand, coupled with static to falling supplies, are supporting higher global oil prices.

“Add in continued unrest and weak output from Nigeria, terrorist attacks in Algeria and tension in the Middle East, and there are plenty of reasons to be concerned that supplies could be cut even further from current anemic levels.

“All told, I see this as a recipe for a significant rally in crude. In addition, such an environment is bullish for oil exploration and production activity levels.

“We’ve seen no letup in the red-hot pace of international drilling and exploration activity; I expect no such slowdown to develop. In fact, if anything, the current environment should accelerate global oilfield activity.

“Oil services firm is a catch-all term used to describe a wide variety of oil production and exploration-related functions. Suffice it to say that producers – firms such as ExxonMobil and Chevron – need oil and gas services firms to find and produce hydrocarbons.

“And because development and exploration work is increasingly turning to more-complex reserves, such as deepwater and Artic drilling, producers need the services firms more than ever. Schlumberger has the most-advanced technologies in a slew of major services functions.

“For example, the company’s Q-Ship seismic vessels are the most advanced in the industry; they’re highly sought after by producers doing deepwater oil and gas field development.

“Schlumberger also holds some unique, differentiated technologies in markets such as horizontal drilling and intelligent well design-wells that can actually sense if they’re producing too much water and shut down well segments accordingly.

“One of the longest-standing themes of this newsletter has been the end of ‘easy’ oil. The world’s giant, easy-to-produce, onshore oil reserves are now mature and experiencing flat or declining production.

“Increasingly, new production will come from harder-to-produce reserves such as deepwater fields. New technologies also allow producers to maximize their production from mature fields. I explained this at some length in the January 3 issue.

“Schlumberger is the perfect play on the end-of-easy-oil scenario. The company’s high-tech service offerings are exactly what the world’s producers need to exploit these more-complex reserves. Schlumberger remains an excellent buy.”

Valero: “Best in breed” oil refiner

“My favorite refiner is Valero Energy (NYSE: VLO), the largest independent refiner in the US,” notes energy expert Elliott Gue, who considers the stock the “best of breed” within the sector.

Here, the editor of the industry-leading advisory service, The Energy Strategist, 1 year, 24 issues, $850, www.energystrategist.com, looks at the company’s transition from acquisitions to increased profitability.

“Since the mid-’90s, Valero has firmly focused its strategy on growing capacity. Through a series of acquisitions and expansions to existing plants, Valero has increased capacity more than sixfold in the past decade.

“Also note that Valero’s refineries are located all across the country. The company has broadly
diversified operations that allow it to take advantage of markets with the best margins; Valero isn’t overly exposed to any single market.

“These factors have made Valero historically a favorite with Wall Street. For many years, the company has been regarded as the best of breed in the refining business.

“But there’s a problem. The stock has been lagging the industry in terms of share performance for more than a year now. It’s also been lagging some of its smaller competitors in terms of profitability.

Copano: High returns in natural gas

Harry Domash – editor of Winning Investing, 411 Palmer Ave., Aptos, CA 95003, $13.95 a month, www.winninginvesting.com – seeks stocks for his income portfolio that will provide an 18% annual return through dividends and appreciation. One such holding is Copano Energy LLC (Nasdq: CPNO).

Meanwhile, Jon Markman, editor of Strategic Advantage, www.jonmarkman.com, notes, “Copano is my favorite among all the publicly traded master limited partnerships in the energy sector.”

Harry Domash notes, “Copano owns natural gas gathering facilities, pipelines, and a processing plant in the Texas Gulf region. Natural gas gathering involves connecting individual wells to main pipelines.

“Copano is a limited liability company (LLC), which is similar to a master limited partnership, except Copano has no general partner. Thus, unlike MLPs, where the master partner takes as much as 50% off the top, all of Copano’s dividends go to shareholders. However, for income tax purposes, Copano is treated the same as an MLP.

Because it’s new – the firm’s initial public offering was in November 2004 – and starting from a small base, Copano should grow dividends faster than more established pipeline operators.

“Copano bought a pipeline operator with facilities in Oklahoma and Texas. It expects the deal to increase distributable cash flow by 5% to 10% in ’08. Copano split its stock 2-for-1 on March 30.

Jon Markman explains, “I favor CPNO due to its unusually open corporate structure. It has no general partner or incentive distribution rights, an independent board and veteran management. CPNO is executing well on its acquisition of smaller players, but has the cash flow to make a large acquisition if it chooses.

“The company recently announced that it had signed an agreement to buy Cimmarron Gathering L.P., of Gainesville, Texas, for $41 million in cash and $54 million in Class C units of its stock. The purchase is expected to add 10% to distributable cash flow in 2008 and open the door to more organic growth.

“Although we’re only looking for 15% per year in total return from this position, we’ve actually earned upwards of 38% so far with dividends and capital appreciation due to rising investor interest in CPNO’s acquisition strategy.

“Keep in mind that CPNO’s main focus is to purchase natural gas liquids processing assets, so basically it’s a growth story focused on natural gas refining. Earnings are due the week of May 5. The yield is now 4.6%. Keep buying on dips.”

“On a price-to-earnings basis, Valero now trades at 7.3 times this trailing 12-month earnings estimates, a significant discount to the industry average of 11.8 times. When you consider that Valero has traditionally traded at a premium valuation, the stock is cheaper than it’s been relative to the other refiners in years.

“Valero addressed its weak performance at length in its first quarter conference call. The problem is that Valero is in the process of transitioning from a growth-oriented enterprise into a profitability-focused firm.

“Indeed, the company has spent the last 10 years trying to grow its base of refineries mainly via acquisitions. But there just aren’t many smaller refineries out there for Valero to acquire. And refinery valuations have now increased to the point that it would be tough to close a deal at an economic price.

“Meanwhile, Valero is looking to get rid of refineries that aren’t profitable and then investing more cash in upgrading and improving its most-profitable operations. This is all part of the company’s new strategic goal of focusing away from acquisition-led growth to improving its profitability.

