

Today's Notes:

- 1. The Loonie**
- 2. Colombia's Llanos Basin**

1. THE LOONIE

It is not only the Canadian currency we focus on this AM; not at all. In addition there is another big Chinese investment in Canada. Yesterday Sinopec and Conoco announced a big deal. COP is the third-largest integrated energy company in the United States, based on market capitalization, oil and natural gas reserves; the Texas based company has 2009 assets of \$153 billion and revenues of \$149 billion. The US oil company is trying to delver – reduce its debt load by \$10 billion. So it sold its 9.03% stake in the Syncrude's oil sands projects in Alberta's Fort McMurray area for \$4.65 billion. Conoco, not unlike the United States government, has been on a buying spree that had added so much debt to the balance sheet the company could no longer manage. So they are in the process of selling assets. The good news for Conoco is that the Chinese company stepped in a actually paid up for the 9% stake in Syncrude.

The Syncrude joint venture has, over the past 30 years, generated two billion barrels of oil. The Canadian Oil Sands Trust is the largest equity holder of Syncrude, with a 36.74% stake. Other stakeholders include Imperial Oil Resources (25%), Mocal Energy (5%), Murphy Oil (5%), Nexen Oil Sands Partnership (7.23%) and Suncor (12%). By the end of the decade, Syncrude expects to generate more than 425,000 barrels per day. The reserves are 4.9 billion barrels. The Sinopec transaction will require regulatory approval from the Canadian governmental authorities. This should not be a problem as the company is purchasing a minority position. The trends are clear. China is becoming a much larger player in the Canadian natural resource scene. There is growing global demand for Canada's oil sands just as there is global demand for Canada's nickel and uranium resources.

So this AM the Loonie has moved above par once again – as I write. This must irritate the solons in Ontario very much but it is the inevitable legacy of commodity countries such as Canada, Australia and Brazil. We have been long time proponents of the Canadian currency even in its fiat emanation. This is not the first crossing of the Rubicon for the Loonie. As you can see the Loonie soared to a premium in October 2007 and remained at or above par till Secretary Paulson caused the US short dollar covering. It is the legacy of de facto commodity backing that we are witnessing in a developed country with a high standard of life and a relatively small population.

The implications of this particular move by China are quite clear. The oil sands will be developed, if not with American capital then with American capital recycled by the Chinese and other emerging markets. Company's like Oil Sands Quest (BQI AMEX) that I have followed for a long time will find interest in their Saskatchewan oil sands resources. American companies seem to be shying away at a time when global resource nationalism is picking up steam and Canada is one of the few really friendly and capable jurisdictions to the US.

Remember that Mexico's oil situation is precarious and Venezuela seems to want to move away from Washington into the arms of Russia and China.



China's oil giants have recently struck a variety of deals in Canada. For example, last September PetroChina (PTR) paid \$1.7 billion for a 60% stake in the Athabasca Oil Sands Corp.'s MacKay River and Dover sands projects. Just last week the company launched an IPO and raised \$1.32 billion. It is no secret that the US government has nullified every attempt by China to purchase US assets. Cnooc's abortive \$18.5 billion bid for Unocal in 2005 is a prime example. But China has learned and is determined to secure the assets she needs.

China's interest is not limited to oil. Jilin Jien recently consummated deals with Goldbrook Ventures from 50% to 75% of that company's position on the rapidly emerging Cape Smith Fold Belt in far Northern Quebec. This under explored belt is rich in nickel, copper, cobalt and PGM's. Jilin also did a deal with Victory Nickel.

The idea of a "decoupling" was held in much contempt as the credit crisis fostered the great asset value collapse since 2008 and 2009. Now we may have another sort of decoupling. This is a decoupling in which the emerging world, with its surplus of foreign exchange, begins the great lockup of resources. If so the secular commodity bull must continue for some time and discovery investors should prosper – selectively of course.

2. LLANOS BASIN

I am drawn back to Colombia, the country of my birth. I recently visited the highly prospective properties of Antioquia Gold. I updated the Discovery Factor Grid for Antioquia and I like what I see. When I visited Medellin in February I was astonished at the beautiful modern city that has been developed over the years. The visit to Antioquia's extensive properties to the north east was even more amazing. I will have more to say on Antioquia in the near future.



In a few weeks I will Chair the Latin American Mining Congress in Coral Gables. I am looking forward to meeting with the Colombian officials to learn more about the new oil revival in addition to Colombia's gold and coal discovery potential.

In the 1930s my father and mother moved to Colombia's Magdalena valley. In 1905 this valley is where the original oil seeps were discovered and subsequently developed by Standard Oil of New Jersey. At the time my father was working for Esso in Toronto and was transferred to this beautiful South American country. My parents remained in Colombia in the oil camp at El Centro (near Barranca-bermeja) through the 1940s when I came along. Oil production was nationalized in 1949. Few realize that Colombian oil in the 1940s was critical in defeating the Axis powers in WW II.

Today the Canadians are back, in force. A huge land rush is occurring in the energy sector in Colombia. Canadian listed exploration and production companies are leading the way.

An improved political and security climate, along with new technology such as horizontal drilling and 3D seismic, are driving the interest. Neither of these issues were supportive of oil production in the 1940s.

Canadian securities firm Genuity Capital Markets recently said "**Colombia is one of the most attractive places to invest in oil and gas globally.**" Colombia's geology is similar to western Canada - a mountain range, foothills and plains that have the potential to hold billions of barrels of oil. And operators using 3D seismic has increased the success rate in exploration to 70% in the country.

"Colombia is undergoing an evolution that is very similar to what had previously occurred in Western Canada," states the report, "companies are improving seismic data and interpretation to reduce exploration risk...the triple benefit of improved terms, better technology, and higher oil prices is so compelling that we believe those that have not

aggressively acquired land and resource potential risk having missed the land rush in Colombia."

Intermediate-sized producers from Canada such as Gran Tierra Energy (GTE-TSX) Petrominerales (PMG-TSX), and Pacific Rubiales Energy (PRE-TSX) - who have all been in the country for a few years - have made big **discoveries** in Colombia and built huge shareholder value. These intermediate Colombia-focused oil companies have outperformed the S&P/TSX Energy index by 122% since early 2008. I look forward to researching more discovery investing opportunities in the oil fields of my birth place, Colombia's Magdalena Valley.



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