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In a short time frame we've gone from being in the middle of the world's biggest investment stories – Greece – to the sleepest – junior resource stocks in Canada. My arm has fallen asleep propping my head up and it's only a couple days back at the office. And it's not even July yet. Could we really have a full two more months to go of this kind of market?

But at some point these junior oil and gas stocks are cheap enough to the point you hold your nose, close your eyes and buy again.

*Keith Schaefer* left a steady pay check two years ago and decided to make covering these junior oil stocks a full time profession with his *Oil and Gas Investments Bulletin*. His timing was perfect as oil was just moving up from \$40 a barrel, but now that oil is in a downtrend, Keith, what do you make of this market?

**KS:** Well, this is a funny market, in that junior oil stocks can't go up until the oil price comes down. When the world is convinced oil will stay low enough in the medium to long term to not cause a recession, then the market will buy junior oil stocks again in the same way they did last September. I don't know that I've ever seen a market where the juniors have an inverse relationship to the underlying commodity.

So I'm hoping the Saudis crank open the taps and get oil to \$85-\$90 a barrel so we can get our junior market back. All my stocks make great cash flow at \$90 oil. And of course, the annual summer downturn happened just as three big international junior plays – *Xcite Energy*, *Sterling Resources* and the European shale plays – all got hit with bad news. So the speculative premium in that market, which raised hundreds of millions last year, has just disappeared.

**DP:** People forgot that exploration wells can actually miss. So have you been buying anything yet?

**KS:** I've been moving up-market - for the last 3 months my big theme has been to move into energy services stocks – the drillers and the frackers and the mud companies. I've been selling my junior oils, and buying them. But the services stocks are just trading water as well – but a bit better than the junior producers.

**DP:** Mud companies? You mean drilling mud?

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**KS:** Believe it or not they have been my best investments. Canadian Energy Services sells hi-tech drilling fluids that speed up drilling. The stock has doubled in the last year and they have doubled their dividend too. Huge growth rate in the US right now. Secure Energy Services has just bought two mud companies and their stock is up 50% in the last three months – in this rotten market. Best stock chart in the sector.

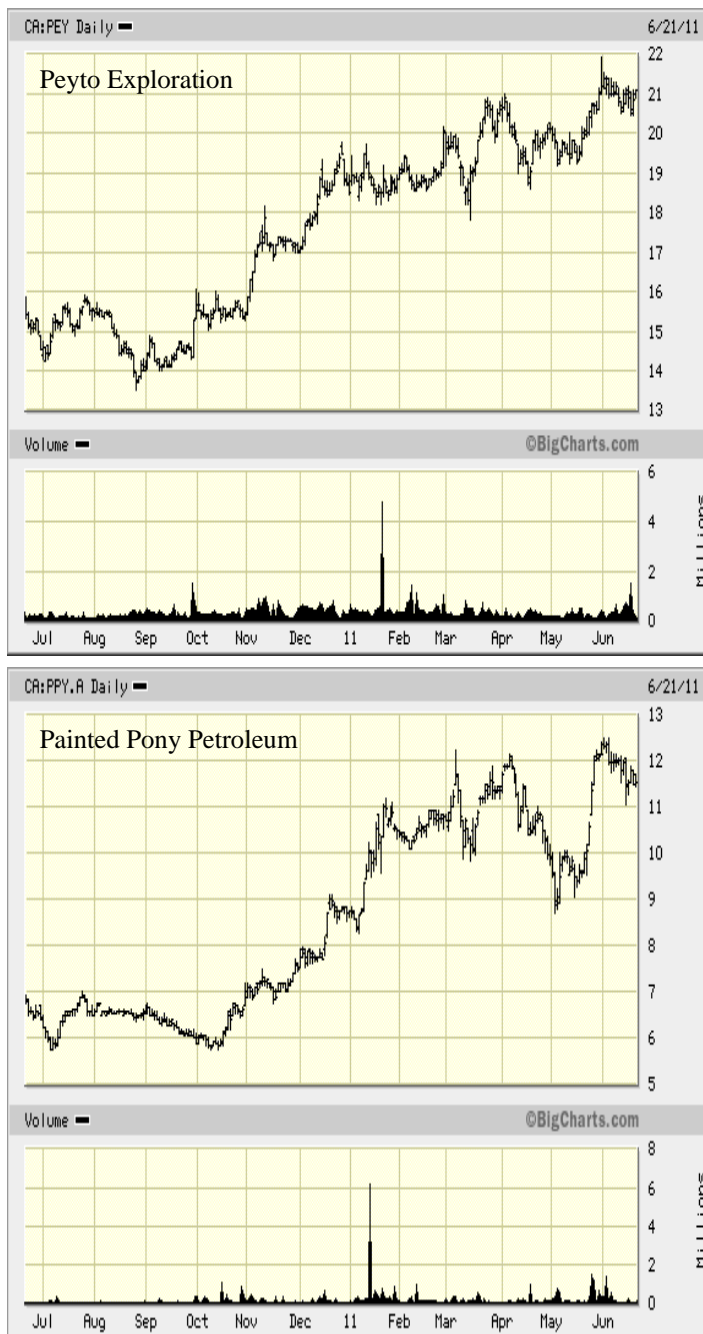
In fact, you always ask me if I could just buy one stock what would it be – and if I was a conservative investor I would buy *Canadian Energy Services*, but it is a \$30 stock. But their growth in the US is fantastic, it's a tight stock, management owns a lot of it, I think they will continue to increase their dividend...I like it a lot.