“The company also announced some additional shareholder-friendly moves. Topping the list is an additional $2 billion share buyback for 2007. This is on top of last year’s $2 billion in repurchases; that’s equivalent to around 5% of Valero’s float last year and another 5% in 2007.

“With this new restructuring plan in place, I’m looking for Valero to play catch-up with the rest of the refining industry in terms of profitability and valuations. Even if the company returns to just an industry average valuation on price-to-earnings or price-to-sales, Valero could trade into the mid-80s. VLO is a buy up to 66.”

Couver d’Alene: A silver speculation

For a high risk speculation in the mining sector, resource sector expert Curtis Hesler poses the hypothetical situation: “Suppose one just received a windfall of money and were willing to throw all caution to the winds, what looks good here?”

Here, in his The Professional Timing Service, www.newletters.forbes.com, the usually conservative and disciplined advisor looks at his more speculative mining ideas for a current favorites for high risk and high reward potential.

“In looking over our buy-and-hold list and our list Continued on page 24
Uranium Star Exploration of the Prolific Sagar Property Driven by Geochemistry and Geophysics

Drilling Is in Progress to Find Source of High Grade Uranium and Gold Showings

The discovery of “spectacular” uranium mineralization at the Sagar Property in Quebec has Uranium Star Corp. (OTC BB: URST; Frankfurt - FWB: YE5) conducting an aggressive exploration program to pinpoint the source of an extensive boulder field that contains both high-grade uranium and gold mineralization. In a Virginia Mines report, 70 boulders were assayed with results averaging 1.3% uranium and 64.9 g/t gold. In another report some boulders assayed as high as 4.11% uranium and 640 g/t gold.

Uranium Star found strong uranium geochemical signatures at the Sagar property that correspond with historical radiometric data. Utilizing newer geochemical technology the recently completed work identified anomalous uranium values within the water. This water has been impregnated by minerals as it runs over the bedrock and then percolates up to the surface where it was sampled. What this means is that there is a confirmed uranium presence within the target zone currently being drilled.

Glaciation Believed to Have Created Mistamisk Boulder Field

During the last ice age, a glacier moved in a south to north direction through the Romanet Horst and the Sagar property. Uranium Star believes the glacier sheared the top off a major east-west structure roughly 2.5 km south of the boulder field. As the glacier moved it carried the boulders along, depositing them in the now identified Mistamisk Boulder Field. When the glacier receded it left the Mistamisk Boulders which have high concentrations of uranium and gold on the surface. The Horst is bounded by two high walls that channeled and impeded the movement of the glacier. The formation of the horst with its high walls means that the rock that the Mistamisk Boulders are composed of necessarily comes from a limited area. This area is within the Uranium Star target zone currently being drilled.

Uranium star, using geophysical and magnetic survey data, has been able to identify a major east-west structure with a “fold-nose” on the west side. This structure is likely to have trapped forming mineralization. This east-west geological structure is within the Uranium Star target zone currently being drilled.

It is the compilation of this data which led to the $6 million 2007 drilling program currently underway in Uranium Star’s target zone. Uranium Star’s exploration hypothesis has attracted some of the most knowledgeable institutional investors in the Uranium sector which allowed Uranium Star to raise $17 million in equity financing in January of this year.

“We believe we have identified the source of the spectacular mineralization found in the Mistamisk Boulder Field. There is so much smoke that there must be fire,” says Uranium Star President and CEO Kirk McKinnon.

Sagar Property May Host Rich Uranium Deposit

Uranium Star’s Sagar Property is located within

![Illustration of how a glacier moved through the Romanet Horst to bring the Mistamisk Boulders to the surface.](image-url)
Quebec’s Labrador Trough, where the Romanet Horst features a unique up-thrust environment hosting numerous mineralized showings. Two boundary faults on either side of the horst are believed to be major channels for uranium and gold laden fluids to rise to the surface.

The topography of the Mistamisk Valley is low with few outcroppings. The water table is close to the surface with streams and small ponds dotting the area.

An extensive database of geological information was gathered by a series of companies, including Hemlo, Kennecott, Inmet, Denison Mines, Virginia and LaFosse Platinum. The companies spent more than $15 million since the 1980s exploring the uranium-rich Mistamisk Boulder Field. Interest in the property flagged when nuclear energy fell out of favor in the 1980s and uranium prices declined. That is certainly not the case now with the spot price for Uranium above $110/lb.

**Extensive Exploration In Progress at Sagar in 2007**

The Company’s 2007 exploration program includes both portable reverse circular drills and diamond drills which are currently on site and in operation.

The diamond drill is being used to follow up on earlier work done by reverse circulation drills. The current drill program is designed to define not only the source area of the spectacular mineralization found in the Mistamisk Boulder Field – which is about 500 by 250 meters in size and contains many radioactive boulders – but also to investigate additional highly prospective targets within the Sagar Property including the Red Tail and Eagle zones. The Red Tail zone has had rock samples with up to 0.5%U and 159g/t Au and the Eagle zone has had rock samples with up to 2.9%U and 10.4g/t Au.

**Adding To Uranium Star’s Portfolio of Assets**

The Sagar Property remains the company’s key focus target. However, Uranium Star believes that additional high value properties must be added to underpin the company and broaden the exploration opportunity for success thereby adding shareholder value. Rigorous due diligence is the cornerstone of the company’s acquisition strategy as the addition of new properties are very carefully vetted.

**Management Focus**

Uranium Star’s management team is strongly focused on the ongoing development of key exploration personnel in order to advance its properties in a disciplined and efficient manner. Key exploration personnel with knowledge and proven success are essential in acquiring and advancing the Company’s property portfolio and are now in the employ of Uranium Star.

President and CEO, Kirk McKinnon, has served for more than 25 years in senior management positions, including as President and CEO of both MacDonald Mines Exploration and Vencan Gold Corporation. Previously, he held senior management positions in a number of major Canadian companies.

Vice President and CFO Richard Schler has over 26 years management experience with noted corporations including VP and CFO of MacDonald Mines Exploration Ltd. and Vencan Gold Corporation.

William Nielsen, P. Geo, who joined the Uranium Star Board of Directors in April 2006, has over 30 years of highly successful field and project management experience and as a consultant in mineral/resource exploration.

