

Today's Notes:

1. Welcome to the Show
2. Goldcorp Exercises its Option on Quaterra's Mexican Properties
3. I Need Help

1. WELCOME TO THE SHOW: INDIA (CHRIS BERRY, MBA)

When a baseball player graduates to the major leagues (the highest echelon of professional baseball) they're typically greeted by teammates telling them, "*Welcome to the Show, Kid.*" This morning we suggest that India is on the verge of graduating to the "Major Leagues." The "show" I'm referring to in India's case is the Sovereign Wealth Fund (SWF) game. A recent Bloomberg News report suggests that there are rumblings within Indian Government circles to create a SWF to compete with China's offering.

The idea behind a SWF is for a country, with sizeable foreign exchange reserves, to invest some of the holdings in strategic assets across the globe – increasingly energy and natural resource-related. Many countries throughout the world have implemented this strategy successfully, most notably China through its China Investment Corp (CIC). India has been seeking ways, for some time, to generate economic growth to catch up to China. Creating a SWF could help in this regard. According to the Bloomberg article,

"Chinese companies spent a record \$32 billion last year to buy oil, coal, and metal assets in Africa, Asia, and Australia compared with \$2.1 billion invested by ONGC (India's state run Oil & Natural Gas Corp)..."

We know, for example, that China's Jilin Jien recently invested several hundred million dollars to establish up to a 75% position (by funding the total development) in over half the world class Raglan nickel, copper PGE sulphide belt in the Ungava region of northern Quebec. China's (Jilin Jien) joint venture on the Raglan is with Canadian company, Goldbrook Ventures (GBK TSXV). GBK seems extraordinarily cheap at its current price of C\$.33. China now has a significant foothold in the nickel copper rich Raglan belt.

Is there world class potential in this Chinese investment? In 2009 on the Raglan, Xstrata PLC mined 1.31 million tonnes of ore with nickel grades of 2.56%. Xstrata's production of concentrate increased to 172,668 tonnes, containing 29,262 tonnes nickel metal from its Raglan mine on that rapidly developing Canadian trend. These are the types of SWF investments that India will be able to consider in the future.

Today, the relative imbalance between China and India with respect to sovereign wealth investments is extreme. In my opinion, when you're outspent by 16 to 1 by a country with roughly the same population and global aspirations, something is wrong.

Clearly India has some catching up to do. With \$254 billion in foreign reserves (compared to China's \$2.4 trillion), a population seeking a higher quality of life underpinned by commodity stockpiling, and a relatively healthy economy, India's timing seems propitious.

The core question here though is whether creating a SWF is a good idea at all. One knock against SWFs is a lack of transparency. This issue could easily be overcome by shareholders, again as long as net returns consistently increase. Another issue is the timing. Specifically, the time it takes to create the fund and generate net positive returns. As an example, Temasek, Singapore's SWF, was founded in the mid 1970s but it has taken quite some time for the fund to develop the capability necessary to invest skillfully.

I doubt many people had even heard of Temasek before their involvement with large financial institutions over the past few years. A final issue, once the capital has been pooled and made available, is where to invest. India's need for updated infrastructure is no secret. But in a painstakingly argumentative democracy such as India's how does one agree on which investments are to be made and in which countries? China's command economy moves more quickly of course and has been "locking up" natural resources in African, Asian, South and North American countries (particularly Canada) for several years now.

Despite these questions, I think it's clear that creating a SWF is a step India needs to take. To be sure, there are risks, but there are also risks in inaction. One of the world's largest economies on earth cannot afford to sit idly as other countries invest in assets securing a future for their respective populace.

It would seem that devoting forex reserves to overseas investments is a positive as long as they create value and are of strategic value as well— but what if they go south? Such are the decisions the democracy in India must come to terms with - and fast – if they hope to realize their dream of truly competing with China for regional and global hegemony.

Ed. Note: Here is a link to the Bloomberg article mentioned above:
<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aDUM3IRMbW3s>

