

Discovery Investing Tutorial: Wealth Creation In Troubling Times

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The Ultimate Discovery Incubator:
Saskatchewan's 49 North Fund, Inc.

What Is Discovery Investing?

It is an investing **discipline,**

focused on early stage, speculative investments with potential for **significant wealth creation,**

from the capital markets discounting of potentially **world class assets.**

“The Outcrop at Peñasquito.”

“The Apoptotic Gene Factor 5A1”

What Drives Discovery Investing?

It is driven by the strong force for a higher quality of life for 5.5 billion humans.

and

It is also driven by the realization that 30 to 50 % of the world's wealth has been destroyed since July 2008.

Why Discovery?

- **Untouched Investment Space:** Discoveries happen up front. They are often SERENDIPITOUS.
- An adjunct to retirement funds and traditional investing – 5% to 10% of portfolio.
- Discovery Stocks: **CONTRARIAN** and **INDEPENDENT** of the business or credit cycle.
- **Large Wealth Creation Potential** relative to traditional strategies.

Why We Need Discovery

Global Quality of Life cycle begun in China in 1979 will last another two to three decades.

“China today is similar to the US in 1908.”

- Resource Nationalism (Autarky)

Example: Russia disallowed foreign control of companies July 2008, natural gas interruption 2008. June 2009, US to buy its uranium from Russia.

- **87 Million relatively impoverished US and Canadian Boomers'** must create additional wealth due to pensions' decline, vanishing safety nets, decline of fiat currency (inflation) and tax increases.

Ten Benefits in Choosing Discovery as an Investing Discipline

- Allows you to: Seize Boldness
- Counter Fear
- Listen to your Kids – the Web, texting is better.
- Embrace Swans and Inefficiencies
- Embrace ASSETS THAT COUNTER nuclear winter
- Become Swiss, SEEK HARD ASSETS
- Come Together – TEAMWORK IN DISCOVERY
- Head for the Hills – flight to safety
- Be part of Industrial Innovation.

What About China and India's Nascent QOL Cycle? Is it Now DEAD?

- If India as well as China were to catch up, world consumption rates would triple. If the whole developing world were suddenly to catch up, world consumption rates would increase 11-fold.
- It would be as if the world population ballooned to 72 billion.
- “Some optimists claim that we could support a world with 9 billion people. But I haven't met anyone crazy enough to claim that we could support 72 billion.”
-
- **Professor Jared Diamond, NYT Jan 2008.**

The Strange Case of Oil: Anybody here want to Live With less?



A Major Question: Is The US \$ Likely Strengthen?



The Commodity Sell-off

\$CRX (Commodity Related Equity Index - Morgan Stanley) INDEX

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4-Jun-2009

Open 630.51 High 652.21 Low 630.51 Close 648.78 Chg +18.27 (+2.90%) ▲



The Essence of Discovery Wealth Creation

Canplats: Mexican Gold and Silver



The Past 6 Decades Transmogrify to the Future

- Return to new growth engines for the world.
- BRICS & BRACS have now come of age because of the global economic crisis.
- The “Positive Sum” western world (OECD) is now at risk.
- Discoveries will be critical to world growth and increased QOL. The extractive industries will return to prominence but will lag in the US.
- **Discoveries in cheap, cleaner conventional energy, fertilizers, water technology, health care and alternative energy sources will be of utmost importance and valued accordingly in their Discovery.**

Milestones In Discovery

- Nanotech Applications: Electrical Transmission, Semiconductors, batteries.
- Infectious Disease Treatment: Vaccines / Drugs to counter Resistance
- Environmental: CO₂ Capture and sequestration, Hydrogen Fuel Cells.
- Fuel Technology: Nuclear fuel reprocessing, enrichment and storage, Coal to liquids, Gas to diesel.
- **Resource: Exploration, Recovery and processing Technology**
- Economic alternative Energy Production: Sun, Wind, Geothermal.
- Fertilizer, agricultural growth and water technologies.

The Randomness of the “Virtuous” Black Swans in Discovery Risk Assessment and Value Creation

“We can separate businesses using this epistemological robustness.

In a business virtuous to the rare event, what the past did not reveal is almost certainly going to be good for you.”

(the new phase II clinical trial or the next drill hole)

“For example, when you look at past biotech revenues, you do not see the emerging superblockbuster in them, and owing to the potential for a cure for a disease, there is a small probability that the sales in that industry may turn out to be monstrous, far larger than expected. On the other hand, consider businesses negatively exposed to rare events. The track record you see is likely to overestimate the probabilities.”