**Investment Considerations**

Uranium Star recently concluded a $17 million private placement, giving the company the financial capability to develop their highly prospective Sagar Property in Quebec – and positioning the company to capitalize on the significant and increasing demand for uranium worldwide.
of junior ‘option alternative’ recommendations, we can say that most of them have done quite well for us lately.

“One stock on our list that has been weak is Coeur d’Alene Mines (NYSE: CDE). ‘The company is the largest U.S. silver producer, but it had matured to the point that their reserves were decreasing and their future growth prospects were not bright.’

“Recently, though, they announced a deal to buy out Bolnisi Gold and Palmarejo Silver and Gold Corporation. This is a big deal. It involves a stock swap and some cash, and the net effect will be to double the number of Coeur d’Alene shares outstanding.

“However, if the deal goes through, it will put CDE back on a growth path. The prime asset in the acquisition is the Palmarejo Project in Mexico. The Palmarejo Project is held out to be ‘one of the highest quality primary silver projects in the world today,’ and it will significantly increase Coeur d’Alene Mines’ reserves and output.

“Coeur d’Alene will move from being the largest U.S. silver producer to being one of the largest silver producers in the world.

“CDE currently has some exposure in Venezuela. That is a negative, but the Palmarejo Project alone in this acquisition reduces the significance of the Venezuelan risk. If you do an online news search, you can get all the gory details.

“In some respects, the deal does look a little like Jonah swallowing the whale, but CDE needs this acquisition. Although the respective boards have agreed, there will still be a stockholders’ vote at each company. I don’t envision a problem.

“The stock price is well under our long posted downside buy price of $4.50, but there should be solid support at $3.50. Remember, do not get overbalanced in any one stock or asset class.

“If you are of a mind to speculate with some of our $20,000 windfall, purchasing a few shares of Coeur d’Alene Mines looks appropriate. I am going to leave the downside buy price at $4.50, which is the maximum you should pay.”

Hercules: A ‘Heroic’ play on natural gas

Shallow water contract driller Hercules Offshore (Nasdaq: HERO) is the latest addition to the “Advantage Portfolio” developed by energy sector expert Elliott Gue for Personal Finance, www.pfnnewsletter.com, newsletter.

“Operating primarily in the Gulf of Mexico. Elliott notes that the firm’s drilling activity is dependent not on oil prices – but on natural gas. Here’s his review.

“In the shallow water Gulf, the most common type of drilling rig is what’s known as a jackup rig. These rigs consist of a platform attached to four or more legs that rest on the sea floor; such rigs are used for drilling in water up to a few hundred feet deep.

“Most oil and gas producers don’t own their own rigs. Rather, these rigs are leased from contract drillers like Hercules for a fee known as a day-rate. Hercules currently owns nine jackup rigs and a fleet of boats used to maintain wells and platforms.

“But the company is in the process of acquiring Toco, a firm with a fleet of 24 jackup rigs and 27 inland barge rigs used for even shallower water drilling. In the wake of this acquisition, Hercules will be a dominant contract driller in the shallow-water Gulf.

“Drilling activity in the region is dependent on natural gas prices because many operators target gas, not oil. The decline in gas prices from late 2005 through much of 2006 spelled a moderation in drilling activity and falling day-rates.

“But the market is beginning to turn. First, gas prices have rallied off their fall 2006 lows and stabilized at levels that make Gulf drilling economic. This has shored up demand for rigs.

“Second, the number of rigs available for drilling in the region is falling fast. The reason: Jackup rigs are in greater demand in international markets. Foreign producers have been signing long-term contract for these rigs at attractive day-rates.

“Not surprising, drillers have been shipping their jackups out of the Gulf to take advantage of these contracts. The supply of rigs has fallen by more than a third in the past three years alone.

“As falling supply meets rising demand, day-rates are set to pop higher over the summer. Hercules Offshore is the most leveraged stock to this trend. Buy Hercules Offshore under 35 with a stop at 25.50.”

Two fans of Freeport: Copper gains

Two leading advisors see upside opportunity in copper miner Freeport McMoRan Copper & Gold (NYSE: FCX). The stock gets the highest “100” rating from Richard Moroney in Dow Theory Forecast, www.dowtheory.com.

“In addition, the Freeport 6.75% Convertible (NYSE: FCX-M) is a new addition by Richard Lehmann to the convertible portfolio of his Income Securities Advisor. Here are their reviews.

“Richard Moroney says, “Soaring copper and gold prices have driven outstanding results at Freeport-McMoRan Copper & Gold in recent years. On an annualized basis, per share earnings have increased 73% over the last five years, while sales have grown at a 38% clip.

“The global copper market remains tight, and copper prices have risen roughly 50% since early February. During that same period, global copper stocks declined roughly 25%.

“Freeport’s Grasberg mine in Indonesia is the world’s second-largest copper reserve, as well as the
world’s largest single gold reserve. In March, Freeport completed a $26 billion acquisition of competitor Phelps Dodge, making Freeport the world’s largest publicly traded copper company.

“The merger also greatly diversified the company’s assets both geographically and across product lines, as Phelps Dodge controlled mines throughout the world and also produced molybdenum, which Freeport’s Grasberg mine does not.

“The acquisition began boosting earnings immediately. In the March quarter, Freeport’s per-share profits jumped 66% on the strength of both higher prices and substantially higher production volumes, beating the consensus estimate by more than 11%. Freeport said it is considering selling assets, although copper mines are not likely candidates.

“At 8.7 times the $7.71 per share Wall Street expects Freeport to earn over the next year, the stock trades well below its fiveyear average forward P/E of 17. Freeport, with a Quadrix Overall score of 100, is a Focus List Buy.

Says Richard Lehmann, “The latest addition to Convertible Model Portfolio is Freeport-McMoRan Copper & Gold Inc. 6.75% preferred (FCX M) at a price of 108.54. This security was recommended last month and was our pick of the month as well.

“The preferred is a mandatory with a variable conversion ratio depending on the price of the underlying common stock. If the common stock is greater than $73.50 preferred holders would receive 1.3605 shares, if it is less than $61.25 preferred holders receive 1.6327 shares.

