

**Today's Notes by Chris Berry:**

## **1. Gold Will Ultimately Come Back**

## **2. Ucore: Talking the Talk Walking the Walk**

### **1. This Time It Is Different – Why Gold Will Ultimately Come Back**

“This time it’s different” is a phrase, more than any other, which is found amongst the smoking wreckage of past investment bubbles. The dot-com and housing bubbles are only the most recent examples. However, it’s worth examining this phrase again in light of the storm that global financial markets are currently weathering. Many of us in the commodity space got caught short by the severity of the downturn in 2008. We can remember more than a few junior mining company CEOs who told us horror stories of flirting with bankruptcy.

We’re of the opinion that the correction we’re witnessing in gold now is a temporary correction in an otherwise secular bull market. We base this on the thinking that the underlying forces perpetuating this gold bull market are still intact. To wit:

Has Greece suddenly “found religion” and avoided an almost certain sovereign default? No.

Have the PIIGS permanently righted their own economic “ships” No.

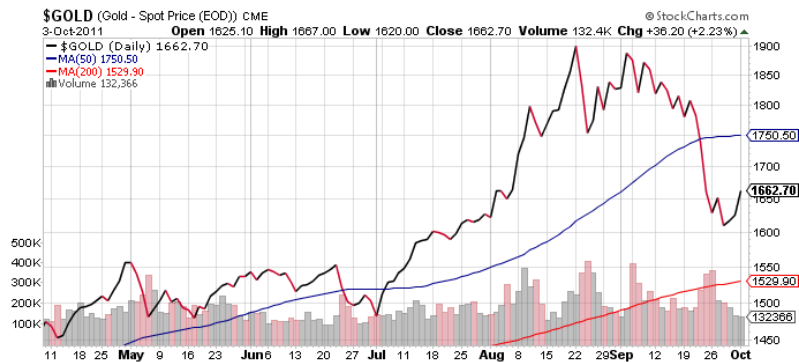
Has the United States government finally figured out a way to erase over \$14 trillion of debt which is set to suffocate economic growth and job creation for years to come? No.

Have [Chinese citizens](#), with newfound wealth, suddenly stopped buying hard assets? No.

Have Indian citizens suddenly decided to stop buying gold during their wedding season? No.

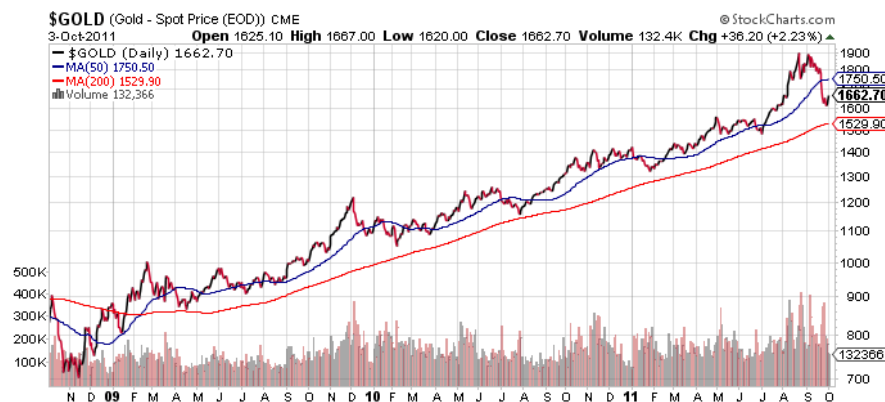
Have central banks, from places as far afield as Venezuela to [Kazakhstan](#) stopped accumulating gold bullion as the global fiat currency “race to the bottom” continues? No.

So viewed this way, the factors favoring higher gold prices still point to higher highs for the metal. Another reminder that we find instructive is looking at charts. Below is the six month price chart for gold bullion.



Would you buy gold based on the above chart? Maybe so, maybe not. It's not terribly compelling viewed alone.

