2010 Outlook and Top Ten List

"With the market meltdown behind us, we believe now, more than ever, is the time for you to re-position and add to your portfolio. The Dow, which always leads the rest of the markets, has rebounded as much as 40% from the bottom with commodity prices following a similar path. A sharp recovery like this is usually followed by a short term decline which will present a very attractive entry point for investors"

LOOKING BACK

The above excerpt is the first paragraph of a letter that we wrote and distributed in early July 2009. If you take a look at the Dow Jones Industrial Average chart, it confirms that our decision to add to our portfolios at that time was a profitable one. The short-term decline in the Dow, early July, was about a 1,000-point drop and without question represented a great buying opportunity.

You can mirror this chart with most other major indexes. Since that 1,000-point drop, we have had an approximate 30% move to the upside which represents an approximate 63% gain from the bottom back in March 2009 – not bad, considering the largest evaporation of wealth in history preceded this gain.

It took courage to take our advice at that time and we certainly understand why some investors stayed in cash. In fact, many hedge funds and pension funds across the globe also largely stayed in cash through this recent rally. This is an interesting point to remember. Money flow is critical when trying to predict trends in the market.

LOOKING FORWARD

We are now entering 2010 and we would like to provide some useful guidance on what to expect from the financial markets this year. Although the outlook is not completely clear, we are generally optimistic that the upcoming year will provide some good opportunities, especially in the small cap mining sector.

The key drivers, in our opinion, will continue to be metals demand and economic growth from China and a weak U.S. dollar, which will benefit gold prices and moderate North American economic expansion. More specifically, in August 2009, Rio Tinto pointed to several reasons for the current resurgent strength in commodities, which included three sources of potential long term commodity strength:

- Global economic rebound and corresponding demand growth,
- Supply concerns related to meeting project financing requirements, to which we would add supply concerns related to a dearth of recent high-margin mineral discoveries,
- And finally, of course, Chinese demand.

Rio has suggested China will undergo GDP growth of 7%-8% this year (the World Bank raised its 2009 forecast on November 4, 2009 to 8.4%), followed by 8%-9% in 2010.

VOLATILITY

The New Year will most likely bring volatility with it. Volatility is measured by risk tolerance. In fact, the reversal of risk tolerance significantly impacted the performance of the junior mining sector in 2009. At the end of 2008, investors were panicking because they lost their confidence. Capital was fleeing to safety at the slightest sign of risk. See the CBOE SPX Volatility Index chart.

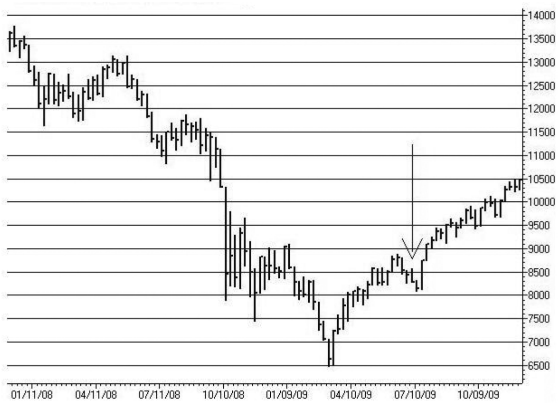
This index is a reliable reverse barometer for investor risk tolerance. As the index goes up, investor risk tolerance goes down. As indicated in the CBOE SPX Volatility Index chart, the index spiked in late 2008 and has since returned to more moderate levels. Risk tolerance will continue to be an integral factor in determining junior mining sector market valuations in 2010.

GOLD

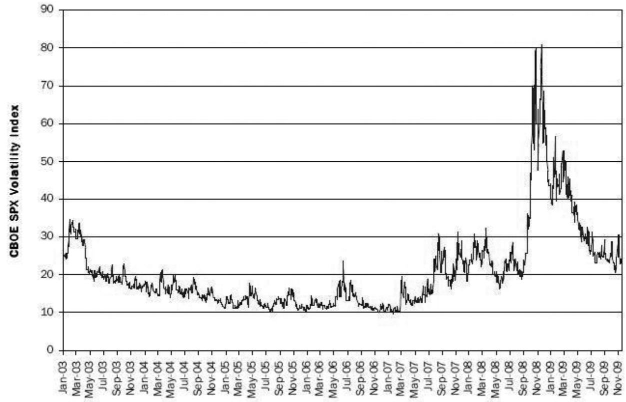
Gold bullion and gold equities have out performed the broader markets in 2009. With concerns surrounding the preservation of capital, developing inflationary pressure (or the anticipation of future inflation), and bullion trading over US $1,165/oz., senior gold equities have outperformed the broad market over the last 12 months.