**DP:** Maybe for my wife's RRSP, thank you. But what about me? I'm looking for something with a little more leverage. Is there anything you like in the real junior space?

**KS:** Well, let's go to the exact opposite end of the spectrum then. Look at *Border Petroleum*. You love *Pincrest* so much, and I think this could be the next big Slave Point play after Pincrest. They have 26 sections, all together, in the middle of the play up there. They have about 300 barrels a day production, and the stock is 25 cents because they don't even have a website up yet, but management says that's coming next week. I think when the world sees where their land position is, that should help. Companies have paid as much as \$5 million a section up there. It's a hot property, if you'll pardon the pun.

**DP:** Yes we don't want to make light of all the people out of their homes because of the big forest fires up there. You just wrote a story on gas stocks – are you buying any gas stocks?

**KS:** Not any new ones in the juniors. I own *Peyto*, the low cost producer in Canada, and *Painted Pony*, which has a huge land position in the Montney and little *Donnybrook*, which tripled for me over the winter. Painted Pony is hitting great rates, growing production, but they also have a big Bakken land position, so there's a lot of oil production there to back up the gas. I've own Painted Pony since under \$4, and still own it all. If gas goes, those stocks will do very well.



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**DP:** But I hear you saying you're not a believer in higher gas prices yet.

**KS:** I think gas could go a bit higher but not much. At \$5 gas, the majors can make enough money that they'll start to hedge – certainly at \$5.25 and \$5.50. There is a lot of gas in North America that can come onstream very quickly if gas ever hit \$5.50, but that's a price most juniors still have a hard time producing profits. Gas will continue to be a big man's game – the juniors will slowly and continually get weeded out or be forced to marry by their bankers.

The liquid rich players like Angle Energy are gas stocks that investors could look at that haven't really run yet.

**DP:** Thank you Keith!



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Keith Schaefer, Publisher

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**Disclosure:** **Pinecrest Energy** and **Peyto Exploration:** Canaccord Genuity covers these stocks and has a Buy rating on them. (Buy: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.) Canaccord Genuity has recently participated in a financing for **Sterling Resources**.

### DEB'S DITTY:

I was going through airport security and got asked,  
"Do you have any firearms?"  
Apparently, "What do you need" wasn't the right answer.

To receive the Late Edition and be on our daily circulation simply e-mail Debbie at [Debbie.lewis@canaccord.com](mailto:Debbie.lewis@canaccord.com) and give your address, phone number and e-mail and we'll have you on the list tonight.

E-mails were sent today to shareholders of Coastal Energy, Orezone Gold and SilverCrest Mines.