

Today's Notes:

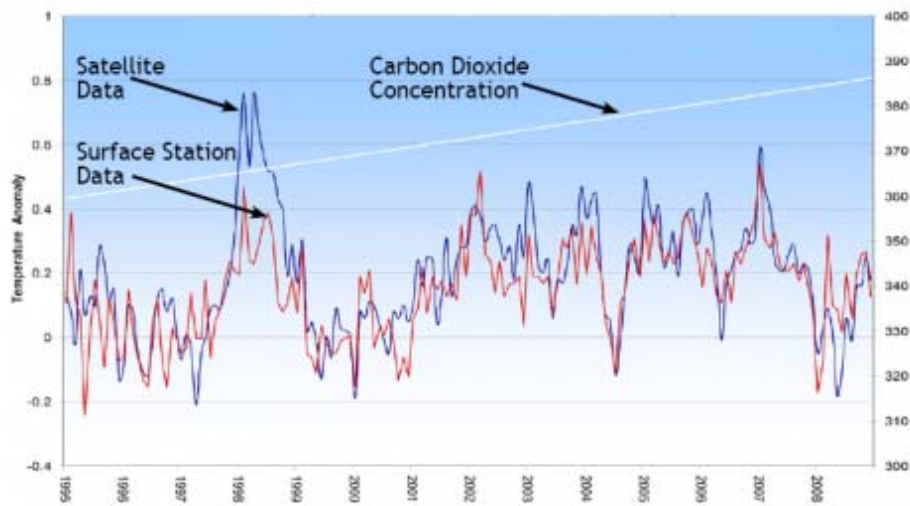
1. Oil
2. MegaWest Energy

1. OIL AND THE ROBIN HOOD CONFERENCE

Everyone, who is Someone, is either in Copenhagen or on their way. The private jets and limos are fueled and ready to emit. This is the BIG global event. Even President Obama will fly in on Air Force One. His round trip will take 14 hours and consume 47,503 gallons of fuel. The trip will generate 5,600 tons of “globally warming” CO₂.

On December 7th, President Obama's EPA director, Lisa Jackson, signed 2 “findings on carbon dioxide.¹” These findings, 1) endangerment and 2) cause or contribute, are, in fact, edicts. The Administration, without Congressional action, can now punish emitters of CO₂. The findings are message to Congress to pass global warming legislation such as the penurious “Cap and Trade” legislation already passed by the House.

Thus the president will be winging on his carboniferous, oil-burning journey to Copenhagen with a bonus from his EPA Administrator in his back pocket to increase his standing with the Europe's socialists. He may be able to save the Copenhagen Conference from an untimely demise. The bottom line on Copenhagen and the Kyoto Protocol of December 1997² is this – a massive wealth transfer between “rich countries” and developing countries based on dubious “research” on global warming. President Obama, preening his feathers, sees himself as the Robin Hood of the world - take from the rich and give to the poor. Is this “*change we can believe in?*” George Soros, also at Copenhagen, wants the IMF's gold (what's left) to be collateral for loans to developing countries that will never be paid back.



¹ Endangerment and Cause or Contribute Findings for Greenhouse Gases under the Clean Air Act

² The Kyoto protocol was finally ratified and put in force by Russia in 2004.

You must, by now, know my positions on this issue. This is fraudulent science because it is not fully peer-reviewed. Some numbers have been changed, some suppressed. Half the world's scientists disagree either with the conclusion of global warming or the fact that it is caused by humans. This governmental effort is not about the imminent threat of carbon dioxide, it is about the politics of fear and the ability to immobilize people based on fear. Of the current decade long cooling cycle Kevin Trenberth, an IPCC scientist, recently said,

“The fact is that we can’t account for the lack of warming at the moment and it is a travesty that we can’t ... our observing system is inadequate.”³

For years a relatively small coalition of climatologists at various Universities have been paid grants to geengineer a massive wealth transfer and a new global socialism. That's the game. Climate science is, at best, suspect.

My suggestions have always been practical and simple. Conservation is critical to reducing greenhouse gas emissions and also to reducing our energy dependence while increasing our geopolitical security. Domestic oil and gas in the Bakken of the Dakotas and Saskatchewan, oil and gas offshore of the US and heavy oil production in the lower 48 can significantly reduce our dependence and trade deficits while increasing our security and geopolitical options. Natural gas emits half the carbon gasses of oil for example. The US has significant natural gas deposits in shale layers in Louisiana, Texas, New York and Pennsylvania. Off shore of Virginia is ripe for energy development. We hope that incoming Virginia Governor Bob MacDonald will push that research. Natural gas can be converted to diesel or burned directly to produce electricity in a very economical way. Nuclear energy used for electrical generation is essentially carbon free.

Here is the key issue. We are, according to the International Energy Agency, Energy Secretary Chu and many energy executives, between 20 and 50 years away from weaning ourselves off of petroleum. Our leaders should be thinking of a cleaner, immediate energy bridge to the green future, which is decades away. This will be long after Mr. Obama is forgotten but not forgiven for his Robin Hood role in the world's economy. The Jimmy Carter follies come to mind from 20 years ago. One look at any city street anywhere will tell you that US autos (perhaps more importantly Chinese autos) will continue to burn gasoline for a very long time in spite of EPA administrator Jackson's threatened penalties on cars and other carbon emitters. Such penalties will destroy economic growth and mom-and-pop's wealth with questionable positive environmental impact. The Robin Hood economy is on its way unless educated and concerned citizens make their feelings known to representatives in Washington and Ottawa. In this Robin Hood caper there will be little transfer of wealth to the poor – only wealth destruction.

