

Today's Notes:

1. Macarthur: Growing and Growing (Chris Berry, MBA)
2. Quaterra and Freeport Hook Up ... Again

1. Macarthur Minerals: Growing and Growing and ... (Chris Berry, MBA)

Thursday and Friday were quiet days here in New York, but we did find a fascinating investor presentation hosted live on the web by Rio Tinto (RTZ) senior executives out of London. The slide show for the entire presentation can be found [here](#). In particular we'd like to draw your attention to slide 17 which shows the massive steel intensity per capita in each of China's 31 provinces.

One of Rio Tinto's main businesses is iron ore production. This slide reveals that despite China's "growth miracle" that has lifted millions of its citizens out of poverty, huge upside remains with respect to China's infrastructure build out (and hence a higher quality of life for China's populace). Nobody knows how long China can sustain their double-digit growth rates, and we've always tempered our enthusiasm, preferring to be known as China "optimists" rather than outright bulls on the country's future growth prospects. Inflation is now rearing its head in China which could have reverberations around the world.

Nevertheless, it is interesting to see the rates of development across the country. The RTZ document is lengthy at 75 slides, but I'd take the time to go through it. It provides clarity into a major global mining company's growth plans and the source of this growth.

Rio Tinto wasn't the only company making noise over the American holiday.

Macarthur Minerals (MMS: TSX-V), which we introduced to you [here](#), released some very significant news regarding their Lake Giles hematite goethite deposit in the Yilgarn region of Western Australia. The company announced that their DSO (Direct Shipping Ore) hematite resource **increased by 57%** to a JORC1 inferred resource total of 18 million tonnes at a grade of **55.5%** Fe. This is significant in that the company plans to bring the hematite direct shipping ore to production by the end of 2012 to provide a cash flow stream for the eventual production of the 1.17 billion inferred tonnes of magnetite.

¹ *The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code, 2004 edition) was incorporated in the Listing Rules of the Australian Stock Exchange (ASX) and New Zealand on Friday, 17 December 2004, replacing the 1999 edition. Compliance is mandatory on all companies listed by the ASX and NZX. The JORC Code provides minimum standards for public reporting to ensure that investors and their advisers have all the information they would reasonably require for forming a reliable opinion on the results and estimates being reported.*

As you can see the (Canadian) market cheered the news:



Discovery Investing in action based on Macarthur's announcement of 57% increase in direct shipping hematite ore.

When we first wrote on the company, the hematite resource was 4.4 million tonnes and MMS was planning on small scale production of 2 million tonnes per year. This is a textbook example of a discovery investment beginning to mature and setting the stage to graduate from Incubator status up the discovery chain.



An outcrop on MMS' Lake Giles property in Yilgarn. The Yilgarn Region of Western Australia is emerging to be Australia's # 2 iron ore producing area behind the Pilbara due to superior resource and infrastructure availability.

From the [press release](#) Macarthur Minerals Director, Mr. Alan Phillips stated,

“This is an outstanding outcome and has far exceeded our objective of delineating 10mt. The increased tonnage has reduced the discovery cost per tonne to a mere 20 cents. We are making significant progress in our goal of bringing Lake Giles into initial production through our DSO resource.”

The following table shows the tonnage and grade of the hematite across 5 of the deposits.

Table 1 – Goethite/Hematite (DSO) – Inferred Mineral Resource Estimate

Deposit	Tonnes (Mt)	Fe%	P%	SiO2 %	Al2O3 %	LOI%
Banjo-Lost World	5.5	55.7	0.07	8.1	4.7	7.1
Moonshine	0.6	52.8	0.06	13.3	3.9	5.8
Central	4.8	55.2	0.06	8.2	4.5	8
Snark	7.1	55.9	0.07	7.8	4.2	7.6
TOTAL	18	55.5				

MMS clearly has an aggressive plan in place. It will complete a scoping study on its magnetite resource and a pre-feasibility study on its hematite project by the end of this year.

PLEASE NOTE: Mr. Joe Phillips, COO of MacArthur, will be here in New York next Thursday, December 2nd and Friday, December 3rd for institutional meetings. If you would like to schedule time to meet with Mr. Phillips and hear the company’s growth and cash flow potential for 2012 and beyond, please let us know and we’ll arrange a meeting.

2. Cave Peak Texas: QMM signs up Freeport

Last week Quaterra Resources (QMM AMEX NYSE) announced a significant relationship with the world's largest publicly traded copper mining company Freeport McMoRan (FNM). We have followed Quaterra closely for most of this decade. The first part of the decade was punctuated by Quaterra management building one of the strongest mineral property pipelines in the exploration industry. This pipeline includes base and precious metal properties in the United States and Mexico that have significant value creation potential. A partial property list includes:

1. The Yerington copper district and its MacArthur **oxide copper resource** and massive sulfide potential. A new NI 43-101 is likely forthcoming at MacArthur below.



Figure 1: MacArthur Open Pit Oxide / Chalcocite Copper Deposit at Yerington

2. Duke Island, Alaska - polymetallic **copper and PGM** potential.
3. The Nieves property in Mexico with a recent 43-101 resource of **80,000,000 to 100,000,000 ounces of silver** in an open pit configuration. We hope that Nieves is being dressed up for sale. There are no known low cost, open pit silver mines around.
4. The Southwest Tintic property that Freeport McMoRan is drilling to earn a 70% ownership in a possible large **copper porphyry resource**.
5. Arizona's Peg Leg property which may host a significant **copper porphyry** deposit.



