

Today's Notes:

1. **A Discovery Factor Model**
2. **The Shift**
3. **China's New Capitalism**

1. A DISCOVERY FACTOR MODEL

I am back after an absence of two weeks. Last week my son, Chris, and I participated in the Cambridge House Symposium in Vancouver. There were at least 9,000 attendees. Hundreds of mining companies also attended. Joe Martin's excellent symposium precedes the more technical "Mineral Exploration Roundup" which ran through the end of the week. One must ask the question, "*Is this a commodity market top or are people just worried?*"

I made four presentations, which is one reason I did not write Morning Notes last week. For the first time I presented Discovery Factor Model analyses of **Quaterra Resources (QMM AMEX)**, **Revett Minerals (RVM TSX)** and **Senesco Technologies (SNT AMEX)**.

Here's my plan. First I want you to examine these models. By building a data base of a company's improvement (or otherwise) in the ten Discovery Factors, one can decide on the buy, sell or hold decision. It is the iterative nature of this evaluation process that is important. Please remember that these are my opinions, and mine alone.

The goal is for you to develop your analytical base and company ranking using the model. Within a month or so we will begin implementing a computer-based system to support the Factor Model. It will be based on Type II Fuzzy Logic engine. This will avoid the historical biases and the use of the sacred Gaussian (Normal) distributional assumption on numbers. I think institutional investors will find this quite useful. One of the major problems that Wall Street recently experienced was the use of risk models that assumed the world was "normal." Wall Street is badly in need of new approaches to risk modeling.

My analyses are always relative. Within each of three discovery universes, Incubator, Mature and Legacy companies our ranking are relative and we look for top quartile companies. Please see my analysis of Quaterra Resources, Senesco Technologies and Revett Minerals on the Discovery Investing web site. Revett will be up tomorrow. As always comments welcome.

2. THE TECTONIC SHIFT: GLOBAL RESOURCE NATIONALISM

Last Tuesday evening the "Cosmic Tectonic Shift" occurred in American politics. I had just finished my keynote address on the inevitability of the **Death of the Dollar's Reserve Currency Status** – also a seminal world event. In Massachusetts a young preppy Republican pulled off the unthinkable - defeating Attorney General Martha Coakley in a bid for the venerable Senate seat of Ted Kennedy. This defeat not only changed calculus of consent in Washington, but it also punctured forever the myth that this is change "we can believe in."

Here's my take. This tectonic political shift will impact many of the current issues facing the country. For example, we are working with the elected officials in Virginia and numerous Congressmen and Senators in Washington DC to educate and focus on the growing importance of North American resource development. Why, you ask, are North American resources an issue? Well take a look at China. She has forged into the Canadian resource markets. Jilin Nickel, for example, invested for a 75% stake in Goldbrook Ventures. Please see Chris Berry's essay on China's new capitalism in this issue of Morning Notes. Harp Capital, a Canadian company I advise, recently completed a US \$50 million iron ore deal between a Korean company and a Canadian iron ore resource in Labrador (please see the Harp Capital web site). Just look around the world at countries like Ecuador, Bolivia, Venezuela, Pakistan, Russia ... and on and on. Even China is now tying up commodities and other valuable assets everywhere she is able. Countries are now realizing the importance of their domestic resources and they are moving to restrict Western development. It seems that only in the United States have we become hostage to the small but effective environmental lobby. This recent tectonic shift will change all that. It will happen over time dear Discovery Investor, but it will happen.

For example we believe that the strategically important Cole's Hill uranium deposit near Chatham, Virginia must be developed. Here the United States has a resource of 119 million pounds of uranium that can be safely and economically extracted. More to the point, it will provide jobs. Given this tectonic shift jobs have overtaken the company invested in the project is **Virginia Energy Resources Inc (VAE TSXV)**. We believe that the new Governor of Virginia, Robert MacDonald ® is in favor of the project and that a National Science Foundation study in progress will be positive.



Similarly northern Arizona's uranium breccia pipes, discovered by **Quaterra Resources (QMM AMEX)** and those owned by Denison, will also be developed eventually. I hope to visit with Arizona officials during the Cambridge Symposium next week in Phoenix.

Revett Minerals' (RVMIF OTCBB, RVM TSX) world class ore body at Rock Creek (North Western Montana) will also be developed because jobs are trumping almost everything else including global warming – at least according to recent Pew Polls and discussions with various governors and Senators.

Soon, very soon, Washington will awaken to the reality of the new shift. The current Administration is trying now to re-triangulate (to use a Clintonian expression). It will be most interesting to watch Wednesday's State of the Union message from the President to see if he sees the reality and totality of this Shift.

