

**Today's Notes:**

1. Gold
2. The US Dollar
3. MegaWest

**1. GOLD**

Yesterday I discussed the stunning assassination of opposition leader Benazir Bhutto in Pakistan. This AM she was buried in her home village along side her father Zulfikar Ali Bhutto, who was hanged in 1980. I also suggested that gold's true value is evident. It is rising well above the \$830 level in pre New York trading.

Naturally Benazir Bhutto's death, given her close contacts with Washington, will complicate the global fight against Al Qaeda and terror significantly. It is a destabilizing act and a victory for Al Qaeda. Ms Bhutto remarked on the 9/11 terror attacks,

***"The terrorists who attacked the World Trade Centers did not fight for Islam. They fought for themselves. Criminal terrorists hijacked my religion just as they tried to hijack your planes. Those who did this violence are not clerics; they are criminals. Islam is not the religion these people preach."***

Ms. Bhutto knew that her life was threatened yet she persisted in public appearances up to the elections and thus placed herself at risk. She was a scholar at Radcliffe College and Oxford. She was imprisoned for 6 years in Pakistan for alleged criminal activities. In 1988 she was elected Prime Minister of Pakistan. She was a force for moderation in the Islamic world. That force has now been negated with prejudice. This is a tenacious war that the progenitors of Islamic terror are waging and the West must realize this.

This AM, as this advocate of democracy, freedom and the poor is buried, numerous complex questions have arisen. It is interesting to note that the presidential stakes in the US have now taken a different turn. Senator Obama has claimed, through his handlers that this is due to Senator Clinton's the Iraq war vote. Will a real and sincere leader ever emerge for the US?

Pakistan is a nuclear power. In many ways she is a rogue state. A.J. Kahn, one of her nuclear scientists, stands accused of surreptitiously selling nuclear technology to several Arab states, North Korea and Iran. Pakistan is known to possess at least 30 nuclear devices. Pakistan and India share a long common border and an uneasy and tenuous relationship. Could Pakistan now eschew democracy? Will the democracy vote on January 8<sup>th</sup> be cancelled? The current government is led by Pervez Musharraf recently retired as General of the Pakistani army. US intelligence services believe that his administration is infiltrated by Al Qaeda and Taliban agents. Where will Pakistan's nuclear inventory end up? Pakistan is now a most important ally of the US in the war on terror. If this relationship regresses, and yesterday's assassination certainly weakens it, the U.S. and the U.N.'s efforts in Afghanistan are also weakened. Pakistani banks are

closed today and its debt is rated 4 levels below investment grade. She stands at risk of defaulting on \$22 billion in sovereign debt.

Yesterday a good friend and Morning Note reader, a person close to the Pakistani situation, wrote this reply to my Morning Note.

**“Mike**

***It is indeed sad that Bhutto was murdered though largely because of what the act may do to retard any move towards real democracy in the country. Bhutto was a seriously corrupt person (as were her predecessors) and it was her sins which led to the military intervention and the current government. Pakistan is only a more manageable version of Afghanistan. The true risk is 30 plus nuclear weapons in the hands of a Taliban-leaning (their intelligence apprentice was originally focused on supporting the Taliban in Afghanistan to provide a buffer state for Pakistan) government...or an India (nuclear armed) which either sees an opportunity to dismember a long enemy or a greater risk in a newly radical Islamic state.***

***The complexities of the “new world” make the simplicities of the old Cold War world of the U.S. vs the U.S.S.R. look inviting!”***

Pakistan and Afghanistan also share a long border with Iran. Iran has sworn to destroy Israel and is, today, taking delivery of a second shipment of nuclear fuel from Russia. Iran plans to produce 200 MW of electricity from its Bushehr reactor within 3 months. Russia has also sold advanced TOR 3 air defense weapons to Iran. In October Russia’s President Putin pledged to complete the Bushehr reactor and forged an alliance with Iran against any foreign military action. Will the US and Israel allow Iran to become a nuclear nation given their stated aim to destroy Israel? I cannot answer that question, only pose it. But the assassination of Ms. Bhutto sets the stage for further advances by the forces of terror led and condoned, in part, by Iran.

In the meantime gold markets everywhere will recognize the issues. Central bankers realize that the gold market is difficult to control. Gold is an important alternative to fiat currencies. In time of geopolitical uncertainty gold appreciates – in almost all currencies. It is following that path this AM. We believe it will follow this course of action for a longer timeframe in view of these events. \$1000 gold is not far off.

