

August 19, 2009

*A clarion is a medieval trumpet that had clear, shrill tones. Trumpets were often used to get people's attention when making announcements. We are also using "clarion" in the context of making announcements, as well as being thought-provoking when sharing our information and opinions with those people who are interested in new investment ideas.*

## for your Information

### WE WANT YOUR INPUT!

We are asking our Subscribers to give us suggestions for companies they would like to have us cover under our two specialized research report formats: *StockPotentials* and **Technicalities**.

These company reports are not issuer-sponsored, and have been selected by the analyst on the belief they could be of interest.

Reports in the *StockPotentials* category are generally written on companies that have interesting prospects, good share price appreciation potential, but insufficient or nil research coverage.

Reports in the **Technicalities** category are written on large-cap companies and have a technical perspective.

If there are companies on which you would like eResearch to write about, please let us know. Send your suggestions to:  
Bob Weir, Managing Director,  
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[bweir@ersearch.ca](mailto:bweir@ersearch.ca).

## Topic: Natural Gas

We have oft commented in this newsletter on the price of natural gas. In particular, we have highlighted the discrepancy between the price of crude oil and that of natural gas and suggested that the price differential was out-of-whack. That differential continues to widen, a reverse bubble.

Natural gas prices soon could be approaching a critical hiatus, from which either a recovery will get underway, or the price could continue to sink.

Arguments for a higher natural gas price include: Reduced rig utilization in both Canada and the U.S.A. should lead to reduced production. Overall production decline rates should help lower production which, in turn, should lead to a concomitant increase in the rate of take-down from storage levels. Eventually, this will lead to higher natural gas prices.

Arguments for lower natural gas prices include: Although production is decreasing, inventory levels remain high in the absence of a sustained increase in demand. Seasonal factors have not played a role, such that inventory levels may not revert to their norm any time soon. Bloated inventories will dampen any propensity for higher natural gas prices.

Natural gas usage is tied to the following: (1) winter home heating (the winter of 2008-2009 was milder than usual); (2) production of electricity to drive air-conditioners (until very recently, the summer of 2009 has been much cooler than usual); and (3) industrial uses (the economic downturn has led to reduced demand).

Who is going to win this contest? The evidence points to continued bearishness for natural gas prices. However, from an investment point-of-view, since stock prices are always looking well ahead, when the pendulum is expected to begin to turn, the stocks of junior natural gas companies and oil & gas services companies could do really well.

## Bob Weir

Bob Weir, B.Sc., B.Comm., CFA  
Managing Director, Research Services

## Quick Facts

### 12-Mo. Chart (KBL.UN)



Source: [www.bigcharts.com](http://www.bigcharts.com)

**Closing Price  
(August 19/09):  
\$12.24**

**52-Week High-Low:  
\$12.69 - \$8.50**

**Average Daily Volume:**  
50-day: 9,500  
200-day: 12,800

**Shares Outstanding:  
7.00 million**

**Market Capitalization:  
\$85.7 million**

### Salient Statistics (P.S.): (trailing 12 months)

Earnings: \$0.98  
Cash Flow: \$2.00  
Book: \$9.06  
Enterprise: \$13.25  
Distribution: \$1.10  
Pay-Out: 59.1%

**Year-End:  
December 31**

**Symbol:  
TSX-V: KBL.UN**

## Stock-of-the-Week

### Repeat: K-Bro Linen Income Fund (KBL.UN: TSX)

K-Bro Linen Income Fund (“K-Bro” or the “Fund”), through subsidiary K-Bro Linen Systems Inc., is the largest healthcare and hospitality laundry and linen processor in Canada. Services include the collection, laundering, delivery, and replenishing of linen.

The Fund operates processing facilities in British Columbia (Victoria and Vancouver), Alberta (Calgary and Edmonton), Ontario (Toronto), and Quebec (Quebec City).

Revenues are generated by: (a) publicly-funded long-term contracts with health-care institutions, such as acute care and long-term care hospitals (79%); and (b) hospitality industry customers, such as large downtown hotels (21%).

K-Bro intends to grow its operations in both existing and new markets by capitalizing on the Fund’s strengths and competitive advantages. It expects to achieve this by: (a) securing and maintaining long-term contracts with health-care and hospitality customers; (b) extending core services to new markets (through acquisitions or new facilities); and (c) introducing related services (example: sterilization of operating room linen packs).

The Fund’s biggest challenge is the successful renewal of existing contracts as well as winning new ones.

Since K-Bro is registered as an income fund, under the new income tax rules revealed in 2007, it will have to convert to a dividend-paying corporation by the 2011 taxation year. In fact, the Fund is aiming for a December 31, 2010 conversion.

Recently-released Q2 results saw a slight decrease in revenues attributable to a softening in the hospitality sector as a result of the difficult economy. However, there was substantial EBITDA margin improvement and, in the absence of write-downs and loss on disposals as occurred last year, net income more than doubled in Q2/09 compared to Q2/08.