*Epistemology and Risk Management, Nicholas Taleb and Avital Pilpel
Risk and regulation August 25, 2007*

The Discovery Cycle

- All Value begins with discovery.
- Cyclical Wealth Creation: A Discovery **Supercycle**.
- 3 Distinct Classes of Discovery Investments.
- Legacy Creation through the Discovery Cycle
- The **Favorable** Risk / Reward Tradeoff of Discovery.

The Process: 8 Steps to Discovery Investing

- Asset Allocation Plan
- Diversification Considerations
- Portfolio Risk Structuring (Incubator Allocation)
- Individual Risk / Reward Estimation
- Fundamental Company Analysis (Grid Calculation)
- Relative Company Ranking
- Sentiment Analysis
- Portfolio Rebalancing

The 8 Steps to Discovery Investing

- Asset Allocation Overall Investor Portfolio
- Diversification Discovery Fund
- Risk Structuring Discovery Fund
- Risk Reward Estimation Discovery Target
- Fundamental Company Analysis Discovery Target
- Ranking Discovery Target
- Sentiment Analysis Market Segment
- Portfolio Rebalancing Discovery Target

Security Selection: A Ten Point Discovery Grid

- **Assets / IP / Technology** world class?
- Percent Project Ownership?
- Asset / Technology: Game Changing potential / immediacy?
- **Management and Board** track record, ownership, insider buying?
-
- **Company Diversification:** Portfolio across several assets?
- **Cycle and Catalyst** identification?
- **Establish Positions in Contrarian** Assets. Black Swan?
- Financial **Soundness / Sustainability / Dilution mgmt?**
- **Company's Stakeholder** relations?
- Investor **Behavior:** Patience and Courage?

Three Classifications of Discovery

Stocks: Risk/ Reward Axis

- Discovery **Incubation** (Pre Discovery – Potential)

Terraco Gold, Senesco, Cantronic, Neuralstem, Derek Oil and Gas, 49 North Fund Inc., Valcent, Global Green, MegaWest

- Discovery **Maturation** (Post Discovery – Asset Valuation) Quaterra Resources, BQI, Galway, Endeavour Silver

- **Legacy** Discovery (Production /revenue /profits /cash flow)

Freeport McMoRan, BHP, Goldcorp, ADM, Apple. RIMM, Cleveland Cliffs

Example of a Mature Discovery Portfolio

- Clifton Star
- CGX Energy
- Derek Oil and Gas
- Senesco Technologies
- Oil Sands Quest
- Quaterra Resources
- Indicator Minerals
- Houston Lake Mining
- Avalon
- Commerce Resources

**Why is this portfolio
less risky than the
Incubator?**

The Ultimate Canadian Incubator:
Saskatchewan's
49 North Resource Fund

Example of An Incubator Portfolio

- Galway Resources
- MegaWest Energy
- Melkior
- Neuralstem
- Terraco Gold
- Beaufield
- NuCoal (Clean Coal)

Quaterra's Business Model

Three phases: acquisition, development, monetization.

Best Draft Pick / Trap Line.

Experienced Support Team with a track record.

Capital Market access.

100% control of assets.

QMM (Quaterra Resources Inc.) AMEX

4 Jun-2009

QMM (Daily) 0.65
MA(200) 0.77

Open 0.60 High 0.65 Low 0.60 Close 0.65 Volume 34.9K Chg +0.06 (+10.17%)

