



INVESTMENT U RESEARCH REPORT

How to Make 557% from Uranium's Next Run-up

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Dear Reader,

Despite its ten-year, 557% run, *the uranium market* isn't even close to peaking. In fact, from a fundamental standpoint, it's a bargain.

Dwindling supplies coupled with surging demand could push prices substantially higher over the next 6 to 12 months... and the long-term outlook is equally bright.

To be sure, the pursuit of an alternative to fossil fuels and the push for "green energy" solutions has provoked an unbridled increase in demand for this power-rich commodity. Much cleaner and more efficient than oil or gas, nuclear power is now seen as an important part of the solution.

In fact, The World Nuclear Association projects demand to grow by 33 percent in the next decade. This corresponds with a 27 percent projected growth in nuclear reactor capacity.

But here's the problem... In the last three years, the world could only produce about 70% of the uranium it consumed. The rest came from existing stockpiles and the decommissioning of nuclear weapons. Both of these sources are nearly depleted.

Fact is, uranium miners can't take the ore out of the ground fast enough to keep up with demand. And regardless of what percentage of energy needs gets allocated to nuclear power in the United States... demand is on a course to outstrip supply by tens of millions of pounds a year – with no end in sight – for years to come.

And the reason for that is simple... China.

Yet Another China Fueled Commodity Boom

China's prolonged growth spurt has created a number of profit opportunities in recent years. In the commodities market, they've come in the form of wide supply and demand gaps.

In recent years, for example, China's:

- ✓ Insatiable demand for steel caused prices to double. And investors made 553% on international Mittal Steel Company in 13 months.
- ✓ Copper requirements pushed Phelps-Dodge, the world's largest miner, up 253% in 16 months.
- ✓ Voracious need for oil drained supply from OPEC and pushed prices up by 63%. Investors in Valero Energy, the nation's largest refinery, made a tidy 431% in 24 months.
- ✓ Coal demands launched Fording Canadian Coal 268%.
- ✓ Aluminum demands to supply its soaring appliance and auto factories pushed Empire Resources

higher by 1,257%

If you didn't cash in on these opportunities, the uranium market is your "second chance."

A \$50 Billion Nuclear Initiative

The tide of global opinion has turned toward a solution for climate change, and as the world's second largest contributor of greenhouse gas emissions, pressure has been put on China to clean up its act.

The health of the Chinese population is suffering from densely contaminated air. China burns more coal than the European Union, United States, and Japan combined, and pollutants from coal-fired power plants account for approximately 400,000 premature deaths a year.

So it comes as no surprise that China is making a massive effort to embrace alternative energy sources like nuclear power. In addition to the nine nuclear reactors already operating in China, the government in Beijing is looking to build 30 more plants.

That's the largest nuclear power initiative ever undertaken, and the price tag is likely to exceed \$50 billion (U.S. dollars). For its money, China would end up with 11% of the world's nuclear energy capability.

What this all adds up to is a huge run on the uranium markets.

At the end 2003, when China first announced its plan, uranium was valued at \$14.50 per pound. Now it sells for more than \$60 – a 314% increase. And it's not done yet.

According to the Australian Foreign Ministry, with whom China has been negotiating, imports of uranium to China are set to increase from 2.5 million pounds per year to an unprecedented level of 44 million pounds per year. That would be an increase of 1,660%, and close to one-quarter of the world's total uranium supply. Unfortunately, supplies are running out.

The Commodity Crunch Leading To Record Profits

The world's largest proven uranium reserves are located in Australia, which has seen a decline in production in recent years. Between 2008 and 2010, production dropped from 8,430 tons to 7,982.

Unfortunately, the world's largest undeveloped uranium deposit (Canada's Cigar Lake mine, owned by Cameco) has been rendered temporarily useless. Two serious floods at the mine have postponed

Efficient, Practical, Clean – Why Uranium Is the Fuel of the Future

The International Energy Agency has stated that the world only has enough fossil fuels to meet energy demand until 2030. It won't be long until fossil fuels are a thing of the past.

What will take their place?

The overwhelming consensus seems to be nuclear power. So far, the implementation of nuclear power plants has reduced global carbon dioxide emissions by 1.6 million tons and prevented 90,000 tons of heavy metals from being released into the earth's atmosphere.

Nuclear energy supplies 16% of the world's power – 441 power plants in 36 countries depend on uranium, and those numbers are destined to increase as fossil fuels are phased out.

Today, there are 104 nuclear power plants that are fully licensed by the U.S. Nuclear Regulatory Commission to operate in the United States. Fifteen of those power plants have had their licenses extended from 40 years to 60 years, and there are more than 20 proposed nuclear facilities currently undergoing regulatory review.

Federal and state governments have also passed energy legislation that includes special tax and loan incentives to encourage nuclear reactor development in the U.S.