Now let's look at a 3 year chart of gold bullion's performance:



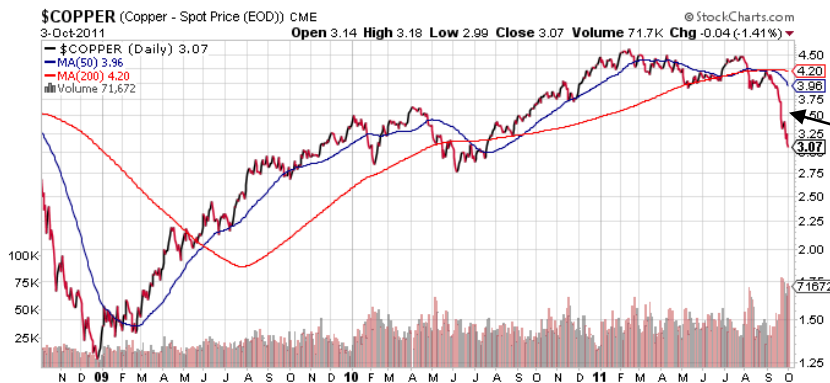
This chart paints a much different (and positive) picture for gold and we think hammers home our thesis that the correction we're witnessing is a much needed correction rather than something bigger. Make no mistake – we are not suggesting that the price of gold will continue upwards indefinitely. The debate over deflation and inflation is central to one's views on the direction of gold bullion. Until the factors pushing it higher change, we think gold has a bright future (pardon the pun).

The real reason for the recent collapse in the gold price has more to do with margin calls and paper trading of gold contracts rather than underlying fundamentals. Questions swirling around the future of the Euro Zone have sent investors for the exits. This is the downside of leverage – when the clerks come calling, your winners get sold first to pay off the debts. With gold and other metals having posted such solid returns in recent years it was inevitable that profits would be taken and debts settled.

But back to the title of this Note and what we think makes this correction different from years past. First, the "wounds" of 2008 are still fresh in the minds of mining company executives. From conversations we have had with many CEOs, a sense of preparedness now pervades their thinking. Second, the cash position of mining companies, both senior producers and junior exploration companies, is much stronger than it was in 2008. Cash burn rates will always have to be prudently managed, but there is generally a bigger "cash cushion" on the balance sheets of many mining companies today. This is particularly true with senior mining companies such as BHP Billiton or Rio Tinto. Finally, Central Bank officials stand ready with accommodative measures (Operation Twist is the most recent iteration) to try and stoke aggregate demand. There is rightly an open debate as to whether

or not accommodative stimulus will accomplish its goals and re-ignite aggregate demand or if this is just a Band-Aid. We think these measures will be a net positive for mining company shares. Additional stimulus pumped into the broader economy needing to find a home coupled with growth emanating in Asia makes a compelling long-term case for continued gold and commodity demand, albeit in a non-linear fashion.

For other metals, the picture is somewhat less certain in the near-term. We think copper and manganese have strong fundamentals and are constantly on the lookout for those companies with a potential lowest cost of production and near-term production capability. However, for many of the minor metals (which we want to love but just can't in this environment), the picture is less certain. If demand for these "industrial" metals grows at global GDP growth rates, then an additional avenue of demand at a higher growth rate (such as batteries used in transport or energy storage) must emerge to propel these shares higher. We would suggest utilizing the Ten Point Grid when evaluating these companies and view this correction as an opportunity to "keep your powder dry" and pick up junior mining company shares involved in minor metals exploration (lithium, vanadium, rare earths) with sound fundamentals and balance sheets at a huge discount. Many of these companies are literally "on sale" but demand for their end products is an open question in the current macro-economic environment.



The drop in copper points to the uncertainty in the global economy in the near-term, but we think copper is a good place to be going forward as the quality of life (QOL) build-out in the Emerging World continues.

Ultimately, the tumult in the metals market we're witnessing will pass. We still stand by the rising "quality of life" thesis we have put forth in the past and think that this, more than any other factor, will reward patient Discovery Investors.

