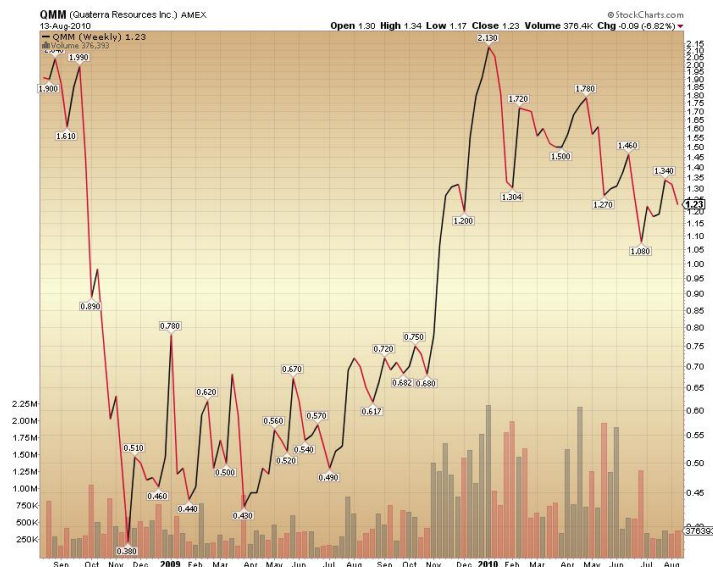


**Today's Notes:**

**1. Quaterra's Nieves**

**1. QUATERRA'S NIEVES**

Mexico just keeps on giving. On Thursday July 31 Quaterra Resources announced a 43-01 compliant resource estimate on its 50% owned Nieves property in Zacatecas. The results were excellent for a number of reasons. First, the resource was significant. We think Quaterra, the operator, and its 50% partner, BlackBerry Ventures, have literally scratched the surface. The recent drilling has produced resources (indicated and inferred) of ~85 million ounces of silver at a 15 gram per ton AG cutoff. Second, there appears to be open pit potential for the mining of this resource. Finally, only a very small fraction of the Nieves property, 22 square miles, has been explored. In fact the entire resource estimated by Caracle Creek International Consulting Inc, an independent consultant, was from a very small part (we estimate perhaps 1/3<sup>rd</sup>) of Nieves middle Concordia / San Gregorio vein set, There are three distinct veins systems, the California, the Concordia /San Gregorio and the Santa Rita.



Quaterra began exploring at Nieves in 2000. Prior to that Western Copper and Kennecott had instigated significant exploration programs at Nieves. Of course the history of mining at Nieves goes back to the sixteenth century when the Spanish mined high grade silver on the three veins. As recently as the 1960s Jim Patterson mined 8 kilo silver from narrow high grade veins on the Santa Rita. The Mexican

Consejo mined the property later, in the 1970s. In the past decade the three companies have drilled 115 holes on the property.

What the Quaterra team, led by Dr. Tom Patton, Thomas Turner, Joe Inman and Hector Fernandez, has discovered is the potential for an open pit silver mine that will be expanded with more drilling to, perhaps, 200 million ounces of silver or more. Such a resource would have in situ value of ~\$3.6 billion at today's silver price of ~\$18 per ounce.

Given that there have been very few open pit silver mines ( Real de Angeles and Palmarejo) we think that Nieves has special potential. First, if Nieves proves open-pittable, it could be

brought into production in 2 to 3 years and for a lot less capex than an underground mine. Near term cash flow means everything to a project's NPV.

The results from the NI 43-101 report, the company released July 31<sup>st</sup>, speak for themselves<sup>1</sup>:

At a 15 gram cutoff grade the deposit contains ~55 million tonnes of ore containing 142,850 ounces of gold and 85 million ounces of silver. At a cutoff of grade of 45 grams the deposit contains ~19.1 million tonnes of ore containing 61,100 ounces of gold and 54,391,027 ounces of silver in all categories. These indicated and inferred silver and gold ounces are significant.

The company notes that,

***“The Caracle Creek report concludes that the resource displays strong continuity along strike and down dip and that mineralization continues beyond the extent of current drilling. The report recommends additional drilling to the west and east along both the Concordia and San Gregorio veins”***

While an open pit has not yet been configured, this resource, developed as an open pit, could be economic. That remains to be seen and we think this will be reported in due course.

