

**Today's Notes:**

- 1. LIFE'S MORE IMPORTANT ISSUES**
- 2. RARE EARTHS**
- 3. REST IN PEACE GM**

## **1. LIFE'S IMPORTANT ISSUES**

While in the Canada's Northwest Territories I was fortunate to land this 42 pound lake trout on Great Slave Lake. The lake is 2000 feet deep in places and one of the world's largest. The scenery is absolutely beautiful and the Dene First Nations and locals warm and friendly. We stayed at Plummer's Lodge which is an absolute must visit if you enjoy Canada's outdoors and particularly fishing.

This fish I am told was probably 84 years old. I lovingly returned him to his abode in the Great Slave Lake. Thanks to my host Don Bubar and my fishing guide, Bryce (pictured) and the most gracious folks at Plummer's Lodge, NWT Canada.



## 2. RARE EARTH'S: AVALON RARE EARTH METALS INC.

I have recently completed a due diligence trip to two discovery companies of interest. They are Houston Lake Mining and Avalon Rare Metals Inc. Today I write on my experience with Avalon Rare Metals. On July 1, 2009 US News published an article titled,

*“America’s New Energy Dependency: China’s Metals.”*

Rare earth metals come almost exclusively from China. China, it seems, is threatening to withhold these crucial metals that allow companies like W. R. Grace to keep refining oil. This has the attention of the US State Department. W. R. Grace, for example, has only a three month supply of these metals. The US News article says, in part,

*“The metals W R Grace needed belong to a group known as the ‘rare earths.’ They are the backbone of the information age and potentially a clean energy future. They are in iPods, Blackberrys and plasma TVs. In many cases there are no substitutes. ... Fifty years ago the world’s economy was built on steel ...today rare earth metals are reshaping it.”*

And so here I am in Canada’s Northwest Territories having completed a visit to Avalon’s Thor Lake rare earth deposit. It is an amazing ore body with a very complete suite of both light and heavy rare earth elements. Take one example. Europium and Yttrium oxides (two of the rare earth metals - REE) sell for USD\$450 per kg and \$15.50 per kg respectively. In the meantime China has reduced both 2009 production quotas and export quotas of the rare earths by 6.05% and 34% respectively.

And so an enterprising Canadian company called Avalon Rare Earth Inc is now quite far along in developing one of the world’s larger and best light and heavy rare earth deposits. It’s a few miles from the capital of the Northwest Territories, Yellowknife. By the way Yellowknife is closer to Tokyo than Vancouver.

The Avalon ore body is situated on the Hearne Channel of the Great Slave Lake (one of the ten largest and 6th deepest lakes in the world) it is easily accessible by barge. Don Bubar is the CEO and has assembled a team of experienced and dedicated employees. I count 164 drill holes to date in the REE ore body which may extend over 10,500 acres. Get the picture? This ore body is going to be developed because a rare earth deposit is in Avalon’s grade and configuration, rarer than rare. The ore body is 61.1 million tonnes at 2.05% (43-101). The key is that it contains the more valuable and difficult heavy rare earth elements.

A word on definition: Avalon’s heavy rare earth metals are oxides of, Europium, Terbium, Dysprosium, Gadolinium, Thulium, Lutetium, Thulium and Ytterbium. These always occur together. God’s will! There are other metals in the Avalon deposit at Thor Lake as well including gallium, niobium, thorium, zirconium, beryllium and more. We will leave the analysis of these Avalon metals for another day.

Avalon’s shares have recently moved much higher. May I encourage you to examine this discovery investment? It is rapidly maturing (moving from incubator to mature status). I believe that there is upside in the shares of Avalon rare Earth Inc. It trades in Toronto (AVL.TO) and the NASD (AVVTF) – with 74 million shares out fully diluted.

I reserve the right to purchase shares of Avalon Rare Earth Inc in 48 hours.



### 3 NOT YOUR FATHER'S GENERAL MOTORS: RIP

Three years ago to the day I wrote the following Morning Note. It turned out to be a macabre forecast for the future. You can see from this Morning Note that the cards were played long before this sorry episode provided the iceberg for GM, Ford and Chrysler. Why then has our government (both Republican Bush and democrat Obama thrown more than \$20 billion at the renaissance of a dead and decaying industrial behemoth whose demise has been in the cards for the past three years?

