

Today's Notes:

1. Quaterra's Nieves – Bottom Line

Nieves Grows

Yesterday, Quaterra Resources reported drill results (15 core holes, 3164 meters in June and July) from its Nieves silver /gold project in Zacatecas Mexico. As usual with only 150 holes drilled over the past decade.

I first visited Nieves on 2000 when we were en route to see Penasquito. I liked both properties from the very beginning. On our first trip to the Nieves property, which had been mined off and on since 1640, we found some visible gold. Investors made a fortune in Western Silver's Penasquito project when Glamis and then Goldcorp purchased the property.

Development at Nieves (Francisco De Murguia) has lagged behind but it is starting to show off now. This past year the company (Quaterra Resources, QMM AMEX) in conjunction with the BlackBerry LLC investment group (50% owner) issued a NI 43-101 compliant inferred and indicated resource of 85 million ounces of silver and ~130,000 ounces of gold. This La Quinta zone hanging wall silver is open-pittable and ~ 90% recoverable based on Quaterra's metallurgical tests from 2010.

Because this will be an open pit operation and excellent infrastructure is nearby the capital expenditures for a plant should be manageable, perhaps in the neighborhood of \$350 million.

Having said that we think this property might become QMM's first monetization event from its extensive pipeline of developing and developed properties.

Recently the Canadian investment bank GMP wrote a research report with a buy recommendation and a target of \$2.20 on Quaterra. In that report the bank valued the Nieves silver resources at \$2.50 per ounce in the ground – at the lower end of their current range of \$2.50 to \$3.00 per ounce.

Nieves' gold resource was not considered in their valuation even though 100,000 to 200,000 ounces of gold at today's prices is a considerable by product.

Nevertheless at \$40+ per ounce of silver (we think silver could move to \$60 by year end) and 85 million ounces of silver resource (15 gram cutoff) QMM's 50% position is worth ~\$100 million or about \$.60 per fully diluted QMM share. GMP's valuation for the entire company is \$2.20.

Yesterday's announcement seems to change the situation. Several holes were drilled to the west – in fact as far west as 400 meters from the La Quinta zone where the current resource is located.

This drill program returned encouraging results. For example hole QTA 144, drilled 200 meters west of the La Quinta zone returned 57 meters of 4.5 ounces of silver and .12 grams of gold. Hole QTA 153, the most westerly hole reported in this release, contains 80 meters averaging 37.5 g/t silver (1.1 oz/ton) starting at a depth of 107 meters, including 8.35 meters averaging 134.5 g/t silver (3.9 oz/ton) and 0.56 g/t gold.

Most important, the Concordia vein mineralization remains open to the west and will be drilled this month. Additionally the gold grades, while still quite low, are increasing as the drilling moves to the west. The list of drill results follow.

August 2011 Nieves Drill Results: Holes QTA 140 to QTA 154

| Hole | Area | From | To | Interval (m) | Au (g/ tonne) | Ag (g/ tonne) | Ag (oz/ ton) | Pb (%) | Zn (%) |
|-----------------|---------------------------|---------------|---------------|-----------------|---------------------|---------------------|--------------------|-------------|-------------|
| QTA140 | La Quinta | 2.00 | 9.50 | 7.50 | 0.10 | 9.9 | 0.3 | 0.00 | 0.02 |
| | | 19.20 | 60.10 | 40.90 | 0.12 | 27.9 | 0.8 | 0.01 | 0.04 |
| includes | | 43.50 | 50.20 | 6.70 | 0.31 | 103.9 | 3.0 | 0.04 | 0.11 |
| QTA141 | La Quinta | 21.05 | 41.00 | 19.95 | 0.27 | 17.0 | 0.5 | 0.02 | 0.07 |
| includes | | 35.00 | 41.00 | 6.00 | 0.70 | 49.4 | 1.4 | 0.05 | 0.21 |
| QTA142 | Concordia West | 39.90 | 49.15 | 9.25 | 0.34 | 65.4 | 1.9 | 0.03 | 0.04 |
| | | 70.65 | 147.00 | 76.35 | 0.08 | 23.9 | 0.7 | 0.02 | 0.03 |
| includes | | 92.05 | 101.00 | 8.95 | 0.11 | 80.9 | 2.4 | 0.06 | 0.09 |
| | | 155.10 | 158.30 | 3.20 | 0.03 | 52.4 | 1.5 | 0.05 | 0.06 |
| QTA143 | Concordia West | 68.10 | 76.00 | 7.90 | 0.17 | 15.3 | 0.4 | 0.00 | 0.01 |
| | | 98.00 | 148.00 | 50.00 | 0.08 | 66.9 | 2.0 | 0.05 | 0.08 |
| includes | | 108.00 | 146.00 | 38.00 | 0.08 | 81.5 | 2.4 | 0.07 | 0.10 |
| includes | | 108.00 | 110.00 | 2.00 | 0.46 | 353.0 | 10.3 | 0.24 | 0.29 |
| QTA144 | Concordia West | 32.00 | 38.50 | 6.50 | 0.29 | 12.6 | 0.4 | 0.01 | 0.03 |
| | | 107.00 | 164.00 | 57.00 | 0.12 | 152.5 | 4.5 | 0.12 | 0.17 |
| includes | | 109.00 | 125.65 | 16.65 | 0.23 | 290.9 | 8.5 | 0.23 | 0.30 |
| includes | | 110.85 | 115.60 | 4.75 | 0.41 | 447.4 | 13.1 | 0.35 | 0.51 |
| QTA145 | Disquito Orion East | 192.50 | 192.60 | 0.10 | 0.13 | 115.0 | 3.4 | 0.07 | 0.16 |

