

**Today's Notes:****1. Some Thoughts on Gold and Silver Discovery****1. Gold and Silver Discovery**

The solons in the market have suggested that demand for gold and silver is surging in China and India. Of course we have been in full blown bull markets in both gold and silver for a decade or more. Silver, for example, was trading at \$4.20 as recently as 2004. Today as we write this MN the metal is trading near a 31 year high \$37.24. Canadian natural resource maven (and now silver buff) Eric Sprott notes that China alone has switched from exporting 100 million ounces of silver in 2005 to importing 120 million ounces in 2010. This rate of change is increasing. Against a background, according to Eric Sprott, of global silver production of 889 million ounces of silver a shift of 220 million ounces in the supply/demand balance (~25% of annual production) is highly significant. "A truly tectonic shift in demand," according to Sprott.

Many more knowledgeable observers than yours truly are trying to figure out whether this is the ultimate gold/silver bubble, whether it is about quantitative easing and "well-anchored" inflation (doubtful after a ten year bull market) or perhaps, just perhaps, we are slouching by default toward a new more dependable currency standard.

Stansberry reports that China imported five times as much gold in the first 10 months of 2010 as in all of 2009. He says that according to the World Gold Council, Chinese demand for gold bullion increased at nearly nine times the rate of Chinese demand of gold jewelry, from September 2009 to October 2010. Sprott believes that gold demand from China and India could account for more than half the world's annual gold production. Let's face it, if mom and pop start to believe their paper money is just that, paper, much could happen to global currency standards. Chinese authorities continue, from time to time, to suggest that China should diversify into precious metals and, by implication, out of US Treasuries and related Agency bonds.

So the stories for this AM are very important. There are four companies, all gold or silver discovery companies worth a discussion this AM. They are Revett Minerals (RVM TSX), Sandspring Resources (SSP TSXV), Terraco Gold (TEN TSXV) and GMV Minerals (GMV TSXV). I want to point out at the outset that own positions in all these companies.

Yesterday Revett Minerals published their production and cash flows for the fiscal year 2010 (Dec 31). The results were outstanding. In 2010 the company produced slightly

more than 1 million ounces of silver and 8.5 million pounds of copper. Cash from operations was \$12.2 million and net profit \$4.4 million. IN 2010 the company had increased daily throughput from its Troy mine of 3,807 tons of production. All this stands in stark contrast to results from 2009 and more than 70 tons per day of production in excess of 2009. when the company experienced a loss. Troy mine's silver / copper reserves were increased 15%. In addition the company purchased Rock Creek's 2% net smelter royalty from Kennecott for 275,000 shares in Revett.

So far our investment in Revett has yielded a 700% rate of return. We do believe that Rock Creek will eventually find its way into production in spite of environmental lawsuits which we think have been diminished. In the meantime we think Troy has about 7 to 10 years of silver / copper reserves left (possibly 156 million ounces silver and 1.33 billion pounds of copper – measured indicated and inferred).

Rock Creek, sister deposit to the currently operational Troy mine holds 229 million ounces of silver and 2 billion pounds of copper. These resources produce some of the best copper concentrate in the country. The company now has \$8.8 million in cash equivalents and no debt. Management has done a very good job for the shareholders. CEO John Shanahan and his team have done an A+ job of turning this company around. There are currently only 37 million shares outstanding. Look for an NYSE AMEX listing soon. Sandspring Resources (SSP TSXV) is a different discovery play located in Guyana. It is focused on gold and copper exploration. In the past alluvial gold has been mined on their Toroparu property. This week the company published a new 43-101 with 8.44 million ounces of gold in all categories (3.51 million ounces measured and indicated and 4.93 million ounces inferred) and 556 pounds of copper. Sandspring's NI 43-101 Compliant Mineral Resource Update for the Toroparu Project shows a 32% increase in Measured & Indicated and 40% increase in Inferred Gold and Copper Content.

Not too shabby! The company is now working on the optimization of a single open pit shell configuration for the mining of the resource. In addition Sandspring announced a Preliminary Economic Assessment as follows: Sandspring Announces Positive Preliminary Economic Assessment for Toroparu Gold-Copper Project; Annual Production for First Four Years of 310,000 oz Gold and 29 Million Pounds Copper at Average Cash Cost of \$317/oz Gold (net of copper credit). The NPV of Toroparu is \$854 million, an IRR of 24.5% with a payback on CAPEX of 3.2 years. Annual 0production will be 273,000 ounces gold and 20 million pounds copper for 13 years life of mine. We think these numbers could improve. Once again SSP has turned into a 10 bagger.

Both Revett Minerals and Sandspring Resources have developed into Mature Discovery companies that should be owned in our view. They both have takeout potential.

We will now review two Incubator Discovery opportunities. These companies have similar potential.

First Terraco Gold (TEN TSXV). A young up-and-coming Canadian mining executive named Todd Hilditch heads Terraco Gold. Todd is becoming well known in Canadian mining circles and recently merged with Western Standard Minerals to incorporate the Almaden gold project in Idaho (near Weiser). There is significant Canadian institutional following of Terraco – always a plus.

The Almaden deposit was first discovered in 1936 and has been owned by several companies since. There are currently ~1 million ounces of gold drilled out (887 holes, 60,000 meters) at Almaden. When coupled with the grass roots potential of the company's Moonlight project in Nevada, we think Terraco has significant wealth creation upside from its current 30 cent level. This is a company that we own and we reserve the right to buy more. With Charles Sulfrian and Ken Snyder at the geological wheelhouse of the company Terraco is one of those undiscovered incubator companies with real potential. We think that there could be 2 million or more near surface ounces of gold at Almaden and the search for deeper higher grade gold could yield positive results as well.

At present there is significant selling pressure on the company from shares distributed to other companies during the previous ownership of the Almaden property. Once this selling ends, we think Terraco's shares will move smartly higher. The company plans to be in the field drilling this spring at both Moonlight and Almaden. Currently there are 112 million shares out following the merger with Western Standard Minerals with significant warrant (\$12 million cash) exposure for the company.

Second we introduce GMV Minerals. There is not much to say just yet for this company run by Ian Klassen except that it is parked in the heart of the Guyana gold country with very large land holdings next to Sandspring. The company will be drilling on the most prominent geological features this spring. If they achieve results half as good as those of Sandspring the company will not be selling for 50 cents much longer.

Both these Incubator companies, Terraco Gold and GMV Minerals have real discovery potential. The drill will tell the tale – this year.

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*addition we may review investments that are not registered in the U.S. We cannot attest to nor certify the correctness of any information in this note. Please consult your financial advisor and perform your own due diligence before considering any companies mentioned in this informational bulletin. I own shares in Sandspring, Terraco, GMV and Revett Minerals.*