The search for a viable fuel source to replace coal, oil, and natural gas has suddenly reached a new level of urgency. And it's clear that for at least the next 20-30 years, nuclear power is going to be the solution for the world's number one producer of greenhouse gas emissions.

production until 2013 or later. Cameco hopes to extract 7 million pounds of uranium a year from Cigar Lake. But the mine is producing nothing now and it will take years to build up to that production level.

Is The Uranium Market Evaporating?

What used to be a uranium market surplus has also evaporated.

In 1993, the United States and Russia agreed to dismantle nuclear warheads left over from the Cold War and use the uranium to power nuclear reactors. This resulted in an excess supply of uranium for more than a decade. Now, more than 80% of that excess has been used up.

The industry's leading journal, *The Uranium Market Outlook*, has stated that aboveground uranium is at an all-time low, citing 30 years of underinvestment, stringent regulations, and an overall lack of exploration of uranium deposits.

Uranium miners just can't take the ore out of the ground as fast as the demand has grown. Only 70% of the uranium consumed in the last three years came from mining. The rest came from the depletion of existing reserves.

Countries like Japan and France rely heavily on uranium as a power source and are determined to secure supplies. But China's future demand remains a challenge.

RBC Capital Markets recently released a forecast for the uranium market and estimated that uranium prices will hit \$80/lb in the next three years, and could possibly head higher.

The reason is simple... there isn't enough product on the market to satisfy the world's current needs. Indeed, today's prices may seem cheap in a matter of months.

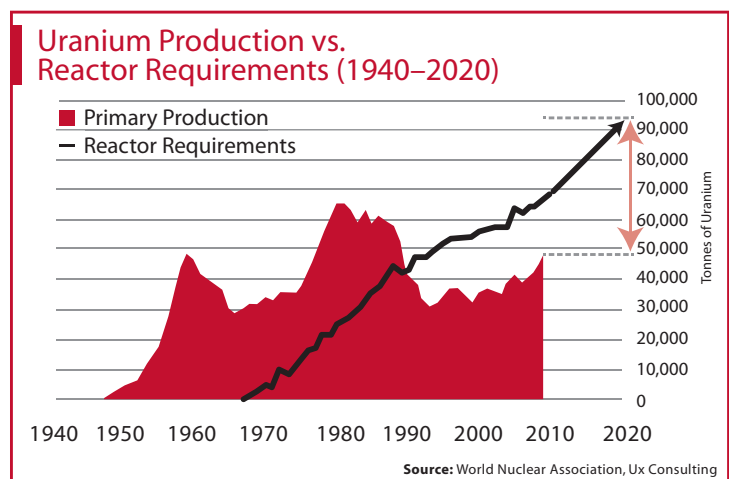
And as the cost of uranium continues to increase in the months ahead, a few choice investments in the sector should do wonders for energizing your portfolio. Read on to learn how to profit from uranium's next run up.

Investing in the Uranium Squeeze

As uranium prices rise and the cost of production remains relatively fixed, companies like **Cameco** (NYSE: CCJ), the world's largest uranium producer, are looking ahead to record profits.

The Canadian based company, Cameco Corporation, was founded in 1987 and is involved in the exploration for, mining, milling, purchase, and sale of uranium concentrate. It holds control of the world's largest uranium reserves in Saskatchewan, Canada and also controls uranium properties in the United States, Australia and Kazakhstan.

Cameco provides 16% of world mine production and holds approximately 480 million pounds of proven and probable uranium reserves. The company recently boosted up production as it expects uranium sales to be 22 million pounds this year. This past quarter, they increased uranium production by 17%, decreased operating costs by 13%, and increased their realized sales price by 11% compared to the same period last year.



As you can see in the chart above, Uranium reactor requirements are on the rise and have outstripped current production levels since 1990. Over the next 10 years, uranium demand is expected to grow to 233 million pounds annually, an average growth rate of about 3% annually.

The good news for investors: Cameco hopes to nearly double its annual production of uranium to 40 million pounds by 2018 to meet this demand.

We also thought it best – considering the dysfunctional state of the credit markets – to find an investment that allows us to capitalize on the upward movement of uranium’s spot price, rather than on the profits (or losses) of a uranium mining company. And **Uranium Participation Corporation (U.TO)**, a holding company that invests all of its substantial assets in uranium, fits the bill perfectly.

The company’s sole purpose is to provide an investment alternative for those interested in holding uranium. Thus, owning shares represents an indirect interest in the physical uranium owned by the company.

At least 85% of the gross proceeds of any offering of securities by Uranium Participation Corporation must be invested in, or held for future purchases of, uranium.

The company holds uranium in two forms: uranium oxide (5.4 million lbs.) and uranium hexafluoride (UF₆), also known as yellowcake (1.5 million KgU).

Simply put, if the price of uranium increases (as we expect), our shares will follow suit.

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