

Uranium on the Cranium

As more and more is made of global warming and the coming era of Peak Oil, reinforced each day by rapidly accelerating oil consumption in China and India, we would be foolish not to look at alternative energy forms as potential investment opportunities.

In this regard, nuclear energy is the clear leader in that it already provides 20% of the electricity in the US and significantly more than that in other industrialized countries. The fuel for nuclear reactors is uranium, an element that is mined primarily in Australia, Canada and South Africa, with smaller amounts produced elsewhere including the United States.

Most of the publicly-traded uranium companies do not yet produce a single ounce of ore. Rather, these companies control prospects that are in the process of being explored via highly-technical geological mapping and test drilling. By these processes, a uranium exploration company may be fortunate enough to identify proven reserves, at which time it will expand the scope of its operations to include mining and processing. This entire cycle takes many years, meaning that investors that get in early must be very patient.

Concurrently, dozens if not hundreds of nuclear reactors are on drawing boards around the world. Existing proven reserves and production of uranium are barely sufficient to satisfy near-term demand, let alone demand that is expected to come on stream within the next 5-25 years. This has set the stage for a “uranium rush”, i.e., a phenomenon that will gather momentum as electric utility companies become increasingly motivated to pay up for guaranteed long-term supplies of uranium.

Many of today’s obscure uranium companies will strike it rich from the ensuing bonanza arising from the supply-demand imbalances, while others will not be as lucky. As we look to place our bets, there is no possible way to know which horses will finish in the money, so if we are forced to bet the field. Therefore, I am in the hunt for as many qualified uranium prospects as I can find and already have staked initial claims in as many as 10 companies. Of these, 2 or 3 are producers, while the rest either are exploring for reserves or are about to enter the commercial mining and processing phases of operations.

Uranium is not yet ready to overtake real estate as the mainstay of cocktail party banter, but it will have its day in the sun as we begin to run the gauntlets of global warming and Peak Oil. For an informed discussion on Peak Oil, there are several books available, the most notable of which is *Twilight in the Desert: The Coming Saudi Oil Shock and the World Economy* by Matthew R. Simmons, a high-profile consultant to energy firms. Simmons, who also has served as a key advisor on national energy policy to the current Bush Administration, is acknowledged to possess one of the most exhaustive databases in the world on oil and gas reserves and production rates. He asserts that Saudi Arabia is

running out of oil. As far as I can tell, Simmons does not have a political agenda, which makes his findings all the more credible.

July 31, 2005