| | | | | | | | | | |
|-----------------|-------------------|-----------------------|---------------|-------------|-------------|--------------|------------|-------------|-------------|
| QTA146 | Gregorio North | 20.00 | 28.35 | 8.35 | 0.17 | 7.5 | 0.2 | 0.00 | 0.01 |
| QTA147 | Gregorio North | 145.55 | 180.00 | 34.45 | 0.15 | 16.5 | 0.5 | 0.01 | 0.02 |
| QTA148 | Gregorio North | 0.25 | 87.00 | 86.75 | 0.13 | 13.3 | 0.4 | 0.00 | 0.02 |
| | | 155.00 | 186.00 | 31.00 | 0.09 | 30.3 | 0.9 | 0.02 | 0.04 |
| QTA149 | Gregorio North | no significant assays | | | | | | | |
| QTA150 | Gregorio North | 17.00 | 29.85 | 12.85 | 0.11 | 6.5 | 0.2 | 0.00 | 0.02 |
| QTA151 | Gregorio North | no significant assays | | | | | | | |
| QTA152 | La Quinta | 13.00 | 17.00 | 4.00 | 0.23 | 23.9 | 0.7 | 0.01 | 0.02 |
| | | 50.30 | 53.00 | 2.70 | 0.61 | 20.7 | 0.6 | 0.00 | 0.02 |
| QTA153 | Concordia West | 50.30 | 53.00 | 2.70 | 0.61 | 20.7 | 0.6 | 0.00 | 0.02 |
| | | 107.00 | 187.00 | 80.00 | 0.10 | 37.5 | 1.1 | 0.05 | 0.07 |
| includes | | 117.40 | 125.75 | 8.35 | 0.56 | 134.5 | 3.9 | 0.09 | 0.11 |
| includes | | 120.00 | 121.50 | 1.50 | 2.71 | 317.2 | 9.3 | 0.20 | 0.20 |
| includes | | 168.50 | 172.05 | 3.55 | 0.13 | 228.7 | 6.7 | 0.40 | 0.52 |
| QTA154 | Concordia West | 34.00 | 114.00 | 80.00 | 0.03 | 18.1 | 0.5 | 0.01 | 0.03 |

There are more drill results to come and we think they will be confirmatory of the 15 holes reported here. The company has two rigs on the property and will be drilling thru September.

Bottom Line on Nieves

Almost everyone who reads a geological report calls or emails to ask – what’s the bottom line? What does it mean? I am reminded of Henry Fonda’s reply in the movie *On Golden Pond, 1981* to an aspiring son-in-law played by Dabney Coleman.

“Very good.