Since November 24, 2008, the S&P TSX Global Gold Subindex has increased 56% versus the S&P TSX Composite Index, up 37% over the same period. Bullion increased from US $822/oz. to US $1,165/oz. for a 42% return over the same period.

When the credit crisis was in full swing in late 2008, investors viewed both the U.S. dollar and bullion as safe havens, and capital flowed into both. U.S. dollar bears were surprised that the U.S. dollar continued to be



Dow Jones Industrial Average



CBOE SPX Volatility Index (January 2003 to November 2009)

a currency to flock to not from. To no one's surprise, gold equities during that period sold off with the rest of the broad market. In the first half of 2009, gold rallies were related to economic concerns such as U.S. job losses. In March 2009, bullion rallied on safe haven mentality that was eventually abandoned due to a rebound in financials.

The reaction of bullion and gold equities to the news that the worst could be over for the banks, was immediate. Bullion dropped approximately US $100/oz. in two weeks and gold equities dropped 20.4% over this period. Evidently, the impression that the financial crisis was possibly over, had investors and traders exiting their defensive positions.

The current rally in bullion is no longer driven by a flight-to-safety rationale. With the prolonged monetary and fiscal stimuli in place around the globe and increasing government debt loads, gold's role as a non-printable currency has become a more significant factor driving demand and higher prices for the yellow metal. Gold was a very profitable sector to be invested in the last 12 months, especially if you got in early on the likes of **Ventana Gold Corp.** [VEN-TSX]. Ventana discovered a world-class, high-grade, gold deposit with multi-million ounce potential in Colombia. This was the top story of 2009 and we felt it was worth a mention as it is up over 3,000% in the last 12 months.

TOP TEN LIST FOR 2010

Given the above, here is our Top Ten List. We believe the companies on this list have the potential to achieve above average returns this year. The main criteria that we take into consideration, when selecting companies, is their quality of management and how active their exploration/development programs are.

We have selected them through careful and diligent research that we have sourced from many reports including our analyst research at Canaccord Wealth Management. The research that we have access to from our analysts at Canaccord is very insightful and played a significant role in our choosing some of the companies below. If you would like access to the Canaccord research, please contact us at Hoesgen Investment Partners (HIP@canaccord.com).

Colossus Minerals [CSI-TSX] Price $5.11, Market Cap $369.6M.

Copper Mountain Mining [CUM-TSX] Price $1.78, Market Cap $139.9M

Exeter Resource [XRC-TSX] Price $6.42, Market Cap $461.9M

Hathor Exploration [HAT-TSXV] Price $1.70, Market Cap $173.4M

Premier Gold Mines [PG-TSX] Price $3.56, Market Cap $303.2M

Salazar Resources [SRL-TSXV] Price $1.03, Market Cap $33M

Canaco Resources [CAN-TSXV] Price $0.485, Market Cap $24.5M

Volcanic Resources [VOL.P-TSXV] Price $0.30, Market Cap $2.7M

Gran Tierra Energy [GTE-TSX; GTE-NYSE Amex] Price $6.04, Market Cap $1.3B

Pediment Gold [PEZ-TSX] Price $1.42, Market Cap $68.1M

In summary, we believe that 2010 will generally be an optimistic year with some volatility along the way. The likelihood of mixed economic data will fuel volatility and pullbacks in the market and should be capitalized upon. China's continued growth benefiting metals should translate into excess capital flowing to the small cap mining sector. Due to increasing pressure to the hedge funds and pension funds to deploy capital, money will flow back into equities on pull backs and will continue to keep the markets active. Good luck to all in 2010. ■

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