First half 2009 results show revenue of \$43.2 million, up 4.2% over H1/08’s \$41.5 million, with EBITDA of \$7.6 million comparing to \$5.5 million. The EBITDA margin was 17.6% as against 13.2% a year earlier. The outlook for the balance of the year is positive, although the softer economy will have some negative effect. The Fund’s units currently enjoy a 9.0% yield.

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New eResearch  
Material Since  
August 10, 2009:

**1. Initiating Reports**

[BCE Inc.](#)  
8/13/2009

[Antioquia Gold Inc.](#)  
8/14/2009

[Waseco Resources  
Inc.](#)  
8/18/2009

**2. Update Reports  
and Bulletins**

[Luiri Gold Limited](#)  
8/18/2009

[Royal Roads Corp.](#)  
8/17/2009

[Seacliff  
Construction Corp.](#)  
8/14/2009

[Synergex  
Corporation](#)  
8/12/2009

**3. Analyst Articles**

[Pinnacle Digest](#)  
8/16/2009

[Stock Market Timing](#)  
8/10/2009

In addition to these reports and  
articles, our full complement  
of research is available at  
[www.eresearch.ca](http://www.eresearch.ca)

**BriefCase**

*NewsBytes from August 10 – August 18, 2009*

Additional information on the companies featured in NewsBytes may be found at [www.sedar.com](http://www.sedar.com), and at [www.eresearch.ca](http://www.eresearch.ca). For the latest eResearch publications, see sidebar opposite.

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**Avante Security Corporation (\$0.30 - August 10, 2009; ASY-TSX-V) ....** Avante Security Corp. has entered into an agreement with technology designer Connectrix Automated Solutions Inc. The agreement provides for the sale of certain assets of Connectrix and the assumption of certain liabilities by Avante in consideration for the issuance by Avante to Connectrix of 1,000,000 Avante common shares; the consideration shares will be valued at \$0.225 per share, the discounted market price. The closing of the transaction is expected to take place on or about August 31, 2009.

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**NaiKun Wind Energy Group Inc. (\$0.56 - August 11, 2009; NKW-TSX-V) ....** NaiKun Wind Energy Group has signed an agreement with Haida Enterprises, for the Haida Nation to acquire a 40% stake in the Company's proposed offshore wind energy project in the Hecate Strait off the coast of British Columbia. The Haida Nation is currently a partner with NaiKun in the subsidiary that will operate the wind farm.

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**MacDonald Mines Exploration Ltd. (\$0.14 - August 11, 2009; BMC-TSX-V) ....** MacDonald Mines Exploration Ltd., with an over-88,000 hectare land position in the James Bay Lowlands (McFauld's Lake area), has issued a property and exploration update. The Company also announced that it had initiated a brokered private placement offering to raise \$1,000,000 (5,000,000 flow-through units at \$0.20 per unit).

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**Benton Resources Corp. (\$0.43 - August 14, 2009; BTC-TSX-V) ....** Benton Resources Corp. has increased its recently announced non-brokered private placement financing to a maximum of 5,200,000 flow-through shares at \$0.50 per share. The private placement is expected to close before August 21, 2009. The proceeds will be used for upcoming diamond drill programs on Benton's Copper Hill block A and Saganaga gold properties in Ontario.

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**Rocmec Mining Inc. (\$0.07 - August 18, 2009; RMI-TSX-V) ....** Rocmec Mining Inc. has published an update on its thermal fragmentation mining contract with Fresnillo plc for Fresnillo's Cienega mine in Mexico. The thermal fragmentation unit is now on-site and Rocmec is ready to begin fragmenting the first set of pilot holes. Rocmec has initiated discussions with several mining companies with an interest in incorporating its thermal fragmentation mining method with conventional mining methods.

## Opportunity Knocks

These are challenging times, and we at eResearch are not immune to what is happening all around us. But, we are adapting to this difficult operating environment. We are fortunate in recently adding a new face to our Business Development Group. However, we are interested in adding one more to the team. Anyone with a penchant for sales, please contact us.

Also, having recently become a Limited Market Dealer, our Capital Services division requires someone with financing experience to lead our efforts.

If you are interested in either of the above, I can be reached at [bweir@eresearch.ca](mailto:bweir@eresearch.ca).

"Research is the  
bedrock underpinning  
all capital markets"

## Monthly Top Ten

The top ten downloads from [www.eresearch.ca](http://www.eresearch.ca) since August 1, 2009:

1. Weekly Clarion
2. Brookfield Asset Management Inc., Technicalities, August 6
3. Pinnacle Digest Interview with Mark Leibovit, August 2
4. Electrovaya Inc., *StockPotentials*, Perspective, August 7
5. Antioquia Gold Inc., Initiating Report, August 14
6. Seaclyff Construction Corp., *StockPotentials*, Perspective, August 14
7. K-Bro Linen Income Fund, *StockPotentials*, August 4
8. International Road Dynamics Inc., *StockPotentials*, August 6
9. Synergex Corporation, Perspective, August 12, 2009
10. Pinnacle Digest, "Specialty Metals", August 9

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