Currency	Chg% X=1\$USD	NY Time	X= 1\$USD	X\$USD =1	Gold Price/oz	Gold Chg	Gold Chg%
<a href="#">US Dollar</a>	--	12/28-06:50	--	--	833.00	+5.20 ▲	+0.63%
<a href="#">Australian Dollar</a>	-0.05%	12/28-06:40	1.1396	0.8775	949.25	+6.42 ▲	+0.68%
<a href="#">Brazilian Real</a>	+0.05%	12/28-06:50	1.7546	0.5699	1461.58	+8.46 ▲	+0.58%
<a href="#">British Pound</a>	+0.18%	12/28-06:49	0.5000	2.0002	416.46	+1.85 ▲	+0.45%
<a href="#">Canadian Dollar</a>	+0.17%	12/28-06:40	0.9789	1.0216	815.38	+3.68 ▲	+0.45%
<a href="#">Chinese Yuan</a>	+0.19%	12/28-04:51	7.2996	0.1370	6080.57	+26.62 ▲	+0.44%
<a href="#">Euro</a>	+0.44%	12/28-06:40	0.6800	1.4707	566.40	+1.05 ▲	+0.19%
<a href="#">Indian Rupee</a>	-0.33%	12/28-06:40	39.4000	0.0254	32820.20	+312.49 ▲	+0.96%
<a href="#">Japanese Yen</a>	+0.86%	12/28-06:49	112.6900	0.0089	93870.77	-221.12 ▼	-0.24%
<a href="#">Mexican Pesos</a>	-0.04%	12/28-06:49	10.8745	0.0920	9058.46	+60.11 ▲	+0.67%
<a href="#">Russian Ruble</a>	+0.27%	12/28-06:40	24.5152	0.0408	20421.16	+73.42 ▲	+0.36%
<a href="#">S.African Rand</a>	+0.98%	12/28-06:49	6.8063	0.1469	5669.65	-20.24 ▼	-0.36%
<a href="#">Swiss Franc</a>	+0.84%	12/28-06:49	1.1287	0.8860	940.17	-2.08 ▼	-0.22%

## 2. THE US DOLLAR

The \$ is significantly weaker this AM against most currencies. Exceptions are the Indian Rupee, the Aussie \$ and the Mexican Peso. The British Pound, Euro, Loonie and the Yen are much stronger against the \$. The South African Rand and Swiss Franc are almost 1% stronger as I write. Even the partially pegged Renminbi is stronger by .19%. All this means that as we approach the year end 2007, the \$ demise has resumed. I read an FT commentary ("*America Faces a Diplomatic Penalty as the Dollar Dwindles*") on the decline of US power globally under fiat currency \$ devaluation.

Flynt Leverett, a former senior National Security Council official under President Bush  
*"This is the neglected dimension of the dollar's decline. What has been said about the fall of the dollar is almost all couched in economic terms. But currency politics is very, very powerful and is part of what has made the US a hegemon for so long, like Britain before it."*

Like Britain before it? Hmm. Mr. Leverett believes that politics as well as economics can determine the strength of a currency and the political leverage of a country. He suggests that,  
*"US security could be damaged if America's creditor nations move against the dollar."*

Benn Steil, director of international economics at the Council on Foreign Relations notes,  
*"The US is extraordinarily fortunate in that its currency is the international standard of value – if that would disappear, US leverage in many dimensions would also go."*

Also challenging the consensus view that the dollar will retain its paramount position in the world's currency pantheon is a paper by Menzie Chinn and Jeffrey Frankel of the US's National Bureau of Economic Research. They argued in a research paper last year that, if the dollar's decline continued, the Euro could overtake it as the lead international reserve currency by 2022. Other economists have speculated that in the long term China will establish the Renminbi as the dominant currency in Asia.

Meanwhile as the \$ has depreciated 25% in the past year the U.S. continues to export inflation. Qatar announced this AM that the country suffered 13.73% inflation in September as a result of the Riyal's peg to the \$. However, the \$ is likely to retain its position of importance for some time. The US Navy continues to assure that sea lanes are safe for oil shipments and other commerce. The US also continues to maintain and develop a significant military; arguably the world's most powerful. Last month Iran and Venezuela attempted to convince OPEC to price oil in Euros and Yen. Saudi Arabia headed off that putsch. Venezuela's leader Hugo Chávez has proclaimed *"the empire of the dollar is crashing."* Not just yet Hugo.