2. GOLDCORP EXECUTES ON BEHALF OF QUATERRA

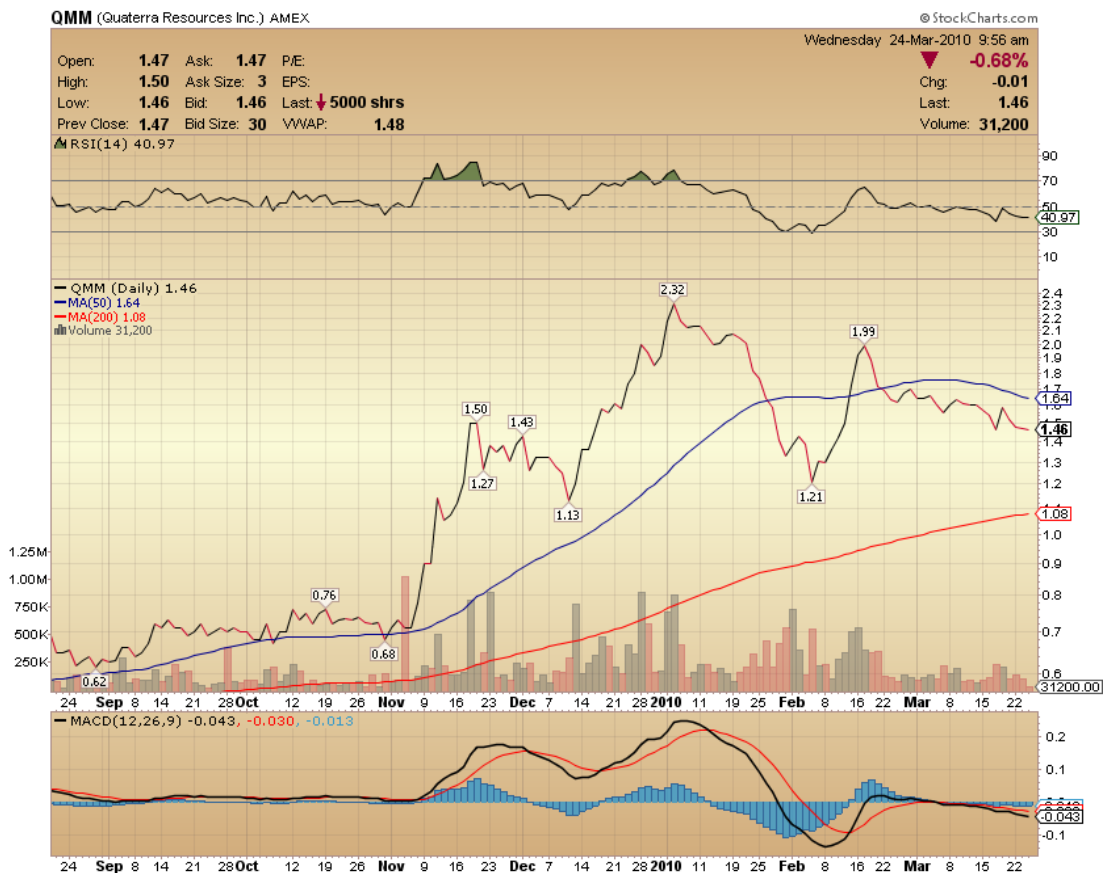
Quaterra Resources announced, this AM, that Goldcorp has decided to option the first of many properties from Quaterra in Mexico. Few investors have realized just how significant this is. Quaterra has a commanding land position in the Mesa Central of Mexico. It has been carefully put together by Dr Tom Patton and Tom Turner, the two individuals most responsible for the discovery and development of the massive gold / silver Peñasquito, now owned and mined by Goldcorp. This original deal (between Goldcorp and Quaterra) is so "sweet" that I think GG will want to have QMM at some point in the future. In the meantime however Goldcorp will now supply all the funding for development of Sierra Sabino. QMM has accumulated a 1,000 square mile land position in this area with multiple high potential gold / silver targets – some similar to Peñasquito in their geophysical and geochemical signatures.

In the meantime Goldcorp has allocated the first \$4 million of \$10 million over two years and will now fund development of this new target with a minimum of \$2 million. If things go

well during the exploration phase at Sierra Sabino, Quaterra could be carried to production with a 35% ownership without spending a dime till production¹. Tom Patton said,

“The selection of Sierra Sabino by Goldcorp for advanced exploration will free-up additional funds for generative work on the Peñasquito trend ... It also shows Goldcorp’s level of commitment to our recent agreement to aggressively explore for precious metals in central Mexico.”

Quaterra shares have been drifting lower over the past month or so. We think they are tremendously undervalued here and yes we own shares in Quaterra Resources. Goldcorp has established a significant ownership position in the company as well from its recent \$10 million placement in the QMM stock.



3. I NEED HELP

On April 8th I will testify to Congress on the broad economic benefits of a domestic natural resource policy. The specific focal point is the potential benefit of mining uranium north of the Grand Canyon in Arizona. But the real issues are much broader. They include all domestic extractive industries and the downstream benefits to our domestic wealth and

¹ Goldcorp may acquire a 65% interest in the Sierra Sabino property by spending US\$2 million over a two-year period (including US\$1 million in the first year) on advanced exploration and by completing a feasibility study. Thereafter, Goldcorp will solely fund operations at the property until a production decision is made, at which point Quaterra will be responsible for contributing its 35% share of expenditures. Quaterra will continue to be operator of the project until Goldcorp elects to assume that role.

international security. The hearings will be held at the Grand Canyon. I will be writing a White Paper and presenting the paper, then opening for questioning by both Democrats and Republicans on the Committee.

If any of you have thoughts or data on this topic please send an email. I have always supported development of a North American extractive resource policy. Many valuable projects (the uranium pipes north of the Canyon in particular) have been delayed or stopped by a well financed, vocal and small group of environmentalists. Indeed President Obama now seems to support nuclear energy but not necessarily mining of the fuel for which we are 93% dependant on foreigners (Russia in particular). Cameco notes in a recent report that Russia will cease its weapons grade uranium recycling program as of 2013 putting serious pressure on uranium supplies.

Our country needs jobs and also to develop our domestic resources. That will be my message. Arizona needs jobs that such environmentally responsible uranium mining could provide. Please let me know your thoughts. Under the circumstances discussed in MN 1 we need productive jobs such as those that evolve from extractive industries and other discovery endeavours. By the way I hold the Canadian Province of Quebec in high regards as the model for a state that understands the benefits of supporting extractive industries. It can be accomplished if only we want it.

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