

## US Gold Mexico

VANCOUVER (Dow Jones) January 8, 2009--Mining-friendly Mexico is awash in junior exploration and mining companies, some growing, some distressed and others looking for ways to conserve cash and avoid dilution in the current credit-adverse environment in order to keep operations up and running.

At the same time, investors - institutional and retail - are losing patience with valuations that have fallen 80% or more over the past 18 months. They're looking for a catalyst to revitalize a cyclical market that is once again becoming comfortable with the phrase "care and maintenance."

"What you want to see is an emerging intermediate," said U.S. Gold Corp. (UXG) Chairman and Chief Executive Rob McEwen. "This will require that some of these smaller companies, some of which have had some problems, get together as one company."

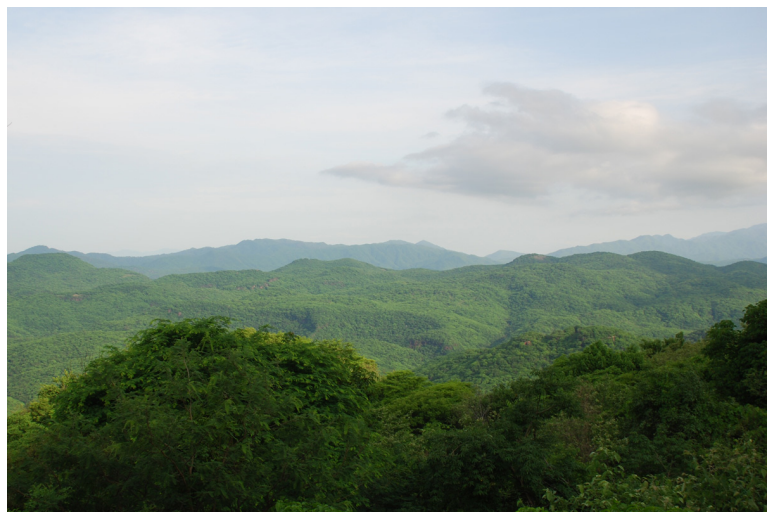
U.S. Gold had been, until the start of 2008, a Nevada-centric junior explorer, but its Nevada Pacific Ltd. acquisition in mid-2007 added some 500,000 acres of exploration property in Mexico, which so far has produced strong silver and gold assays at its Majistral and El Gallo projects. While organic growth is a focus in Mexico, U.S. Gold is certainly talking with other companies and looking further afield for opportunities in Mexico, he said.

Ultimately, McEwen said investors are waiting for a new name to emerge and a place to put their money.

"A lot of promises have been made that failed to come to fruition," he said. "There are too many names out there for an investor to look at; it creates too much confusion."

In other words, investors want the industry to be more "containerized," so to speak, via consolidation.

Three companies most often mentioned as potential consolidators or, on the flip side, take-over targets, are Alamos Gold Inc. (AGI.T), Gammon Gold. (GAM.T) and Minefinders Corp. (MFL.T).



US Gold Property, Mexico.

"These are the three biggest juniors in Mexico...and if you look at it from a fund manager's point of view, they want to own a bigger company - not necessarily a major, but a mid-tier company," said Capital Gold Corp. (CGC.T) Executive Vice-President Jeff Pritchard. Capital Gold is active in Mexico with its El Chanate mine, which produced a record 5,375 ounces of gold in December.

The consensus is that consolidation would go some way toward repairing valuations. After all, junior-company share values have been decimated over the past 18 months and senior valuations have also been tumbling since, well, the spring of 2008 or so. Given the reduced valuations within the global resource sector, the time is

ripe for building a mid-tier player from the best of the juniors - at least that's how the theory goes.

So what could be the next catalyst?

## Shareholders, Not CEOs, May Soon Take M&A Driver Seat

"The catalyst is the investors themselves; our discussions with fund managers show that they all want consolidation in the industry; they don't want to follow four good projects that are all C\$1 or C\$2 stocks. They want to see one mid-tier, 250,000 to 300,000 ounce producer with one corporate (spigot). One C\$10 stock, if you will," Pritchard said.

Jeff Pontius, president and chief executive of International Tower Hill Mines Ltd. (ITH.V) and former North American exploration manager for AngloGold Ashanti Ltd. (AU), said: "If you can get a really good individual involved, such as a Rob McEwen, who can sell the story, he could probably come in and meld companies such as Alamos and Minefinders together, with the expectation that shareholders will see a doubling of the share price."

Pontius doesn't expect this kind of consolidation to take place before the second quarter.

"But if I look at my crystal ball, there's a significant opportunity out there because you do have half a dozen companies sitting out there that do have assets which could be melded together," he said. "Keep in mind that many of these companies do have problems associated with them - problems that tend to disappear in a US\$900 or US\$1,000 an ounce gold environment."

As for consolidation, there's another problem, one best described as a social or ego-based issue.

"Most people running these companies are hired guns or they started the company and have stock in it, stock that's way below where they'd like to see it. So if they still have an income stream, if they're sitting on cash, they'd rather hoard it rather than give it to someone else," McEwen said. "Equity values have been slammed, meaning option values have disappeared. So they ask: Where do I go next? And the safest thing is perhaps to sit back and watch."

But that option might disappear as investors become more and more disgruntled with valuations and the lack of progress on share appreciation.

"Institutions, some holding an (aggregate) 30% to 40% of these now-devalued companies, will take a more active role in consolidation," McEwen said. "Basically, they will band together and say, 'Under this leader, or this company, we want you to merge.' They will line up and say they represent a large portion of the shareholder base and this is how they're voting."

This is a marked departure from the past, when institutions were hesitant to jump into battle.

"But they've been so beat up and hungry now to get positive returns that any engineering they can assist in means they will be open for discussion," he said. "So, message to management: Do not be comfortable thinking that your shareholders are going to passively sit by while you decide what to do. They will take matters into their own hands." ■