We talk about new industrial policy now in Washington. Green jobs are all the rage. The \$20 billion of now lost loans to the carmakers could have spawned a much needed nuclear industry. Babcock and Wilcox (Lynchburg Virginia) have announced a new smaller reactor that costs \$400 million and safely puts out 100 megawatts of clean energy. Standard nuclear systems can cost \$5 to \$10 billion. This means of course that the taxpayer money wasted on the beached car companies could have funded eventual development of 40 if the new modular reactors producing 4000 megawatts of clean energy. This would achieve economies of scale and the birth of a new domestic industry. Even Energy Secretary

Stephen Chu realizes that nuclear MUST be a part of the green Solution over the next 50 years.

At any rate I thought you might enjoy this three year old Morning Note. Why was the demise of the US auto industry so unthinkable? Please ask yourself this question; Are there other **unthinkables** in our future? No, dear D.I., gut wrenching societal change is now upon us and discovery in all sorts of endeavor is badly needed. We will regress to a mean lower than the lifestyle we have been living. You and I both know that is coming. Discovery can hedge this outcome. Fortunately Americans and Canadians are quite good at this sort of thing. The following Morning Note was published July 19, 2006.

**“Over 1 year ago I became obsessively negative on the US carmakers GM and Ford. It has since transpired that these companies have fallen on hard times. Ford announced losses of \$5 billion last week. GM is not much better. Last year the company lost \$10.6 billion. Sales have fallen 12% in the first 6 months of this year. Now GM may be forced by Kirk Kerkorian to consider a “limited partnership” with Carlos Ghosn’s Renault / Nissan. Detroit used to be the auto capital of the world. Foreign automakers were considered late comers to the auto game. All that has changed this AM.**



Somewhere along the road complacency took over in Detroit. The Big Three were once proud symbols of the “American” century. The classic muscle cars that Detroit produced between the 1950’s and 70’s were truly beautiful; Mustangs, Chevelles, Corvettes, the 57 Chevy, the Dodge Charger and Ford Fairlane 500. The North American love affair with the automobile is still evident. Evidently, no one in Detroit saw the energy crunch coming. That mistake can be forgiven, however. Gas, in North America, is still cheap - as I wrote last week. Europe and Japan took a different tack beginning 20 or thirty years ago. Petrol in Europe, you see, was much more expensive than here in North America.

Now between Chrysler- Daimler and the proposed joining of GM with Renault Nissan two of the Big Three companies are gone. GM has decided to run another zero interest rate loan program in its attempt to turn around. That has attracted some buyers. However the GM's finance company, GMAAC has long been the big winner for the company. The US auto industry has been beset with a self-imposed structure of pension, medical and unit labor costs that have made the final outcome certain.

This AM, the world's largest carmaker, GM, has finally suggested that the focus must be on fuel efficiency at all costs. The FT reports, "*Bob Lutz, vice-chairman and head of product development, said the world's biggest carmaker had set a target of being the best (ed.: in fuel efficiency) in almost every segment, even if it meant sacrificing performance or increasing cost.*"

The FT reports that the move comes as oil prices and environmental concerns have increased. It is almost impossible to understand the lateness of this move. GM, Ford and Chrysler deserve a pass for the 50's, 60's and 70's. But thirty years after the oil embargo the companies have finally decided that fuel efficiency is a primary goal of their product lines. The collapse in the SUV cycle has forced GM to reconsider its strategy. GM says it is responding to the consumer. That may be true. Ford indicated it would spend \$1.8 billion over the next 6 years to make its European cars more fuel; efficient. It's far past time when fuel efficiency should be considered. Even in this announcement at the London motor show the companies are much too tepid in their energy efficiency. The world, needs transportation modalities that achieve much higher efficiency goals. How about responding to the needs of the shareholder, GM and Ford? Many classify as widows and orphans? In the meantime you may want to be short or be gone from these struggling giants."

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