However China controls billions of US \$'s in its foreign exchange reserves. At some point it is possible that Beijing will use its \$ largesse for political ends. When that happens the Renminbi could become the dominant currency in Asia. There is much at stake in the currency wars. Gold is a good stalwart.

### 3. MEGAWEST ENERGY: THE NEW YEAR OF HEAVY OIL

I am convinced that US domestic and stranded oil and gas resources are likely to become increasingly valuable. Stocks of interest include Enhanced Oil Resources, Derek Oil and Gas, Ivory Energy and DeJour Enterprises. MegaWest Energy also falls into this category. It is quickly becoming a bargain. The stock has fallen on hard times and is trading at \$1.06 down from \$1.70 a few weeks ago. The fundamentals are firmly in place and heavy oil, particularly in the U.S. is likely to become more valuable. The management team is superb. They have acquired five domestic properties, four of which have significant potential for US heavy oil production. On December 11, 2007 the company announced an independent estimate of 332 million barrels in the ground in a press release. The company used GLJ consultants and announced,

***“GLJ Petroleum Consultants (“GLJ”), has completed an independent engineering report of the reserves and resources associated with certain of its key projects. The combined GLJ and Management high estimate of combined recoverable Reserves, Contingent Resource and Prospective Resource is 332 million barrels out of a high estimate of Gross Original Resource (OOIP) of over 2 Billion barrels.”***

This estimate encompassed three of the five properties, including the Kentucky and Missouri properties. Not all the oil and gas bearing sands in those properties was considered in the estimate by GLJ. In other words there is more to come on the reserve estimate. The company, under direction of CEO George Stapleton II and COO Bill Thornton is now producing 100 barrels of oil per day from its Chetopa, Kansas test bed.

I expect MGWSF to produce 1,000 barrels per day by 2008 using an array of secondary techniques including SAGD and related techniques as it calibrates its production capability. The company has nearby refineries that are interested in blending this heavy oil production. MGWSF should receive 70% to 80% of WTI for its production. The company quotes 2 billion barrels of gross original oil in the ground. If 45% of that is recoverable and it is worth \$2 per barrel in the ground (a premium because little or no infrastructure build out is required) the company is worth \$5 to \$7 per share. There are 150 million shares out on a fully diluted basis. On the basis of its 332 million barrel combined high estimate and assuming \$2 per barrel, the company is worth \$3 to \$4 per share. Please have a look at MegaWest Energy as we move into the New Year. You must realize by now that it is not just oil that is increasingly valuable but it is easy access to oil that also carries its own value stipend. MegaWest (and the other companies mentioned) must eventually carry this premium.

By the way, oil's price trajectory next year is anyone's guess. My view is that oil prices will move well above \$100 per barrel in the New Year. If so MegaWest should do well. In my view it is undervalued below \$1 per share.

*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 may review investments that are not registered in the U.S. Dr. Berry has been awarded 10,000 stock options exercisable at \$7.50 from Senesco Technologies, 200,000 options from Aura Silver (strike C\$.30) and a monthly retainer(\$3,000), 150,000 options which strike at \$2.80 from Birch Mountain and 300,000 options from Ivory Energy and a monthly retainer fee (\$6000) for Corporate Finance consulting services. He has been awarded 100,000 options of Derek Oil and Gas exercisable at C\$.47. He is a consultant to Freegold Ventures, for which he received 100,000 stock options exercisable at \$.40, Piedmont Mining (250,000 options), Valcent Products (300,000 options), Global Green Solutions, MegaWest Energy and War Eagle Mining. He owns shares and/or options in Goldcorp, Senesco Technologies, Birch Mountain Resources, DataMeg, Immtech International, Horseshoe Gold, Midway Gold, Derek Oil and Gas, Terraco Gold, Stealth Ventures, Kenrich-Eskay Gold, US Silver, Galway Resources, Neuralstem, Oil Sands Quest, Enhanced Oil Resources, Piedmont Mining, MegaWest Energy, Valcent Products, CGX Energy, MacMillan Gold and Quaterra Resources. He has been awarded 250,000 options on Terraco Gold exercisable at C\$.50 for 5 years, for services as a financial advisor. He has also been retained as an advisor by Dejour Enterprises (200,000 options plus retainer of \$2,500 per month), Grande Portage (210,000 options and \$5,000 per month retainer and Galway Resources (200,000 options and \$5,000 per month). In his role as advisor he has been awarded 75,000 options from Polymet which strike at C\$2.76. 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.*