Ag Range (g/t)	Vein	Zone	Classification	Tonnes (t) <sup>2</sup>	Au (g/t)	Ag (g/t)	Au (oz) <sup>3</sup>	Ag (oz) <sup>3</sup>	
> 15.0	Concordia	La Quinta	Indicated	7,717,000	0.09	72.8	22,330	18,062,489	<p>At a <b>15 gram</b> silver / tonne cutoff: <b>55,800,000</b> tonnes of ore containing <b>142,850</b> ounces of gold, <b>85,002,887</b> ounces of silver Indicated and inferred.</p> <p>At a <b>45 gram</b> silver / tonne cutoff: <b>19,100,000</b> tonnes of ore containing <b>61,220</b> ounces of gold and, <b>54,391,027</b> ounces of silver in all categories.</p>
	Concordia	La Quinta	Inferred	31,019,000	0.06	46.6	59,838	46,474,147	
	San Gregorio	North	Inferred	17,158,000	0.11	37.1	60,682	20,466,251	
> 30.0	Concordia	La Quinta	Indicated	5,810,000	0.09	89.5	16,812	16,718,484	
	Concordia	La Quinta	Inferred	17,291,000	0.07	66.4	38,915	36,913,558	
	San Gregorio	North	Inferred	6,999,000	0.14	60.8	31,504	13,681,613	
> 45.0	Concordia	La Quinta	Indicated	4,590,000	0.10	103.4	14,757	15,259,171	
	Concordia	La Quinta	Inferred	10,516,000	0.08	85.5	27,048	28,907,758	
	San Gregorio	North	Inferred	4,005,000	0.15	79.4	19,315	10,223,998	
> 60.0	Concordia	La Quinta	Indicated	3,625,000	0.11	117.0	12,820	13,636,144	
	Concordia	La Quinta	Inferred	6,319,000	0.09	107.8	18,285	21,901,045	
	San Gregorio	North	Inferred	2,608,000	0.16	94.3	13,416	7,907,096	

However, in addition to the drilling (29 core holes) program that generated these 43-101 results, the company also completed a very detailed IP survey with 13 lines of induced polarization on the Concordia San Gregorio vein system separated by 200 meters to a depth

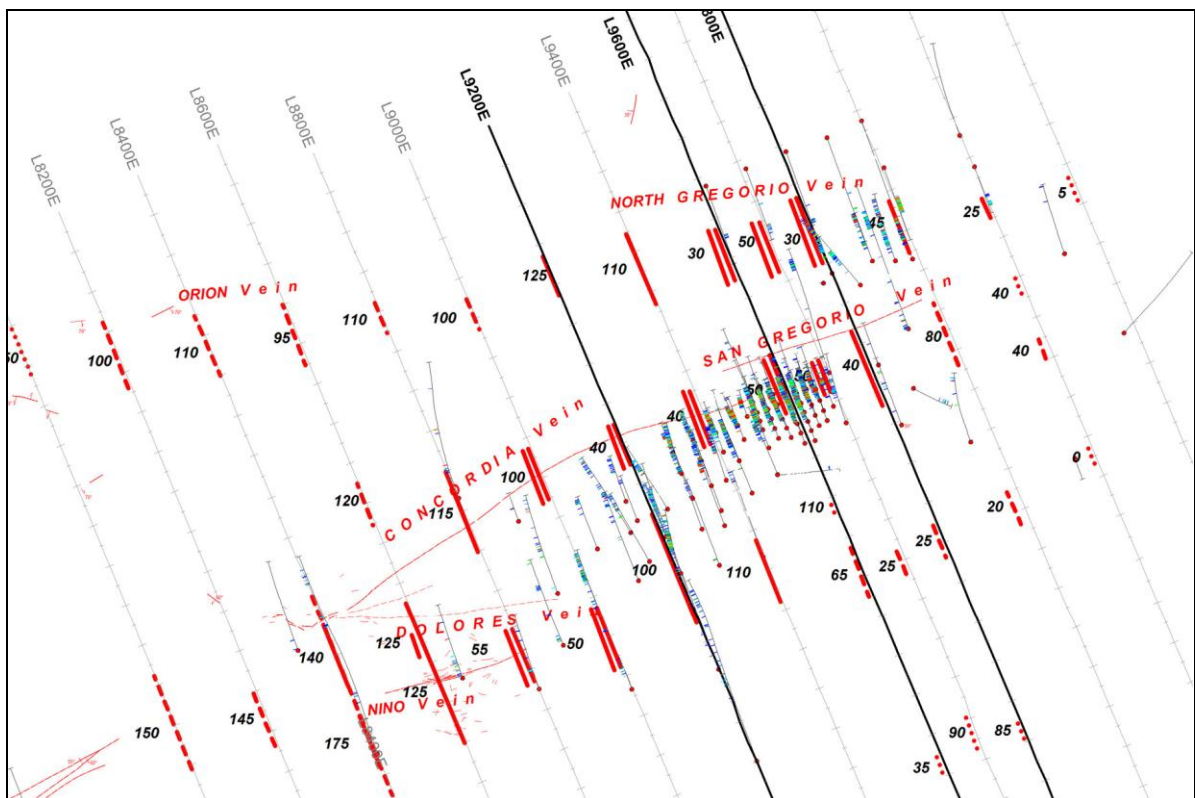
<sup>1</sup> Please see the full chart, containing resources for all cutoff grades on the company's web site at:

[http://www.quaterraresources.com/resources/Table\\_1-1\\_Concordia\\_San\\_Gregoria\\_vein\\_systems\\_estimated\\_mineral\\_resources.pdf](http://www.quaterraresources.com/resources/Table_1-1_Concordia_San_Gregoria_vein_systems_estimated_mineral_resources.pdf)

of 200 meters. The results seem to indicate that the current resource is near surface but that it will increase, perhaps significantly. Please examine the following results from the IP study. As you can see the Concordia / San Gregorio system is actually composed of several known veins, the Orion, the Nino, Dolores, Concordia and San Gregorio. This is what makes it such an attractive target initially for an open pit operation. The double red lines indicate the areas with significant near surface response, which usually indicates sulfide bearing rocks.

As you can see from the chart there appears to be significant additional drilling opportunity on the north Gregorio between L9700E and perhaps L9200E which is a strike length of 500 meters. Similarly very little drilling has been done on the Delores / Nino vein between L9000E and L8400E. The numbers in black represent the depth of the response.

We believe that Quaterra will now execute another drill program of 20 to 30 holes to increase the resource significantly based upon these IP results. Therefore, given the current resource, we think there is a possibility for an open pit silver resource of up to 200 million ounces of silver and perhaps 250,000 ounces of gold. The gold credit will be significant in the economics of a mine. **Please note that this resource analysis does not include the Santa Rita vein system to the south or the California vein system to the north of the Concordia / San Gregorio.** Nor does it include deeper and higher grade ore potential and several other areas on the property that have not yet been explored. The company believes that more drilling will increase the size of the system.



The question is, of course, what is the value of this discovery? Well, open pit silver mines are quite rare. One I can think of was real De Angeles. It was an example of a very successful open pit silver mine. In some ways it was quite similar to Nieves.

It yielded 75 million tons of 80 grams of silver which included a high grade core of 13 million tons of 128 grams of silver.

Open pit mines can be brought into production much more quickly and cheaply than underground mines. We will wait to estimate the valuation once we know that an open pit is economically achievable. Nevertheless we think that this is perhaps the first of many possible “monetizations” for Quaterra management. By the way the company reports that the silver recoveries are quite good, in the neighborhood of 86% to 90%.

In conclusion Nieves has significant potential to increase in size and grade. As has been the case we do not think of Quaterra as a mining company. The business model here is to build an exploration and development pipeline and then monetize each property. That process is well underway. Freeport McMoRan is drilling the company’s Tintic properties in Utah and others in Arizona on very good deals. Goldcorp has already optioned one of the company’s properties in Mexico and is funding all Quaterra’s exploration in that country. Grand Portage will drill Quaterra’s Herbert Glacier gold property this month and Copper Ridge is drilling the polymetallic nickel, copper, PGE target at Duke Island Alaska.

That CEO Patton has two of the biggest and best mining companies in the world, and four companies in all, drilling his properties attests to the value of the QMM property pipeline. Monetization is next and we think Nieves could be sold to parties interested in near term production from an open pit silver mine. There are plenty of those companies around. If this occurs it will be the first of several deals that will make QMM shareholders very happy.

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