“Between these two prices, preferred holders receive par ($100). The preferred mandatorily converts on May 1, 2010, but holders can convert the preferreds into 1.3605 of common stock at their option at any time before then. We recommend purchase.”

Water works

“More precious than gold, water is the primary commodity for mankind without which nothing else matters,” says Kevin Kerr in The Marketwatch Global Resource Trader, www3.marketwatch.com.

“Water is a difficult commodity to trade, unless you want to trade related equities like pumping companies and water infrastructure companies. Those are great plays. For example SJW Corp. (NYSE: SWJ) has come back recently.

“They are a basic water utility, but they own a lot of extra land and real estate that adds some spice to the deal. I consider SJW to be a solid long-term wealth creator.

“Another company is Nalco (NYSE: NLC), a global play on water treatment. They’ve had a small correction here on a downgrade, and so it’s a nice time to pick up shares for long-term investors. Nalco is everywhere you want to be – China, especially.

“My colleague and water investment guru, Chris Mayer loves agricultural themed water plays, as he wrote me in a note saying, My favorite irrigation company is Lindsay Company (NYSE: LNN) ... pulled back a little here, nice time to get in. Water management will be a more critical issue for farmers and LNN has solutions... On the water pipe replacement theme, I like Mueller Water (NYSE: MWA)...”

Chris doesn’t own any of these water recommendations in his personal portfolio, but does own them in his Mayer’s Special Situations and Capital and Crisis newsletters. Overall, this is one sector that’s going to get more and more attention.”

USEC: Going nuclear with uranium play

“We’re going nuclear,” says Mark Skousen. The editor of the premium Hedge Fund Trader, www.skousenhedgefundtrader.com, newsletter says “Since 1985, demand for uranium has outstripped supply by 139%.”

The advisor adds, “Now is an excellent time to add USEC Inc. (NYSE: USU) – which supplies low-enriched uranium for commercial power plants worldwide – to your hedge portfolio.” Here’s his analysis.

“Despite increased demand and limited supply, very little has been done to correct the world’s capacity to create more uranium. That situation has driven spot prices sharply higher.

“And spot prices are likely to rise. Nuclear energy now supplies a full 16% of the world’s total power. That number is expected to grow by leaps and bounds, as petroleum-based economies continue to seek lower-priced alternatives to oil.

“An estimated 440 power plants in 30 countries now depend on uranium to run steel plants, auto assembly lines, mass transportation and thousands of factories.

“China’s current plans call for building more than 29 new reactors to fuel the country’s explosive growth. And, worldwide, 69 new nuclear reactors are already under construction or will be completed within the next 10 years. All will require massive amounts of uranium to operate.

“The Nuclear Regulatory Commission just recently issued a construction and operating license for USEC’s American Centrifuge Plant in Piketon, Ohio. The license is good for 30 years. In addition, USEC performs contract work for the U.S. Department of Energy.

“Profits at USEC are surging already. Fourth-quarter net earnings climbed 35% to $40.1 million. And with nuclear energy looking like the best alternative to oil right now, the future looks bright. So pick up USEC at market and place a protective stop at $16.40. If you prefer to play this one more aggressively, try the October $25 calls.”
THE COMPLETE INVESTOR
P.O. Box 248, Williamsport, PA 17703.
Monthly, 1 year, $72.

Anglo Platinum, the world's major producer, is a buy

Michael Duffy: "We've already scored one big success with platinum – our recent nice profit on African Platinum thank to its buyout by Impala Platinum (Income Portfolio). With a platinum group metals (PGMs) still offering triple appeal as an alternative energy play, an inflation hedge, and a buffer against a falling dollar, we're buying Anglo Platinum (AGPPY: 168.50). The world's largest platinum Vanguard Precious Metals and Mining fund, a consistently solid performer.

Based in South Africa, the world's premier platinum region, Anglo Platinum supplied nearly 40 percent of global platinum demand in 2006 and sits on 30 percent of the known global supply. Last year it sold some 2.8 million ounces of refined platinum, accounting for a little over half of company revenues. Some 22 percent of revenues came from rhodium, while palladium and nickel contributed around 9 percent each.

In all, revenues rose 69 percent for the year, thanks mainly to the better than 45 percent rise in PGM prices and the nearly 15 percent increase in the company's refined platinum production. Over the next several years we expect Anglo's refined platinum production will grow by around 5 percent per year, while prices are likely to rise further, particularly for rhodium, which has applications for which there are no substitutes.

The major source of demand for PGMs continues to be the catalytic converters, which require both platinum and smaller amounts of rhodium, reduce carbon emissions into the air. As we've noted before, use of diesel in the U.S. seriously lags that in Europe, where more than half of all drivers opt for the more fuel-efficient diesel-powered vehicles. Their slower adoption in the U.S. leaves plenty of room for growth here. In the past year, platinum auto catalyst use in the U.S. grew by 16 percent, and we expect further strong growth going forward. Currently only about 3 percent of the U.S. car market is diesel. The figure is expected to triple by 2015, which given the large size of our automotive market would mean a huge boost in demand. And with carbon emissions from vehicles accounting for about a quarter of all emissions worldwide, the growing evidence concerning global warming should ensure that interest in diesel doesn't flag. The fuel, which has become far cleaner than in the past, could benefit from anti-pollution legislation as governments respond to the public's growing environmental awareness.

Anglo has a fair amount of operating leverage in that much of its costs are fixed, and rising PGM prices don't entail higher extraction costs. While PGM prices probably won't rise as sharply as they did in the past year, the company's margins should expand from their current 42 percent level as Anglo continues to make further improvements in its operational efficiency. In addition, the company will be concentrating investments on the expansion of existing projects, which also is favorable to margins.

Free cash flow tripped to $1.5 billion last year, and the debt-to-equity ratio is low at only 2 percent. This leaves plenty of room to take on more debt for new projects, pay a 6 percent dividend, and buy back some shares. Anglo was an outstanding performer last year, but we think there's room for an encore in 2007, and the company is a buy."

