

Today's Notes:

1. Lesson in Discovery
2. Uranium in Virginia

1. LESSONS IN DISCOVERY INVESTING

Several years ago I met with and discussed a business arrangement with a South African family. That family went on to develop Petra Diamonds, a South African mining company, in 2000. This AM I noted that Petra sold a single diamond it, discovered in South Africa for **\$35.3 million**. This is the highest price ever recorded for the sale of a single rough diamond breaking a record. The 507 carat stone was gem quality.



Over the past decade Petra had acquired a number of African diamond mining prospects including the famous Cullinan mine from DeBeers. Regarding the discovery and sale of the diamond Petra CEO Johan Dippenaar said,

“It is fitting that the Cullinan Heritage should achieve a sale price of \$35.3m, the highest sale price on record ever achieved for a rough diamond, as it has the potential to produce one of the world's most important polished gems.”

AIM-listed Petra found the gem last September at the 74%-owned Cullinan mine, which it bought from De Beers in 2007 for \$148 million. The Cullinan mine has been the source of many large diamonds, including the world's largest rough diamond - the Cullinan - at 3,106 carats. That gem was cut into the Star of Africa stones that are now set in Britain's crown jewels.

Discovery Lesson #1: *You find a mine where there has been a mine.* More appropriately you are more likely to make world class discoveries where there have previously been world class discoveries.

Discovery Lesson #2: *One world class discovery pays the bills for a long time.* You have just witnessed an example (an extreme but not infrequent example) of the value of Discovery Investing (DI). Here the discovery of one stone, albeit a very large and rare one, increased the liquidity of a single company by \$35 million. Another example is the 2006 takeout of Western Silver by Glamis and subsequently Goldcorp for \$2.1 billion. A further example is the ImClone and the cancer drug Erbitux sale to Lilly for \$6 billion.

Discovery Lesson #3: *The time required for these infrequent discoveries and their ultimate realization by the markets may be quite long.* In the Case of Petra it was 10 years. In the case of Western Silver it was about the same length of time. For Imclone the discovery gestation period was 20 years. This means that you must perform your due diligence, continue to acquire a position and be extremely patient – not a common characteristic of most investors. It also means that you must diversify within the Discovery sub space adequately.

Though most have not realized it yet, Quaterra Resources is in the same boat, just a little earlier in its cycle of discovery and value realization. The first holes were drilled in the Nieves silver property by Kennecott in 1998. Just last week QMM announced that they had made a significant discovery on the property – more than 100 holes later¹.

I can sight many examples of the extended time-to-discovery characteristic of Discovery Investing. Please don't be discouraged but take note.

Discovery Lesson #4: *It is positive to take profits early in the discovery cycle. In other words, for most Discovery Investors, sell SOME on the news.* These types of world class discoveries are especially infrequent, if not rare. This means among other things that you must, from time to time, sell on growing expectations and positive exploration results to recoup a portion of your investment unless you are very well diversified and determined to stay the course. Bottom line, it amounts to your greed level and strength of belief in the potential of your discovery investment. Please remember you will never go broke taking a small profit and your conscience will be at ease. In this case Discovery Investing can be an “eat well / sleep well strategy.”

To reiterate, diversification across the discovery space is **critical**. As a result of the rarity of occurrence of world class discoveries, such as the recent Petra diamond, diversification is a must. With diversification the potential for a 90/10 portfolio is possible. A 90/10 portfolio, in today's market, is one in which you allocate 10% to Discovery (Incubator/ Mature/ Legacy equally) and 90% to safety.

You may ask, what is safety? Today no one knows whether we are in for a deflationary or an inflationary experience (or both). To hedge both these occurrences perhaps a barbell portfolio consisting of gold at one end and very short term Treasury Notes at the other end is appropriate.

¹ Please see the QMM announcement on their web site. They have discovered a hanging wall splay of veinlets on 1/3 of 1 of 3 major known vein systems at Nieves. This system could extend to the east and provide a large open pit resource of silver.

2. URANIUM IS MOST DEFINITELY BACK

I was most fortunate to visit Coles' Hill in Chatham, Virginia last November. Chatham is about 40 miles south of Lynchburg and not far from the North Carolina border. In about 1804 Thomas Jefferson granted the Coles family ~7500 acres. Little did Mr. Jefferson know that the land which he granted the Coles family contained over 100 million pounds of uranium. In fact uranium was not known at the time nor its use in clean energy generation. But knowing of Mr. Jefferson's proclivity for science, research and discovery I am certain he would have been fascinated by its energy potential.

This Coles Hill uranium deposit appears to be near the surface. The following picture shows the reading at the outcrop from a scintillometer I placed at that point last November. As you see the reading is quite high – yet there is no radiation damage evident anywhere on the property nor any water contamination. The Coles family has been drinking the water for 200 years and never experienced any problems.



In fact a Ph.D. dissertation from nearby Virginia Tech University concluded that the Coles Hill deposit was a closed system, a natural storage facility and could not deposit any radioactive pollution in the water table.

According to a geologist at Virginia Tech University, the Coles Hill deposit is not demonstrating expected migration of uranium through groundwater. A. K. Sinha was quoted in a Virginia Tech news release as saying "*[t]here is a water table about 11 meters (36 feet) down, and the uranium-rich bedrock about 20 meters (66 feet) down. The uranium should have migrated to the next county, but it hasn't.*" As noted in the 2001 PhD dissertation on the geochemistry of the Coles Hill site by James L. Jerden, the deposit is a closed system. Uranium ions dissolved near the surface are redeposited "*below the water table due to higher pH conditions of ~6.0 and relatively high activity ratios of dissolved phosphate to carbonate,*" trapping the uranium at the site in a natural storage facility.

On Friday the National Academy of Sciences announced that they would study the pros and cons of mining of the Coles Hill uranium deposit. Heretofore there has been a moratorium (1982) placed on mining uranium in Virginia. I have spoken with experts on the topic. They tell me that this Virginia ore body is most definitely a world class deposit.

Add to this the need for jobs in the area and the value of uranium to our clean energy future, particularly in light of the President's recent support for nuclear energy, and we think the Coles Hill deposit will be developed.

A press release by Virginia Energy Resources, a 25% owner of the deposit said,

“Virginia Energy Resources Inc. (TSX.V: VAE) is pleased to learn that the National Academy of Sciences (NAS) has signed a contract with Virginia Tech to conduct a study on uranium mining. This study was formally requested by the Commonwealth of Virginia. The purpose is to determine whether uranium mining and milling could be undertaken in a manner that safeguards the environment and public health in the Commonwealth of Virginia.”

Relative to the size and value of the deposit,

“Coles Hill is considered to be one of the largest undeveloped uranium deposits in the United States. It has a measured and indicated resource of 119 million pounds of U3O8 (98.7 Mt at 0.060 percent U3O8 at a cut-off grade of 0.025 percent U3O8), including a higher grade zone of 77.4 million pounds of U3O8 (37.7 Mt at 0.103 percent U3O8 at a cut-off grade of 0.050 percent U3O8) based on an April 29, 2009 National Instrument 43-101 Technical Report prepared for the Company by Behre Dolbear and Company Ltd., Marshall Miller and Associates Inc., and PAC Geological Consultants Inc. (Dr. Peter Christopher, P.Eng.).”

Virginia is already a nuclear state with four reactors at two sites in the state. All nuclear fuel must now be imported by Virginia. We believe that the new governor, Bob McDonnell, supports this effort. Virginia henceforth may lead the national nuclear revival and the move to energy independence that is so necessary in this country. If the NAS study supports mining, as we think it will, Thomas Jefferson would be most pleased.

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