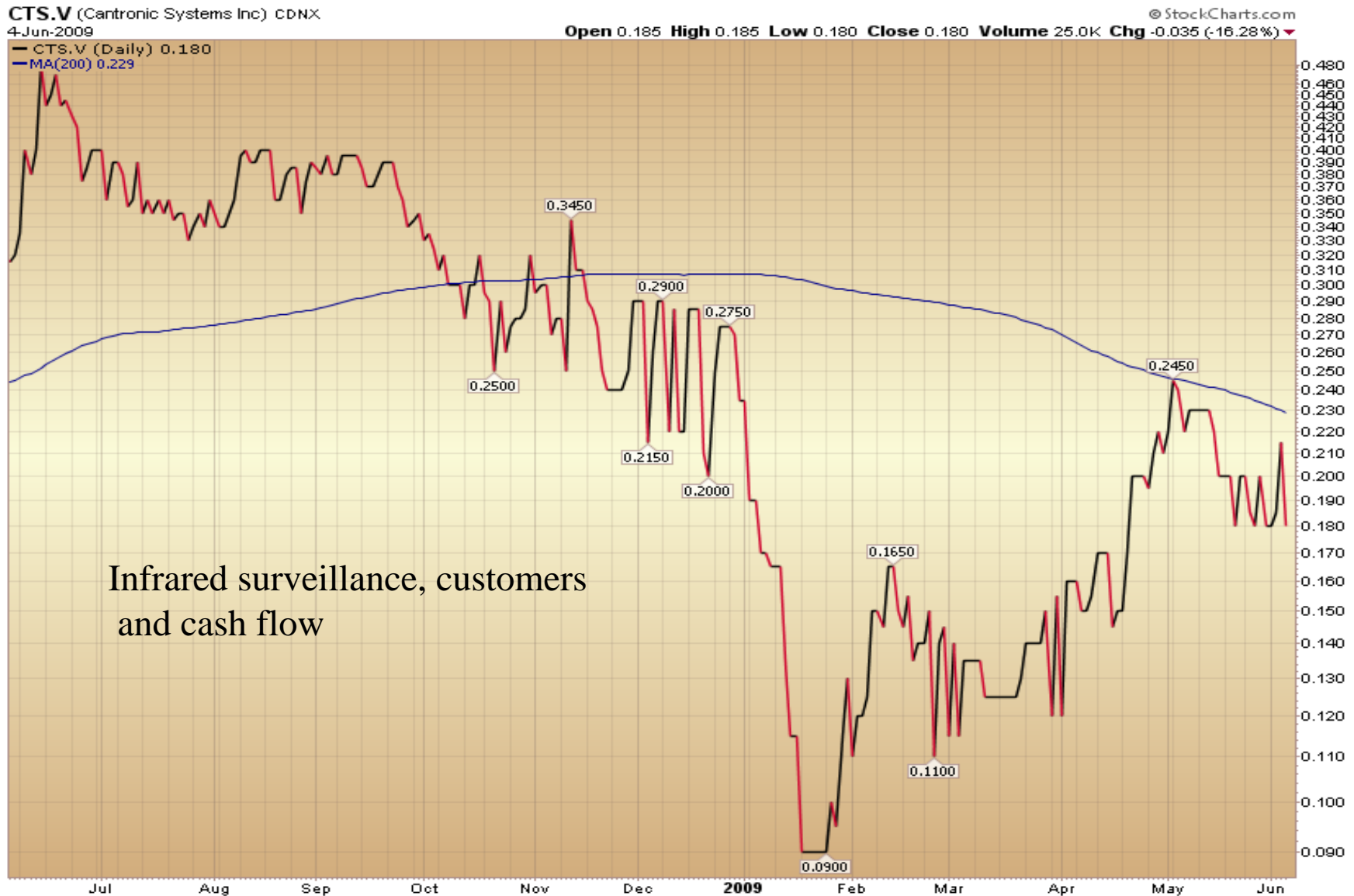
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30 million ounces of silver at Nieves, Mexico
1 billion pounds copper at MacArthur
200 million pounds moly at Cave Peak
20 million pounds uranium at Arizona Strip
14 other properties, great potential.