THE SPEAR REPORT, 45 Wintonbury Ave., Ste 301, Bloomfield, CT 06002. 1 year, 50 issues, $297.

PTR vs SNP, PetroChina or China Petro?

Gregory Spear: "Back in 2003, Warren Buffett took a 1.3% stake in state-run oil firm PetroChina (PTR), sparking interest in the so-called Chinese blue chips, which are dual-listed in both Hong Kong and China, and trade as ADRs on the NYSE. Since then, PTR has increased in value about 5-fold, sporting a market cap that is larger than Chevron (CVX), but still only about half the size of Exxon (XOM). At this time, Buffett's Berkshire Hathaway is the largest foreign shareholder in the company. That may be about to change.

PetroChina, the world's fifth largest oil producer, consistently produces about two-thirds of China's oil and gas, but the company has not been increasing production very rapidly, which is why the stock is trading around the same level it was a year ago, until today, Friday, May 04, 2007. News of a major new discovery by the company yesterday caused a 5% higher opening today. Monday, however, could tell another story. Here it is:

China's oil imports had to soar 14% last year to 2.9 million barrels a day because the country's crude output rose just 1.7% to 3.7 million bpd. Yesterday, PTR announced the details about a huge oil and gas find in one of its offshore fields, its largest discovery in 30 years. This field should be able to boost PTR's output by as much as 10% annually on top of the 5% production increase the company already plans for 2007.

PTR owns more than 8,500 miles of natural gas pipeline in China, along with two dozen refineries, 11 chemical plants and 15,000 gas stations. New pipelines to fields in Russia and Kazakhstan are being built and expected to be complete in 2008. PetroChina is also branching out into the ethanol and biodiesel business. The company plans to produce 2 million
tons of ethanol per year from non-grain crops by 2010, which would amount to 40% of the country’s total ethanol capacity.

Due to government subsidies on gasoline prices, however, PetroChina’s profits are less robust than its Western counterparts. Even so, in 2006, the company earned $18 billion on a 24% increase in revenue to $88 billion. Net profits increased just 6.6%, however, due to higher operating costs.

Assuming PTR can train and deploy adequate skilled workers and equipment to develop its new field in a timely manner, PTR should be able to attain new all-time highs in the next year. This would normally look like an attractive entry spot to us, about 15% below the January highs, but here’s the rub:

The coming Olympics in China has made the country a focus for human rights groups, which hope to leverage the Olympics to put pressure on the Chinese government to institute more democratic reforms and especially to cease some of its more egregious human rights violations.

China’s support of the genocide in Darfur is the current focus. China provides both economic and military support for the government of Sudan which is responsible for the genocide. There is presently a world-wide effort to divest from any entities that do business in Sudan. In the US, official sanctions already prohibit investment in companies that are owned or controlled by the government of Sudan or an instrumentality of the government of Sudan. President Bush recently gave the UN just a few more weeks to achieve some progress in halting the genocide before taking action to enforce sanctions.

The divestment movement, supported by a long list of movie stars and other notables including Warren Buffet, goes further in urging the divestment of holdings in entities that indirectly support the Sudanese government or its economy. This includes the Chinese government because of China’s military and economic support for the Sudanese government, and PetroChina, the subject of this article, which helps build and support the Sudan’s expanding oil industry.

Harvard University has gone ahead and divested its considerable holdings and many other huge pension and endowment funds are about to follow suit. If this effort gains steam, then there are a few Chinese investments in particular that could prove to be poor ones in the short term, including PTR.

In the face of this divestment campaign as well as analyst concerns about earnings, PTR’s share price dropped from a high of over 140 in early January to a recent low of 108. It popped Friday (May 4th) on news of the new oil find by the company, but Warren Buffett will recommend to his fund’s Board on Saturday a full divestment of its 2.3 billion shares in PTR! See this AP article for details: http://biz.yahoo.com/ap/070501/darfur_coalition.html?v=11.

China Petro (SNP), the “other” major China oil play and also a Consensus list member, is as yet untainted by the Sudanese connection but whether it might go down in sympathy with PTR if Buffet divests or be the beneficiary of such monies looking for another China oil play, it is difficult to tell. One possibility is an initial short-term drop on such news, which would present a great entry point for SNP, and then as the news is digested, a strong rally could begin.”

Sy Harding’s STREET SMART REPORT
505 E. New York Ave., Ste. 9, DeLand, FL 32724.
1 year, 17 issues, $250.

Gold indicators on new buy signal
Sy Harding: “Our Seasonal Timing Strategy (STS) is now in its unfavorable season. The market is extremely overbought and we are on a sell signal for the U.S. and global stock markets in our non-seasonal Market-Timing Strategy. Our gold indicators are on a new buy signal as of May 31. Our bond indicators remain on the buy signal of April 30.”

The Elliott Wave FINANCIAL FORECAST
P.O. Box 1618, Gainesville, GA 30502.
Monthly, 1 year, $228.

Lower Gold and Silver prices ahead
Steve Hochberg: “According to most analysts, just about everything favors a soaring price for gold and silver. There are wars, major global unrest, higher than anticipated government inflation measures, a persistently weak U.S. dollar and a positively-correlated stock market in which investors are highly optimistic. Yet despite a near-perfect bullish backdrop, gold’s June contract remains beneath its February 27 high ($699) and beneath its May 2006 high ($732 in the daily continuation contract). Silver likewise is beneath its February high and its May 2006 high. If the current environment is not enough to continue to rally the precious metals to significantly higher levels, what is? Our stance remains that both metals declined from May 2006 to June 2006 in the first leg of a larger selloff. All the price action since June 2006 is a choppy and overlapping upward correction that ended last month. It’s taken 11 long months, but gold’s push finally carried investor optimism to 90% (Daily Sentiment Index), its most extreme level since the May 2006 peak. The stage is set for a resumption of the decline that started a year ago. When each metal convincingly breaks its respective uptrend lines, prices should accelerate lower. As before, gold should decline to the mid-to-upper $400s while silver declines toward $7.00. Any push above the recent highs, $694.60 basis spot gold and $14.77 basis spot silver, may require a reassessment of the wave structure.”
Global demand props up material prices

Alexander Paris: “Despite slower U.S. economic growth, there are still plenty of international forces to prop up material prices, especially for metals. China’s demand for copper and other nonferrous metals is expected to rise rapidly through 2020, with its annual demand at 6.5 million tons for copper, 14.4 million for aluminum and 5.0 million for zinc. A zinc study group estimates that global demand for zinc will increase by 4% in 2007, to 11.45 million tons, but with zinc output up just 0.4%, resulting in a deficit of around 40,000 tons, primarily fueled by demand from China.”