## 2. Ucore Delivers At Bokan: Talking The Talk - Walking The Walk

Positive news emerged from [Ucore Rare Metals \(UCU:TSX-V, UURAF:PINK\)](#) earlier this week with the company releasing initial results of metallurgical testing from its Bokan Mountain HREE deposit. The company announced that it has achieved recovery rates of between 85% and 90% for all rare earth content plus Yttrium (REE+Y) from 79 samples of split core sent to Hazen Research in September of 2010. UCU said that these samples are similar material to that of core currently being drilled on the Dotson Zone.

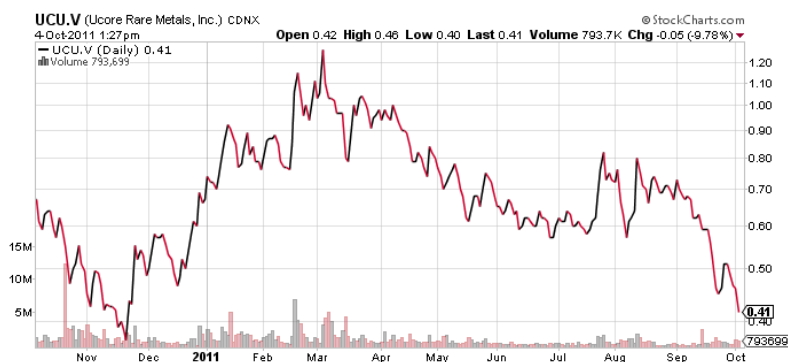
The composite sample showed a weight of 71% LREE and 48% HREE+Y for a total weight (TREE+Y) of 1.19%. This slant towards HREEs is one factor we have discussed relentlessly in that as the bubble in rare earth exploration juniors continues to implode, those with a qualified resource demonstrating ample HREE mineralogy are more likely to survive.

The study of recovery of various metals at Bokan Mountain has been ongoing as far back as 1995 when G.K. Green and D.D. Harbuck (then with the US Bureau of Mines) published their findings on recovery rates for Yttrium, Cerium, and Lanthanum. The original report can be found [here](#). These gentlemen reported recovery rates between 52 % and 76%, so the recent announcement by UCU of higher recovery rates is a very promising development. Additionally, the recent metallurgical studies reported by the company are tracking recovery rates for 31 elements – a fact we think will give a great deal of clarity to the economics at Bokan Mountain.

Now, UCU will embark on Phase II of the metallurgical studies at Bokan Mountain with a goal of optimizing these already impressive recovery rates. During the first phase of this testing, no pre-concentrating of ore took place. Phase II will entail pre-concentration techniques (flotation and gravity separation are examples) which are thought to reduce the overall cost of processing the ore. We have written in the past of Bokan Mountain's infrastructure and potential cost advantages, but finding ways to reduce overall expenses is key in any mining project as it helps insulate against gyrations in metals prices or inflation in cost inputs.

There are several catalysts for UCU going forward including the publishing of a process flow sheet once Phase II of the metallurgy is complete, completion of the 2011 drill program, and publication of a preliminary economic assessment (PEA) likely in the first quarter of 2012. A recent note we wrote summarizing our thinking can be found [here](#).

From the time we first caught on to the rare earth sector in 2009 we've been outspoken in stating that metallurgy matters above almost all else. It's nice to have a high grade deposit in a safe part of the world, etc., etc., etc. but what will really separate a company from the pack is proof that the metallurgical mysteries of a deposit have been fully understood. With this recent news release, UCU has taken another big step in that direction and can now talk the talk and walk the walk.



*The material herein is for informational purposes only and is not intended to and does not constitute the rendering of investment advice or the solicitation of an offer to buy securities. The foregoing discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (The Act). In particular when used in the preceding discussion the words "plan," "confident that," "believe," "scheduled," "expect," or "intend to," and similar conditional expressions are intended to identify forward-looking statements subject to the safe harbor created by the ACT. Such statements are subject to certain risks and uncertainties and actual results could differ materially from those expressed in any of the forward looking statements. Such risks and uncertainties include, but are not limited to future events and financial performance of the company which are inherently uncertain and actual events and / or results may differ materially. In addition Dr. Berry and Chris Berry may review investments that are not registered in the U.S. Chris Berry is an advisor to Ucore Rare Metals and we own shares in the company. 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.*