JV deal with Freeport McMoRan

Cantronic Systems: Homeland Security

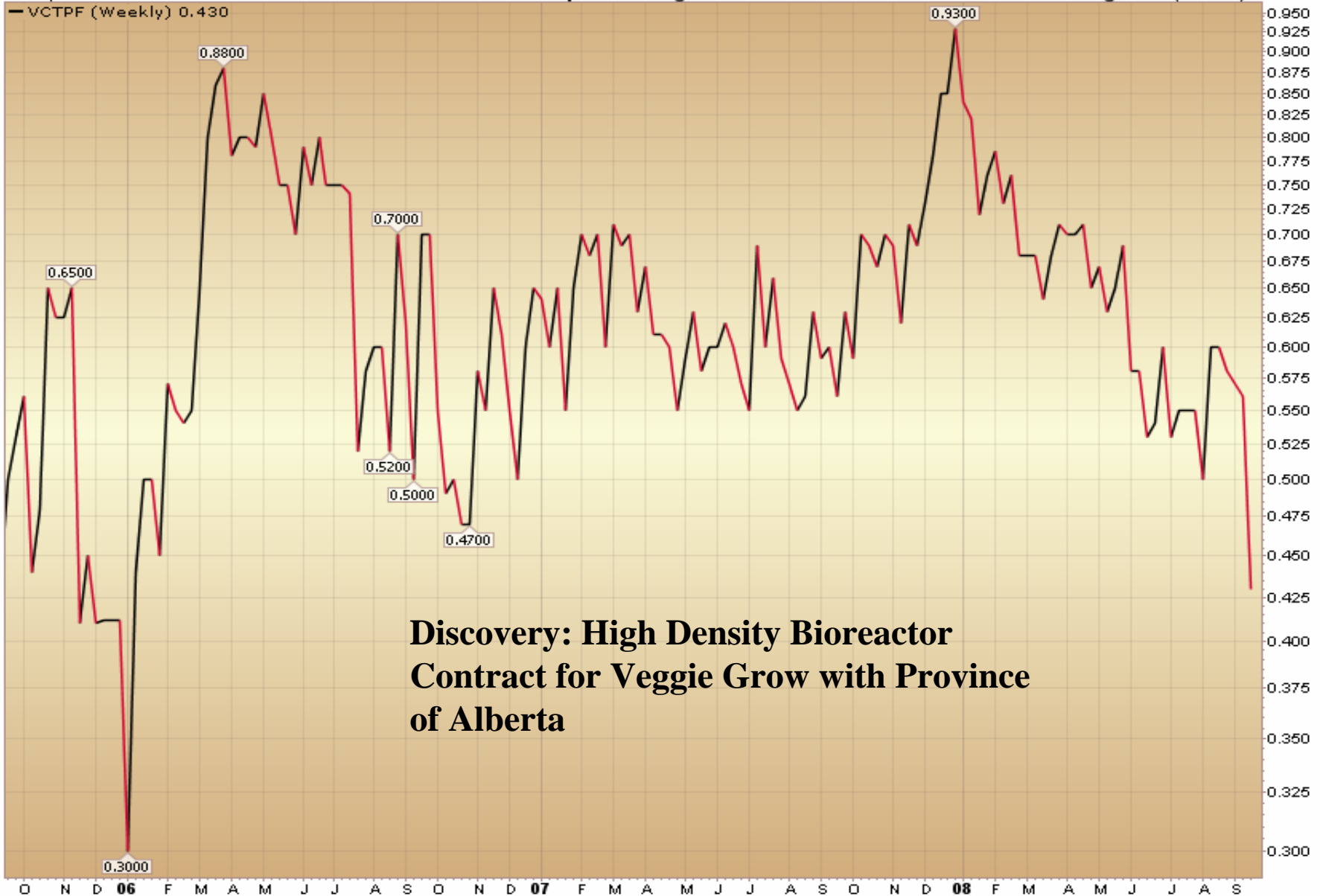


Valcent: Algae and Veggie Grow

VCTPF (Valcent Products Inc.) Nasdaq BB
19-Sep-2008

© StockCharts.com

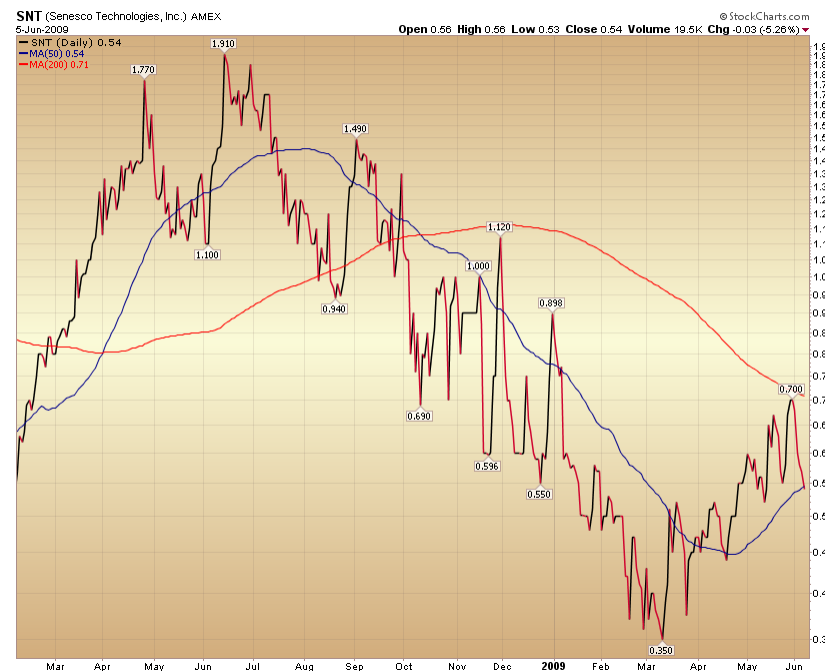
Open 0.560 High 0.560 Low 0.430 Close 0.430 Volume 1.1M Chg -0.130 (-23.21%)



**Discovery: High Density Bioreactor
Contract for Veggie Grow with Province
of Alberta**

Senesco Technologies: A Single Discovery Significant in Agriculture, Biofuels Infectious Disease and Cancer Technology

The Apoptotic Gene eiF5A1: Eukaryotic Initiation Factor 5A1



Neuralstem: ALS Discovery

CUR (Neuralstem, Inc.) AMEX
5-Jun-2009

Open 1.21 High 1.24 Low 1.17 Close 1.19 Volume 117.4K Chg -0.01 (-0.83%)

© StockCharts.com



Neuralstem's technology enables the ability to produce stem cells of the human brain and spinal cord in commercial quantities and the ability to control the differentiation of these cells into mature human neurons.

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