***************


Just One More Piece to the Puzzle Needed

By Peter Grandich: “One Piece of the Puzzle Away From Slaughterhouse – It’s been my contention that the U.S. stock market would continue to rise through DJIA 13,000 and the market would need to embrace the belief that the U.S. Federal Reserve would go into an easing mode before the market could reach a major top. My plan has been to short it once it does. Well, we’ve achieved the 13,000 part but the easing mode is still no where to be found. Friday’s (May 4th) employment numbers put that possibility back on the radar.

While it’s very tempting to go short here, my gut feels the “Don’t Worry, Be Happy Crowd” on Wall Street will spin everything into a positive, none more so than a Fed easing being great for stocks. Yes, there are an ever-increasing number of bearish and technical factors here and abroad. Unfortunately, TOUT-TV (CNBC) and the like have assisted in creating an “all is well” environment that seemingly has enough firepower to last a little while longer. One thing is certain, IMHO, being a net seller from this point on (not including selective metals-related issues) appears to be the right choice.

Gold: Another in a series of short but sharp corrections that have been the trademark of this secular bull market is now behind us. In the midst of these corrections, the public-at-large takes it upon themselves to send me unsolicited emails, panning me for being so bullish and telling me how wrong I’m going to be and how the bull market has ended. In addition, many of the daily gold commentators either hedge their outlook and/or turn bearish. These attitudes actually encourage me as I would be far more concerned if they were complacent or still pounding the table on the bullish side. This secular bull market continues to climb a wall of worry. After years of gold at $400 and under, one would think we’re still there (versus $300 higher) based on the mood most of the time among gold and mining stock players. This secular bull market is far from over. Not only is the fat lady not even in the building, she’s not even fat yet.

Silver: I believe Silver is in one of its most bullish technical positions in quite some time. Since bottoming last May, it has made a series of higher lows and higher highs with $15 a critical break out point.

Platinum and Palladium: I’ve long argued that the PGMs have the most balanced supply vs. demand fundamentals that should allow prices to work their way higher over time. The issuance of a couple of new PGM-based ETFs should only add to the steady rise in prices for the foreseeable future.

Copper: Like the U.S. stock market, I’ve been looking for a spot to short copper but haven’t pulled the trigger yet. After depleting their inventories in the third and fourth quarters of last year, the Chinese have been replenishing their stockpiles. This, some labor strikes (or threats of strikes) and a big short position that’s being squeezed as we speak, has led copper back towards previous all-time highs. Ideally, I would love to short it above $4. For the first time in years, I’ve become cautious on China and believe it, India and Russia are in the early to middle stages of bubbles. With the U.S. economy clearly getting soft (and its housing market in a free fall), I think shorting copper above $4 has ample reward and limited risk potential. Time shall tell.

Uranium: As I suspected, a sharp correction in many uranium shares occurred despite the price of uranium itself rising. As noted previously, I believe the uranium share market is going to see significant producers, soon to be producers and advanced stage exploration companies separate themselves from the pack once the correction is over. The fact that TOUT-TV ran a bullish uranium story a few weeks back was a clear sign that the euphoria had gotten way ahead of the fundamentals. It’s now quite possible before it’s all said and done that we can see $200 uranium--but don’t assume that means all uranium-type stocks rise with the tide. The easy money is gone.

Oil: I continue to believe oil is in a large-scale consolidation pattern with $50 as the bottom and $65ish as the top. With hurricane season approaching and I expect a marked increase in Middle East geopolitical concerns, a spike to 2006 highs near $75 is quite possible this summer.

U.S. Dollar: Dead! Dead! Dead!!! Any questions?


Continued on page 31
The Great Energy Myths

Continued from page 1

the Middle East, they say, crude oil will shed five to ten dollars. This writer, for one, doesn't expect to see a stable Middle East in his lifetime. That aside, the market is bidding for all the oil produced – so where's the premium.

Alternative Energy Myth: Alternative energy is not going to replace oil any time soon. So far, ethanol has made a minute dent in our imported fuel needs at the cost of doubling the price of corn. The objective studies of ethanol disagree only modestly. Some find that growing the corn, transporting it and distilling it consumes more energy than the resulting ethanol contains. Other observers say there is a slight gain. In any case, ethanol is not the complete answer, nor windmills nor solar energy. All these alternatives have a place in supplementing our dependence on foreign oil. And some day solar power may prove to be the most economic.

Undiscovered Oceans of Oil Myth: We need not get into the great Peak Oil debate here. We know for sure that the world has been using more oil and finding less for 40 years. Whether or not the production peak is near, we know that supply and demand are precariously balanced. The International Energy Agency (traditionally conservative) projects global demand for 2007 at 86 million barrels a day. So far this year, production has been a bit over 85 million a day.

OPEC's output has been flat since late 2004 and was down in the last quarter. Supposedly they are holding back right now, but it's questionable how much more than can produce. The bears are counting on more oil from non-OPEC producers, but to my thinking they are too optimistic on the production side and are neglecting the increasing decline rates that have recently become apparent in some major producing fields.

In short, if everything goes right, may have enough oil to get along for the next few years. If something goes wrong, expect much higher prices. The market action seems to back up that assessment. As the chart shows, crude recently sold off 34.2% from the July 14, 2006 top of 78.71 to the January 18, 2007 low of 51.81 – a bear market in any one's book – and then rallied to $61.93 as of press date. We'll see plenty more volatility in coming years, but energy will remain both a growth investment and a hedge in an uncertain world.