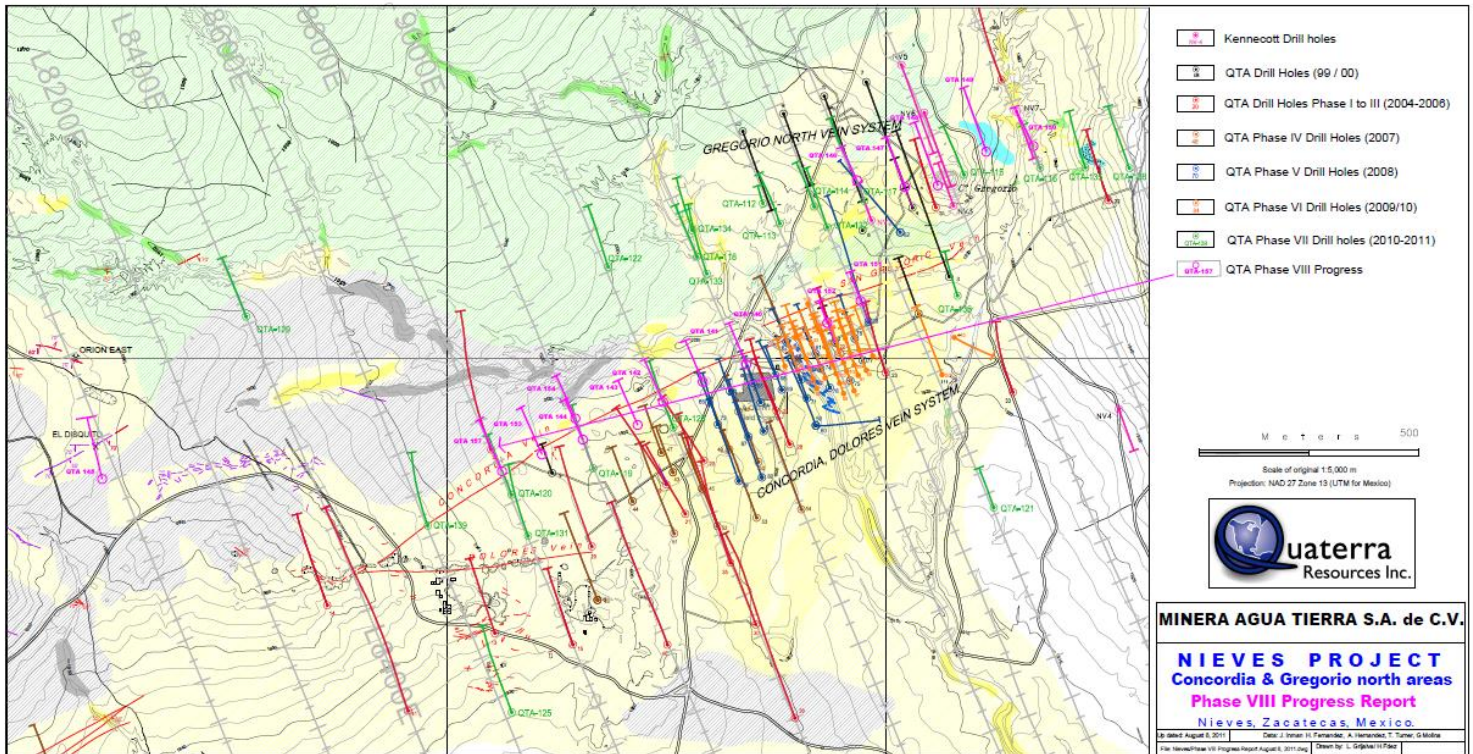
That was a good speech. Bottom line, huh?

You're a bottom line man.

All right, here’s the bottom line. “

Here’s my “bottom line.” If the resource now extends 400 meters to the west as it seems, with silver grades consistent with earlier drilling (the gold grades are a little better), we think that the resource will increase (by the end of September’s drill program) to between 150 million and 250 million ounces of silver. Taking 135 million ounces (90% recovery) of recoverable silver and applying the \$2.50 per ounce GMP valuation yields a QMM value per share, fully diluted, of ~\$1 per share.

If the silver resource grows to 250 million ounces the QMM valuation from Nieves alone will be ~\$1.70 per share. The shares are currently trading at a modest premium to the lower bound, around \$1.20. These valuations do not include the gold credit. Nor do they include any potential resources or “blue sky” from the Santa Rita or the California veins – nor the western portion of the property – yet to be explored. Below I include a drill map showing only the Concordia-Delores / San Gregorio veins systems at Nieves with drill holes. This can be expanded on the Quaterra web site.



The likely outcome, we think, is a takeout. However as one geologist remarked yesterday, we have hardly scratched the surface at Nieves. Quaterra has relationships with several major mining companies including Goldcorp and Freeport McMoRan. These results should pique the interest of a number of other silver producers.

You just don't discover 100 million ounces of silver in an open pit configuration every day. In fact we don't really know of any open pit silver mines. Quaterra may have more silver than 100 million ounces at present – that remains to be seen after the September drill program and the PEA is completed.

We have not included Quaterra's Yerington copper project which we think is a "company maker." Nor have we included the Herbert Glacier gold project in our valuation considerations.

Nieves can be developed further or sold in its present state. In either event Quaterra's investors await Yerington's promise and Herbert Glacier's upside potential.

One week from today I shall visit the company's Herbert Glacier gold project in Juneau which is becoming decidedly high grade. Quaterra owns a 35% working interest in this mesothermal vein system which has yielded very high grade and "extremely impressive" intercepts.

There will be more news forthcoming from Nieves over the next few months or so followed by a PEA and 43-101. Please stay tuned.

We do not believe that Nieves, by itself, is a company maker – at least not yet. Today that is the role that Yerington, with its copper resource, fills.

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