Finally, I am convinced that the current reserve currency status of the US dollar, particularly its sole reserve status, is no longer in the best interest of the U.S. or the world. For far too long our elected and appointed officials have relied on the reserve currency status to finance the quality of life in the US. In my opinion, that is likely to end within a few years, ushering in a very new and different world order. We should all be preparing for this eventuality now in our discovery ventures.

3. CHINA: A NEW CAPITALISM? (CHRIS BERRY)

The Evolution of Chinese Capitalism: Darwin Would Be Proud (Submitted by Chris Berry)

Over the weekend, it was reported in the New York Times that China has now surpassed Germany as the world's largest exporter.

(http://www.nytimes.com/aponline/2010/01/10/world/AP-AS-China-Trade.html?_r=1&ref=global-home).

While this may or may not come as a surprise to you, over Christmastime another even, perhaps more significant event took place and got comparatively little press. I'm referring to PetroChina's acquisition of a 60% stake in two projects in Alberta's Athabasca Oil Sands (MacKay and Dover) worth \$1.7 billion. This area could presumably produce up to 500,000 bpd and has attracted interest from other oil giants as well from across the globe. Over the Christmas break, Canada's government gave this deal the go-ahead after careful review. Ottawa viewed it as a positive for the region and the country as a whole (jobs?). The Chinese seek access to Canada's tar sands

Right now you're probably saying to yourself, "that muck is worth \$1.7 billion?!?!?" The answer is an unequivocal YES. Both the Chinese and Canadians realize this. Industry Minister Tony Clement said

"I have approved the application by PetroChina under the Investment Canada Act to acquire control of the MacKay and Dover Oil Sands projects because I am satisfied that the investment is likely to be of net benefit to Canada."

Job creation is the key and our neighbor to the north has very wisely decided to use her God-given natural resources for the betterment of her citizenry. What is interesting is not

the fact that this deal was green-lighted, but the conditions that the Canadian Government attached to the deal and forced the Chinese to agree to. The stipulations are:

- PetroChina agrees to spend \$250 million CAD over the next three years as well as increase employment levels for Canadians in the area
- A majority of senior management positions in the properties are to be held by Canadians and a PetroChina office will be opened in Alberta for the next five years
- PetroChina agrees to remain a public company for the duration of the project and not voluntarily de-list from either the New York or Hong Kong Exchanges without a listing on another exchange¹

This last point is what piques my interest the most. Rather than just giving away oil assets with no accountability, the demand that PetroChina remain a publicly traded company essentially forces the company to play by “Western” rules of business. One has to wonder if the Chinese have learned from their recent negotiations for natural resources that became public relations fiascos. These included the \$19.5 billion bid from Chinalco for Australia’s Rio Tinto and CNOOC’s \$18.5 billion bid for American oil company Unocal in 2005.

This deal could be a watershed in that China is finally gaining access to a Western country’s strategic assets. Make no mistake; this deal is a game changer. Fewer oil deals with Sudan and other rogue regimes and the bad press that comes along with them. The Chinese have now struck a deal with a Western nation that is a positive for both players.

I must tip my hat to the Chinese for brilliantly playing both sides of the fence here. We recently wrote about China’s massive push to develop more green sources of energy (see “The Century’s New Cold War” Morning Note Jan 4th, 2010). This investment in the Oil Sands is a coup for the Chinese as they are now guaranteed immediate access to carbon-based fuel sources while simultaneously working to develop next generation green technology. I guess when you’re sitting on trillions of dollars for foreign exchange reserves, you can afford to play both sides of the coin!

We should welcome Chinese interest and investment in such assets as natural resources and intellectual property developed in the West. Having China intertwined ever more deeply in the international trading system can only be a positive for all players. These include heads of government, heads of industry and all citizens looking for a better quality of life. We’re watching with keen interest to see if other deals involving the Chinese and others come to fruition in 2010. Capitalism with “Chinese characteristics” is here to stay and we must all learn to play by a new and emerging set of rules.

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

¹ <http://www.reuters.com/article/idUSTRE5BS41R20091229>

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 may review investments that are not registered in the U.S. He owns shares and in Goldcorp, Senesco Technologies, Horseshoe Gold, Derek Oil and Gas, Terraco Gold, Neuralstem, Piedmont Mining, MegaWest Energy, CGX Energy, Solares Lithium and Quaterra Resources. Dr. Berry is an advisor to Revett Minerals. 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.