Off to the Boondocks

With U.S. oil production in decline since 1970, and foreign sources looking less and less reliable, unconventional oil and gas resources are attracting major attention. Most of these previously uneconomic deposits will make a welcome but minor contribution. The big exception is the vast oil sands resource in northern Canada.

After decades of false starts, the oil sands are being developed in a very serious way thanks to current oil prices. The Canadian government has estimates reserves at 174 billion barrels, which puts the nation second only to Saudi Arabia in total oil in the ground. That projection was based on 20% recovery, and actual operations have shown that recoveries can be over 60%.

Oil sands production has reached almost a million barrels a day and is projected to be two million barrels a day by 2010 and double that by 2015. This would put Canadian output from the oil sands alone well ahead of oil production in Iran, Iraq, or Kuwait.

Operations are on a large scale (the economies pretty much dictate that), and the companies involved are with a few exceptions large, including several of the giants. There is not much room for juniors, with the established deposits being tied up and the required investment substantial.

These oil sands, located in northern Alberta, have been known for centuries (at least to the natives). It was only a question of waiting for oil prices to justify the cost of exploitation. The oil is so “heavy” that it's actually a semi-solid (called bitumen), mixed up with sand, clay and other minerals. It has to be separated, treated and retorted to produce a liquid that can be transported and refined.

The first step is either a strip mining operation that simply scoops up the mixture and trucks it to a separation plant, or an underground heating system that liquefies the petroleum. The usual process for that is called SAGD – steam assisted gravity drainage. New techniques that could improve efficiency are being developed and tested.

Crashing the Party

Oilsands Quest (AMEX BQI) looks like the most promising smaller firm that has gotten a foot in the door. For that matter, if recent successes continue, BQI will be known as company that shoved the door wide open.

Several years ago a predecessor company began exploring in neighboring Saskatchewan. It seems strange now, but almost everyone else flocked to the establishment deposits and didn't look much further. At the time, it apparently seemed hard enough operating in this bleak, semi-arctic wilderness; and few were interested in grass roots exploration.

But Oilsands Quest has conclusively demonstrated that the deposits don't stop at the Alberta border. The company accumulated a huge parcel of land in Northern Saskatchewan, stretching east from the Alberta border. Recently it was able to grab a good bit of adjacent acreage on the Alberta side (also previously overlooked) which management thinks is highly prospective on the basis of geology and airborne surveys.

The company is by far the largest holder of oil sands land with 508,000 acres. That's more than
twice the position of the next largest, Syncrude, which is a consortium of substantial companies including Conoco, Imperial Oil (Exxon) and Petro-Canada. To be sure, Syncrude is already a substantial producer, but this provides a glimpse of the potential, given that Oilsands Quest has already established substantial reserves on a fraction of its land.

In the last year, efforts focused both on delineation of the original discovery (where 140 holes have been drilled) and exploration (34 holes plus seismic surveys, aeromag and electromag). So far, continuity has been demonstrated over one township (36 square miles), with thickness mostly over 10 meters and up to 45 meters.

The quality of the resource seems equal to the established producing fields and may be better than some in permeability and porosity. Average depths (185-200 meters) are lower than some of the Alberta deposits, which will mean in-situ recovery rather than mining. This costs no more and maybe less, but recoveries are lower.

**Barrels by the Billion**

Management’s guess as to the resource already delineated (original bitumen in place or OBIP) is 1.25 to 1.50 billion barrels on the upside and 0.60 to 0.75 billion barrels as a “best estimate.” That’s preliminary and it is not an independent engineering estimate (that will come later). But the numbers are very impressive, and you should remember that this is on a tiny percentage of the acreage.

By no means expect Oilsands Quest to find deposits over all of its huge leasehold. But the delineation has so far found no edge to the petroleum-laden sands, and exploration elsewhere is promising.

The company will probably have to take on a partner to explore and delineate most of its property, and certainly couldn’t go into production on its own. Management is of course aware of this and is consistently weighing the optimum timing for a deal. They prefer to extend their indicated resource before sitting down with anyone, but an attractive offer would be entertained at any time, It could be a partnership, a buyout or something else.

Management has a significant stake and is concerned with maximizing value. Institutions own just 6.5%, a good thing as they have yet to discover this situation. It must be said that there has been a good bit of skepticism about this company and its “quixotic” Saskatchewan quest. It seems likely that these Quixotes will be vindicated, but this is not yet widely recognized – presenting a significant opportunity.

There is no exploration risk in the oil sands, once a deposit is established. It tends to be consistent and very long-lived – on the order of decades. The main risk is the oil price. Extracting oil from the sands is much more expensive than sucking it up from a conventional reservoir.

Moreover, the cost of building infrastructure is rising, but operating costs can come down with experience and economies of scale. Syncrude says its operating cost is $18 a barrel, down by half. That of course is after the considerable initial investment. A major, long-term decline in oil would be very negative for the sands operators, but I put a low probability on that.

BQI has a large market cap for a development stage company, with 197 million shares outstanding (236 million fully diluted). Getting to the present place has been expensive, but the money increasingly looks well spent. Taking just the low (preliminary) estimate of the bitumen delineated so far, BQI has 2.54 barrels per fully diluted share, and at the current price it is capitalized at $1.29 a barrel. Since this is on just 12% of the available land, the potential is high indeed.

As we go to press, the stock has sold off on news of a proposed secondary offering. The money will be used to repay some debt related the recent acreage additions and for more drilling, development and testing possible production techniques. As the company already had a reasonable cash position, we take the move to mean that management will continue its aggressive asset building program rather than seek an immediate deal. That’s bullish in the long term but will disappoint some traders. The current weakness is a buying opportunity.

Down by almost two-thirds from last year’s high, Oilsands Quest is cheap if they have half of what they seem to have. The stock trades on both the American and the Toronto Stock Exchange, and complies with both U.S. and Canadian filing requirements. www.oilsandsquest.com.

**Editor's Note:** Robert Cardwell is a consultant to the Hirsch Organization and contributor to *Stock Trader's Almanac Investor Newsletter*, Published by Wiley Subscription Services, Inc. 111 River St., Hoboken, NJ 07030. 1 year, 12 issues, $299. Mr. Cardwell holds shares in BQI. www.stocktradersalmanac.com.

