

## **Mexico Mike**

### **I launch my Mexico Junior Miner Portfolio with UC Resources Ltd.**

While junior mining companies as a sector have performed well during this resource bull market, I believe that Mexico represents some of the best opportunities in the world for investors. A wave of capital has begun flowing into the country, deployed by Canadian listed juniors with aggressive, experienced management teams that are acquiring new projects. And there have already been several exceptional success stories. It is my opinion that some of the top performing stocks in the years ahead will come out of Mexico, however this opportunity remains largely off the radar for most investors.

I have been fortunate to be able to visit several projects under development in Mexico recently, to see for myself the richness of mineral wealth, and the favourable situation that is at hand to assist these companies. Most of the projects remain grossly under explored, and there is enormous untapped discovery potential. So I have chosen to specialize my interests in Mexico junior mining stocks, and I am pleased to present some of the companies in this regular feature as Mexico Mike.

The Mexico Mike Portfolio is a model portfolio that will be constructed to illustrate the performance that can be achieved with strategic investments in junior mining companies that are active in that country. The objective will be to generate capital gains through a balanced approach. Positions will be established in exploration companies for asset value appreciation at the discovery level, and in producing juniors for their growth potential. I will update the performance of this model portfolio on a regular basis.

Real estate brokers will be quick to tell you, the three most important criteria for success are: location, location, and location. Well, in the mineral exploration game, the same mantra applies. In the regions of the world that are most prospective for new discoveries, property holdings usually come at a premium. That is one of the reasons that Mexico is so attractive for junior mining companies at this point in the cycle. The country has a long history of mining activity yet remains grossly under explored, and some exceptional projects are changing hands at bargain prices compared with those in other higher profile mining camps in North America. Recognizing this, several Canadian listed junior explorers are aggressively seeking new acquisitions in the country. The investors that are able to buy property-rich juniors now will find themselves well positioned as the best available projects are snapped up and the market awards a higher valuation to those companies able to advance from development to production.

The management team at UC Resources Ltd is very much aware of the opportunity that Mexico presents, and they have been busy to make the most of it. Richard Hamelin, President, CEO, and Director, is a full time resident in Mexico, and was brought in to

spearhead the company strategy to grow rapidly via acquisition. His personal contacts and local knowledge of the mining sector have been of assistance to ensure that UC is able to select the available projects with the best potential, and his financial background, along with William Elston, Vice President of Corporate Development, have enabled the company to raise the capital necessary to fund their strategy.

In the summer of 2005 UC closed a deal to acquire the Mexican subsidiary of Planet Exploration, Minera Planet S.A. de C.V., to gain 100% control of the Copalquin Project. Located in the rugged foothills of the Sierra Madre mineralogical belt, in the Northwest corner of Durango, Copalquin is a large package of patented mineral claims, with a long history of past production from numerous shallow mines. A satellite survey of the entire district was also commissioned, and the data outlined numerous high priority targets lying beyond the limits of their project. UC was quick to extend its property holdings via staking to include these new zones, and the company now controls a massive continuous district at Copalquin amounting to over 640 square kilometres. Management is convinced they have something special at Copalquin, and they wanted to be sure to lock up all of the areas that may be part of the large mineralized system they believe exists on the property.

The character of the properties show large zones of intensely altered geology hosting finely disseminated silver and gold values, surrounding a number of very high grade occurrences including the past producing mines at Copalquin. In light of the success that has recently been achieved by companies like Gammon Lake Resources and Alamos Gold, where large systems of lower grade resources were demonstrated to be economically viable, the decision was made to go with a regional exploration approach at Copalquin. A review of all the data from past exploration activity, along with a recent sampling and mapping program, has convinced management that strong potential exists for the discovery of a district scale, low grade epithermal system that could be suitable for open pit mining. UC Resources is now the first company to apply a systematic, modern exploration program encompassing the entire region.

The challenge for the company geologists will be to prove up a high enough total tonnage of resources to feed a large mining operation with an average grade that would be profitable to process. And there are no shortage of targets that warrant follow-up exploration work. The terrain is undulating and somewhat challenging from a logistical point of view, but road construction has prepared access routes and drill pads to support the program. Infrastructure development will become a greater priority based on the success of the preliminary exploration work.

The company recently completed Phase II drilling work, targeting areas that have never been tested by the drill bit. The first assays from this program yielded wide intervals of lower grade gold and silver. At the end of June UC reported hitting a significant high grade zone near the workings of a dormant past producing mine. The geologists logging the drill core reported the presence of visible gold, and the assays are pending. These positive results from the current drilling program validate the exploration model for Copalquin and improve the speculative odds for a new, large scale discovery on the property. Phase III is scheduled to commence in the fall of this year.

The ongoing exploration work that will be necessary in order to advance discovery will require a large amount of capital funding. And there remains no guarantee that the work will be successful to find anything of value. In order to diversify their interests, UC management decided to go after additional acquisition targets that would have the potential for rapid production and the ability to generate positive cash flow that could underwrite future exploration programs.

In April, the company announced that a deal was in the works to buy another Mexican corporation, Minera Silver Creek S.A. de C.V., and gain control of the past producing La Yesca Mine along with a mill and recovery plant capable of processing 200 tonnes per day of feedstock. This acquisition will provide the dimension of internally generated cash flow from operations for the company, and add the rights to another attractive exploration project in the surrounding property. UC Resources followed up on this success in May by announcing another acquisition for the MAR project, a property with a history of small scale mining activity. The prized asset from the MAR acquisition however is a small mill capable of processing 100 tonnes per day. The mill is modern, fully operational, and completely portable. This will allow for greater flexibility in the operating capability for the company, including the possibility of transporting the mill to begin production at Copalquin if a new deposit is discovered there.

UC Resources has now been completely transformed, from a sedate and listless performer to a focused and dynamic vehicle tailored to seize the opportunities in Mexico. Once the acquisitions have been closed, the company will be structured with two wholly owned subsidiaries. Minera Planet will be the exploration division, with the flagship Copalquin Project providing blue sky potential to realize the asset appreciation afforded in the discovery phase. Minera Silver Creek will serve as the operating division, with two fully operational mills in production, to initially process higher grade tailings and surface stockpiles of ore grade material. Further acquisition targets will be considered to add to the current suite of holdings and additions to the appropriate divisions will result if the management team remains successful to negotiate solid deals at favourable terms.

Shares of UC have performed well since the company embarked on their new strategy, rising from just 10 cents at the midpoint of last year, to a high of 70 cents in the spring of 2006, before settling back to the current range. This consolidation represents a solid range

for accumulation, and I allocate \$10,000.00 to establish a position in the company, and launch the Mexico Mike Junior Mining Portfolio.

Further exploration success should generate greater interest from investors, and perhaps result in a quick jump in the market value for the company. Once the milling equipment has undergone a quick overhaul and some modifications for the operating environments, production can commence at MAR and La Yesca, with the prospects for positive cash flow. This too, will no doubt be regarded enthusiastically by the market.

My investment horizon is firmly set on a longer term outlook, and I look for a higher trading range before the end of the year, but will hold the position in UC with the expectation that it will require several rounds of exploration to achieve the results necessary to define if a larger deposit awaits discovery at Copalquin. The rewards will be worth the long wait if in fact a district scale deposit of economic grades is there to be found, that could amount to a resource of several million gold equivalent ounces. UC Resources is an ideal candidate to start the portfolio, with a limited downside risk, but enormous potential that could generate 1000% gains within 24 months in a hot resource sector.