

Today's Notes:

## 1. A Great Discovery Investment

### What Makes a great Discovery Investment?

Ten years ago we visited a sleepy little town in eastern Zacatecas a few miles over the mountains from Concepcion Del Oro. Its name - Mazapil. It was really a mystical experience for me. I had not been in Mexico many times and never in the interior of the state of Zacatecas. Travelling to Mazapil was a time warp – like travelling back to the 17th century Mexico where life was very different.

How well I remember the culture of Mazapil. It was a small Mexican village still living in the 17th century. I remember one of the sun-worn Mexican elders coming up and asking Dr. Patton, President of Western Copper at the time, “When we will be mining here.”

That was to be 8 years in the future.

There was not much to see in the high desert valley adjacent to Mazapil. There was a large valley covered with several meters of alluvium and one small lone outcrop (Penasquito) as shown below in a 2001 photo.

### The Penasquito Ore Body Hidden Under the Alluvium in The Valley Near Mazapil



Photo By Michael Berry

Kennecott had drilled hundreds (I think 700) RAB holes and then departed. Their Geologist at the time was so incensed that he resigned – he felt there was tremendous potential for a discovery. Western Copper took the property and under the direction of Dr. Thomas Patton and Head Geologist Tom Turner began drilling following a mapping and exploration campaign.

Soon Western Copper discovered the Chile Colorado ore body; but it did not excite anyone. A Peruvian company (Minera Hochschild) came in a spent \$1 million or so and then left returning the property to Western Copper. Chief Nesbit and I visited the project several times between 2000 and 2006. Each time the drill results improved. It was a long haul but we all believed the in the ground team and – yes – things got better and more exciting with the drill.

At some point probably in 2005 there was that “ah ha” moment. It might have been hole WC 112 in which a very long intersection of high grade gold was discovered.

Dr. Patton said, ***“All I can say is that when feasibility was finished at the end of 2005, we had 122 holes totaling 48,900 meters at Chile Colorado and 265 holes totaling 117,200 meters at Penasco. Hole WC-112 was actually the 197th hole on the property, counting Kennecott and Hochschild (160 m at 8.37 g/t gold or 472 meters at 3.3 g/t gold.”***

At that point, even though some Mexican mining skeptics remained we knew that the Penasquito ore body had world class potential. Others were also realizing the potential.

Soon after, in February of 2006 Glamis made the first bid.



Goldcorp then followed on acquiring Glamis. Our 30 cent and 50 cent investment in Western Copper had turned into \$34.

This AM Goldcorp the eventual owner of Peñasquito announced blockbuster third quarter numbers. Yes we are owners of Goldcorp from this transaction.

***“Gold and silver production at Peñasquito was 55,800 and 4,203,200 ounces, respectively, for the third quarter. Lead and zinc production totaled 33.6 million pounds and 66.4 million pounds, respectively. Total cash costs amounted to **negative** \$796 per ounce of gold.***

***The Company has reaffirmed revised 2011 production guidance of between 2.50-2.55 million ounces of gold. Total cash costs for the year are expected to be between \$180 to \$220 per ounce on a by-product basis and between \$500-\$550 per ounce on a co-product basis.”***

A couple of points about the Discovery cycle are worth making. First it can be incredibly productive. Second it requires patience and third not all of these discovery opportunities work out to the same degree that the Western Silver project did. Many will fail. Reducing your failures is key to wealth creation in Discovery Investing.

Many people are emailing today and complaining for example about Senesco's (SNT AMEX) shares which now trade for about 20 cents. I respond that the company is now in the cancer clinic having jumped through all the FDA "hoops." It's the very same type of process in mining or high technology. Some of these will fail. But if we get an "ah ha" moment from Senesco it will be in the near future and it will be on human tests of multiple myeloma a cancer for which there is no cure or even effective treatment and for which the Senesco Technology has worked well in the animal model.

This is nature of risk and reward in Discovery Investing. Today you can buy a 20 cent "call option" in SNT shares on a clinical cancer treatment. Of course your SNT investment could end out of the money. Then again ....

What are the three or four key elements of the ten point discovery grid? I developed 10 of them below.

- 1. Management / Board track record, ownership, insider buying**
- 2. World class quality of Assets, Intellectual Property or Technology**
- 3. Percent Project Ownership by company, the degree of control of the asset.**
- 4. Asset / Technology potential and immediacy.**
- 5. Company Diversification: Control a portfolio of assets to reduce risk.**
- 6. Cycle and Catalyst relevance and timing.**
- 7. Degree of Contrarian Valuation.**
- 8. Financial Soundness, Sustainability, Dilution Management.**
- 9. Company's stakeholder relations and communications.**
- 10. Investor Patience and Courage to persist in long discovery cycles**

These are listed in order of importance. However in our new software system (The Discovery Investing Scoreboard) users can specify any factor as mandatory and increase the level of importance in the ranking analysis we do.

However we always point out when we are first analyzing a company's potential that you must spend time on management analysis and second the world class nature of the asset or the intellectual property. When we have made mistakes, and we have done so more than a few times on the management side of the equation we have been punished.

So today management excellence is key to us. A good management team (one fully invested, communicative and forward thinking) can make an average technology, ore body or IP valuable.

A poorly organized team can screw up the best asset in the world. Please be advised. Our new Discovery software will be available by the end of January and we will provide it to retail users on a subscription basis. It will allow you to make your choices in an English language vocabulary that we have tested extensively. We plan to introduce this at the Cambridge Resource Symposium in Vancouver in January.

It is clear that the management of Western Silver and their world class prospect met many of the factors on our ten point discovery grid. One of the keys to Discovery Investing is that you only need one or two Penasquito's to change your life for the better.

In the economic circumstances we ALL face today this is a more important consideration.

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