Figure 2: Peg Leg Porphyry Target Being Drilled by Freeport McMoRan

6. Several Mexican **gold / silver** prospects which are funded in preliminary exploration by Goldcorp to the tune of \$10 million.
7. QMM's Herbert Glacier **gold** prospect with joint venture partner Grande Portage (65%). See the very encouraging gold discovery announcement last week by Grande Portage Resources.

http://www.grandeportage.com/s/NewsReleases.asp?ReportID=430389&_Type=News-Releases&_Title=Grande-Portage-Resources-Ltd.-Drills-17.1-gpt-Au-over-1.14-metres.

8. Arizona Strip's high grade **uranium** breccia pipes.
9. Cave Peak's, (Texas) **molybdenum, tungsten, niobium** prospect, originally drilled by Union Carbide and subsequently explored by Draco Mines with 42,000 feet of drilling and an intersection of 425 feet of .77% molybdenum.

The Quaterra announcement last week involved Freeport McMoRan once again. In this case Quaterra CEO Dr. Thomas Patton has once again chosen to ally himself and the shareholders of Quaterra Resources with the largest publicly traded copper company in the world, Freeport McMoRan (FNM). The transaction is similar to that formerly agreed to with Freeport on Quaterra's Southwest Tintic property. FNM has agreed to carry property costs on Cave Peak for 2011 and then spend \$5 million in further exploration within the next four years for its earn-in. FNM has a firm commitment of 2011 property payments. Following that exploration program, if successful, they will carry Quaterra to a bankable feasibility study on a 70/30 basis.

Several shareholders emailed and called me over the weekend regarding this deal. Some felt that the \$5 million exploration program was not enough to earn a 70% interest. My retort was similar to my reaction to the Southwest Tintic joint venture.

Think about it. If FNM discovers a multibillion dollar molybdenum deposit, Quaterra shareholders would be carried to bankable feasibility on 30% of this deposit². In reality this would mean Freeport would buyout the 30% position for significant value creating opportunity. In essence CEO Patton's deals with FNM on three US properties (SW Tintic, Cave Peak, and Peg Leg) and his \$10 million three-year funding deal with Goldcorp (GG) on a wide range of Mexican gold / silver properties are significant value creators for Quaterra shareholders.

In effect Quaterra has become an exploration arm to two of the largest and most important mining companies in the world, addressing both base metals and precious metals. The equity market has not yet valued Quaterra on this account. It is clear that management of both FNM and GG find their investments in Quaterra's pipeline, land acquisition and exploration capabilities compelling. We expect to see discoveries from some or all of these joint ventures initiating significant value creation for shareholders of Quaterra Resources.

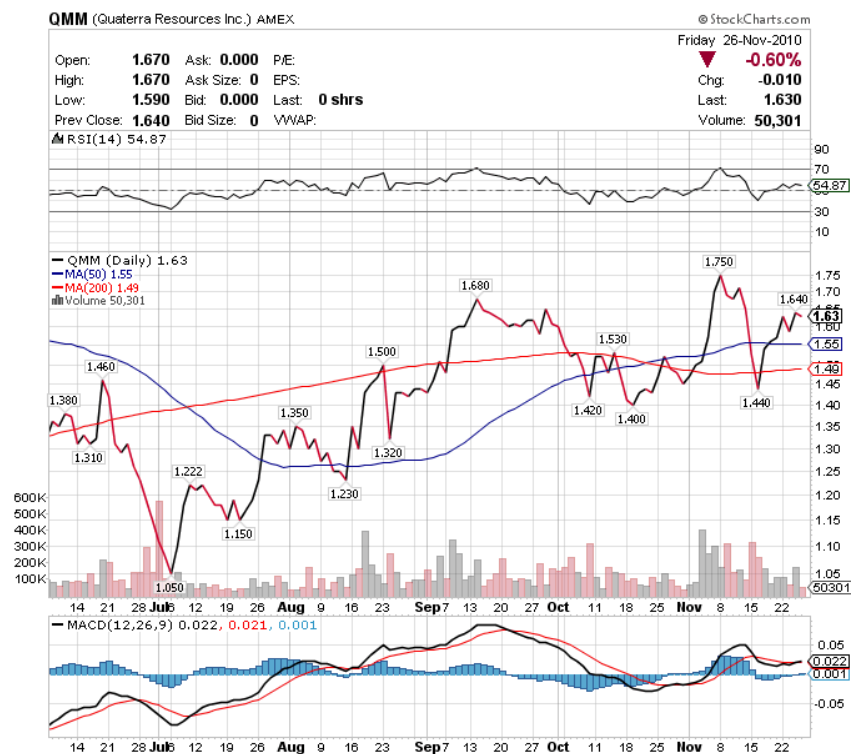


Figure 3: QMM Shares Seemed to Want to Move Higher since July

We know that Goldcorp is drilling on targets identified by Quaterra in Mexico. Freeport is currently drilling on two targets in the United States, Tintic and Peg Leg. Grande Portage has made tantalizing discoveries of mesothermal gold at Quaterra's

² Several of the 24 Union Carbide holes, 42,000 feet of drilling, discovered significant high-grade molybdenum and tungsten as well as niobium. (Hole B-30: 425 feet of .77% molybdenum.)

Herbert Glacier prospect. We think the QMM shares do not reflect the potential for world class discovery on one or more of these ventures.

Finally we think QMM's pipeline strategy will be validated through the discovery process. We also note that Quaterra's treasury will show \$36 million in cash in 2011. The exploration work now undertaken on Quaterra's projects (MacArthur copper and Nieves silver notwithstanding) is being funded totally with other companies' monies.

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