2. MEGAWEST ENERGY (MGWSF)

Following on the theme of Morning Note 1 I want to discuss three names that I have recommended in the past.

³ Kevin Trenberth email October 2009. *“How come you do not agree with a statement that says we are no where close to knowing where energy is going or whether clouds are changing to make the planet brighter? ... The fact that we cannot account for what is happening in the climate system makes any consideration of geoeengineering quite hopeless as we will never be able to tell if it is successful or not.”*

First and foremost is MegaWest Energy. I first bought MegaWest Energy exactly three years ago in December 2006. I have never wavered in my belief in the management nor have I sold any shares. Management (Chairman George Stapleton and CEO Bill Thornton) and the properties and strategies of the company they have acquired and initiated have been excellent. Over time the company acquired 123,000 acres of heavy oil exposure in five states, Kansas, Missouri, Kentucky, Texas and Montana.

Unfortunately the credit crisis of 2008 and 2009 derailed the company's plans just as it was beginning production on its Missouri and Kansas properties. The production was heavy oil (16 to 18 degree API gravity oil fetching 80% of the WTI price) that requires a SAGD approach of steaming the deposits to make them flow⁴. At the time the company pulled back from the brink and the shares fell to 2 cents. They stopped steaming and aborted their nascent production from Kansas and Missouri. After a refinancing the company started re-steaming September 10, 2009, a mere 3 months ago.

Over the intervening 18 months the company refinanced with the Iroquois Group (giving up 10% of one property) and is now in production in Missouri pumping oil at a rate close to 150 barrels per day on one 20 acre parcel in the Marmaton project. There they expect to produce 500 barrels per day by June 2010 and maintain that rate for 10 to 12 years. They expect an additional 500 barrels per day of production by the end of 2010 on a second project. To date they have shipped over 10,000 barrels of oil (on which they earn 80% WTI with no transport charges) since they began in March 2008.

The company's release of November 18th noted, *"The Marmaton Project is approximately 100 miles south of Kansas City and 6 miles east of the Missouri/Kansas border. After recommencement of steaming operations, production from the 40 producing wells and 13 steam injection wells in Phase 1 of the Marmaton project has responded favorably as follows:*

<i>Seven Days Ending</i>	<i>Seven Day Moving Average Production</i>

<i>Barrels Oil per Day (BOPD)</i>	
<i>September 10</i>	<i>Initiation of steam injection</i>
<i>October 10</i>	<i>22.2 BOPD</i>
<i>November 10</i>	<i>108.0 BOPD</i>
<i>November 17</i>	<i>125.9 BOPD"</i>

Phase II at Marmaton will ramp up to 500 barrels per day by the end of 2010. The company believes they can extract 300,000 barrels from these two initial projects, Marmaton and Grassy Creek. Management says each well, fully equipped and tied in, will cost no more than \$25,000. This provides MegaWest with a great advantage over other SAGD producers. The huge differential between the price of oil and natural gas provides another advantage for MGWSF. Natural gas is used to heat the oil in situ. Anticipated capital costs for the Missouri (Deerfield) area alone over the project life are expected to be \$10 to \$12 per barrel.

⁴ Steam Assisted Gravity Drainage
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The Missouri land parcels are as follows. As you can see Deerfield (contains Marmaton and Grassy Creek) is but one parcel of three owned by MegaWest.

Missouri/Kansas Land Summary:

State	Working Interest	Gross Acres Held	Activity and Prospects
Deerfield	90.00%	15,300	Steam injected heavy oil development
Clear Creek	100.00%	18,800	Heavy oil exploration
Osage	100.00%	4,400	Heavy oil exploration
Total	96.03%	38,500	

In Deerfield alone the company believes there are 22 additional projects similar to the Marmaton and Grassy projects. At \$70 oil the economics of MegaWest are excellent and the management under CEO Bill Thornton (30 years experience) and the new CFO Kelly Ker (Bakken Experience and has sold more than one oil company) are a distinct advantage.

We have not considered heavy oil properties in other states in the MegaWest portfolio in this analysis.

MegaWest Land Holdings at October 31, 2009:

State	Working Interest	Gross Acres Held	Activity and Prospects
Missouri/Kansas	96.03%	38,500	Heavy oil dev & expl
Kentucky	37.50%	29,100	Heavy oil exploration
Montana	50.81%	26,700	Heavy and light oil exploration
Other	39.75%	29,500	Other exploration
Total	59.11%	123,800	

There are many risks here. But this again is a rapidly Maturing Discovery company – soon to break even, cash flowing – that will be in someone’s M&A sights in the not to distant future if they continue to ramp up profitable production. Of course if oil falls to \$30 per barrel then MegaWest’s shares will falter. We think, on the other hand, that oil will eventually be higher. Finally, the shares are selling for 15 cents at present. Your downside is limited.

Two other companies that I continue to follow are Derek Oil and Gas (DRK TSXW) trading at 2 cents and in need of capital) and Oil Sands Quest (BQI NYSE AMEX). Derek’s properties at LAK Ranch are excellent. Their success now will be dependent upon securing a joint venture or financing to put in the two new large generators the company has on site. Oil Sands Quest properties I Saskatchewan will also be developed over time in our opinion.

These shares are trading around the \$1 market and so must be acquired carefully at this level. I will review both these companies in more detail in the near future.

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