---

**Resource Stocks**

Continued from page 28

Ian McAvity’s DELIBERATIONS on World Markets P.O. Box 40097, Tucson, AZ 85717.

1 year, 18 issues, $225.

**Bullish Sentiment still up**

Ian McAvity: “Given the increasing toppiness of gold and its recent failure at $700 for the second time, it boggles the mind that the Bullish Sentiment is still up at 70%. A sharp decline in gold holdings of the ETF (down 31.6 tonnes) between Apr 19 and May 17 was more offset by an increase in Comex Open Interest on a price decline from $693 to $653. That suggests long liquidation and increased short interest.

The dramatic rebound by Copper increasingly looks to have failed its test of the year ago peak, while Platinum and Palladium have also run out of momentum and back off their prior peak challenges. Platinum made a nominally higher high on rumors and reports of the launch of an ETF, that might have an impact on a tight, not terribly liquid market but I haven’t seen or heard much about it since, and the price chart suggests a limited impact when I see the subsequent pull back.”
Attend FREE and join 50+ financial, economic, and political experts for this unique, one-stop educational resource for everything relating to investing, the economy, and your money. Whether you are an experienced investor or just developing your investment skills and knowledge, you belong at The Money Show San Francisco—you’ll come away smarter. Gain specific investment strategies during more than 150 workshops, 15+ panels, and general sessions. The focus of this year’s Money Show in San Francisco is Tech and Biotech Investing. Meet and hear nationally acclaimed investment advisors and traders…all under one roof—FREE OF CHARGE*

*Certain lunches and special events require admission fees.

WHY YOU SHOULD ATTEND...

❖ LEARN from more than 150 FREE workshops and over 15 panels geared to give you profitable new investment ideas and in-depth analysis on various sectors

❖ COMPARE and comparison-shop the investor’s mega-marketplace—over 125 exhibits featuring top public companies, money managers, online services, advisories, and more

❖ NETWORK with fellow market enthusiasts, exchange investment ideas, and share experiences and enjoy the fellowship of like-minded investors

❖ TAKE HOME hundreds of dollars worth of investment advisories...ABSOLUTELY FREE

Plus Much, Much More...

Profit Now from These Experts

For Details on Over 50 Experts
Visit www.SanFranciscoMoneyShow.com

To register visit www.SanFranciscoMoneyShow.com or Call 800/970-4355. Please Mention Priority Code 008614. (For Exhibit Space and Rates, Please Call 800/822-1134.)
The Coming... RAGING BULL MARKET IN URANIUMS!!

The secret to winning on Wall Street is to hold uptrends and sell downtrenders. Trust your own eyes, it’s not rocket science!

If you didn’t get into the Internet stocks when Mr Dines declared himself “The Original Internet Bug” before their historic advances, if you didn’t sell them in 2000 as The Dines Letter recommended, if you didn’t get into the golds & silvers in 2001 when “The Original Goldbug” signalled their new Major bull market before their historic advances during the 2002 market bust, then for Heaven’s sake finally listen to Mr Dines now “The Original Uranium Bug!”

We are not aware of any other advisor in the world who has been recommending uraniums this strongly! This chart of uranium is obviously in a Major Uptrend because utilities have to have uranium or the lights go out! The Dines Letter picks just one uranium stock that will soar to unbelievable heights -- for once in your life get in on the ground floor! Wake up before the lemmings running the mutual funds pile into this stock!!

HERE’S WHAT YOU GET!

You will get the latest list of The Dines Letter’s recommended stocks. The Dines Letter’s excitingly literate style is only matched by its willingness to take definite positions such as explicit “Buy” or “Sell.” Let them send with your subscription their $25 Instruction Booklet (included free with paid subscription) and other materials too numerous to list here. Their “One-Year Fair Trial” is especially recommended to give you a fair look at all The Dines Letter’s features -- without a renewal notice right away. Why not call 1-800-84-LUCKY and ask for your one-year “Fair Trial” while you’re thinking of it, or order online at www.dinesletter.com. And, your subscription will also include their big 2006 Annual Forecast Issue, to see how they actually did! But wait -- in addition to that extra bonus, new subscribers will also get their big 2007 Forecast Issue, plus the last two issues free to get you “into the swing” so you could see for yourself whether or not The Dines Letter might help you profit!
INVESTMENT CONFERENCE

Hard Assets

INVESTMENT CONFERENCE

Las Vegas

Grab the Bull Market by the Horns!

Learn the latest trends in natural resource investing.

The Las Vegas Hard Assets Investment Conference provides a wealth of opportunities for both experienced and new investors. Attend this free event and learn effective strategies to build and maintain a wealth-building portfolio.

- Learn why commodities are necessary to balance the performance of your other stocks.
- Discover how natural resource investments provide a hedge against inflation.
- Hear stock picks from investment pros and global economists.
- Learn why you should be investing in alternative energy sources.
- Protect your portfolio by reading the signals of the weakening dollar.
- Learn what the pros are naming as the next hot commodity.

Keynote Speakers:

Clyde C. Harrison
President and Director
Brookshire Raw Materials Group, Inc.
Discover why recent fluctuations in the U.S. economy could lead to “the biggest bull market in history.”

Dr. David Ranson
President and Director of Research
H.C. Wainwright & Co. Economics, Inc.
Discover how to use gold and non-precious commodities as inflation hedges.

Eric Janszen
Founder & President
iTulip.com
Learn about America’s bubble economy, the next gold bubble, and how to profit when a bubble bursts.

Featured Speakers:

Jim Dines
The Dines Letter

Al Korelin
The Korelin Economics Report

Pamela Aden
The Aden Forecast

Tom O’Brien
Tiger Financial Network

John Doody
Gold Stock Analyst

Mary Anne Aden
The Aden Forecast

Free Admission!

Mandalay Bay Resort & Casino

Networking Opportunities • Professional Presentations • Educational Seminars • Investment Workshops

Register today at www.iiconf.com or call 800-282-SHOW (7469) • Questions? Email info@iiconf.com