the eResearch Clarion

January 10, 2011

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

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Also, **Opportunity Knocks**:
In our Capital Raise Division and in our Business Development Group. See Page 4.

Topic: Natural Gas, Part 2

Natural gas went into a funk in 2010 primarily because of the perceived threat of shale gas providing boundedless supply. This scenario could easily spill over for 2011.

The oil and gas industry has made major strides forward in the development of its drilling techniques, allowing for the extraction of natural gas from shale rock seams. This has led to increased drilling of shale rock that, hitherto, was considered impossible to extract or uneconomic to exploit.

The substantial increase in natural gas production in the last two years has outstripped demand and caused swelled gas storage facilities. The result has been depressed natural gas prices. The January 1, 2010 price for gas was US$5.76/mmbtu. Using weekly closes, the high for the year was US$6.47/mmbtu (January 8), the low was US$3.19/mmbtu (October 22), and the December 31, 2010 close was US$4.23/mmbtu. See the following graph.

Off-setting the positive factors of an abundance of shale gas at relatively shallow depths are the negatives of shale gas' extremely rapid production rates, up to 40%-50% per annum, and the high development and production costs to obtain the gas from the shale. There are estimates of shale gas production costs approaching US$7.00/mmbtu. Given this, at current low prices, how can shale gas drilling be sustained?

Stock-of-the-Week

<will return>

Since regulations require drillers to either initiate drilling on their properties or lose them, in some instances, shale gas drillers have been forced to drill to secure their lands. Unless it becomes more profitable to drill, many drillers may simply choose to walk, since they have alternatives, i.e., redirecting their energies to oil properties. In this scenario, natural gas supply will slow, the euphoria over shale gas will diminish, and natural gas prices will rise.

Question is, when will all this occur? Perhaps in 2011. Regardless, the price of natural gas must, at least, reach a level where it is economical and profitable for producers to extract. For conventional natural gas wells, that is probably in the range of US$5.00 – US$6.00/mmbtu. For shale gas, US$7.00/mmbtu. The current (January 7, 2011) price is US$4.43/mmbtu.

In the meanwhile, what is going to propel the price of natural gas higher in the short-term? Well, this is historically the time of year when the price of natural gas rises, i.e., during the winter heating season. Since November 1, 2010, the price of natural gas has risen 32% from US$3.36/mmbtu to the current level. So far, in North America and Europe, this winter has recorded both above-average snow and cold temperatures. As a consequence, from the beginning of November, gas storage has declined by 10.7%, or 371 bcf. In addition, although last summer there were some areas of North America that experienced significant wet periods, other parts were bone dry. In the dry areas, electricity supply from hydro facilities was replaced by coal and natural gas. Unless these areas gain snowfall and spring rains to replenish rivers, there may be a continuation of natural gas demand past the winter season. Also, an early and prolonged hot summer would get those gas-guzzling air-conditioners going.

Although nowhere near their 52-week low (US$3.19/mmbtu), the current price of natural gas nevertheless is severely depressed. Whether the specter of bountiful shale gas keeps it that way through 2011 remains to be seen. However, one way or the other, the price of natural gas must rise. This provides an investment opportunity.

Like our 2010 call on uranium, we may be early. But we would rather be early than late. Just not too early, because that represents an opportunity lost.

Other than natural gas sensitive common stocks, investors can engage in the natural gas sector through ETFs. Candidates include NYSE:UNG; TSX:GAS; TSX:HNU; and TSX:ZJN. A well-worn investment adage is, “Buy ‘em when no-one else wants ‘em”. For natural gas, that might be now.

Bob Weir, CFA, and Managing Director, Research Services

New *e*Research Material Since December 31, 2010:

1. Initiating Reports

Foundation Resources Inc.
12/31/2010

2. Update Reports and Bulletins

Groundstar Resources Limited
01/06/2011

Golden Dory Resources Corp.
01/06/2011

Dia Bras Explor'n
12/31/2010

3. Analyst Articles

Stock Market Timing
01/06/2010

In addition to these reports and articles, our full complement of research is available at www.eresearch.ca

BriefCase

NewsBytes from January 4 – January 7, 2011

Additional information on the companies featured in NewsBytes may be found at www.sedar.com, and at www.eresearch.ca.

For the latest *e*Research publications, see sidebar opposite.

Leader Energy Services Ltd. ($0.55 - January 4, 2011; LEA-TSX-V) …. Leader has received additional exercise notices for partial conversions of its outstanding senior unsecured convertible debentures in the face amount of $1,000,000 or 2,500,000 shares. When the partial conversions are completed, Leader will have 17,215,000 shares outstanding.

AutoCanada Inc. ($4.90 - January 5, 2011; ACQ-TSX) …. AutoCanada Inc. has amalgamated with its wholly-owned subsidiary, AutoCanada GP Inc., to continue as AutoCanada Inc., effective January 1, 2011. The new AutoCanada Inc. holds all the assets formerly held by AutoCanada GP Inc. and AutoCanada Income Fund (a trust now wound up and dissolved). The share symbol is ACQ.

UC Resources Ltd. ($0.105 - January 6, 2011; UC-TSX-V) …. UC Resources announced that 4,875,000 warrants that were due to expire on February 11, 2011 have been extended for an additional 12 months, with the new expiry date being February 11, 2012. The exercise price of the warrants remains the same.

Clearford Industries Inc. ($0.39 - January 6, 2011; CLI-TSX-V) …. Clearford has signed an agreement with an Ontario-based developer for the licensing of Clearford's SBS™ system (small-bore sewer). The agreement is for the installation of the SBS™ system in a new residential community under construction near Orillia, Ontario. The potential license value of the three-phase project is $150,000.

Duran Ventures Inc. ($0.30 - January 7, 2011; DRV-TSX-V) …. Duran has closed the second and final tranche of its bought-deal private placement. Gross proceeds are $1,001,000. Part of the net proceeds will be used for exploration and development. Duran's principal project is Aguila, a porphyry copper/molybdenum project with related silver-lead-zinc zones (Peru).

SLAM Exploration Ltd. ($0.235 - January 7, 2011; SXL-TSX-V) …. SLAM plans to resume drilling operations on its wholly-owned Reserve Creek gold project (Ontario) on January 15. The drilling will be a continuation of the nine holes that were drilled (1,145 metres) in December. Assay results are expected around January 11 on 555 samples, representing 525 metres of mineralized core from the nine holes. SLAM expects to complete the current 2,000-metre contract program shortly, and plans to extend the program through the winter months of 2011.

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If you are interested in becoming part of our team, in either our Capital Services Division, or as part of our Business Development Group, please contact Bob Weir at: bweir@eresearch.ca.

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Monthly Top Ten

(Includes reports and articles only)

The top ten downloads from www.eresearch.ca since December 13, 2010:

1. SLAM Exploration Ltd., Perspective, December 16
2. SPDR Gold Trust ETF – GLD, Technical Report, December 16/10
3. Groundstar Resources Limited, Perspective, January 6
4. Currie Rose Resources Inc., StockPotentials, December 13
5. Novus Energy Inc., StockPotentials, December 22
6. Duran Ventures Inc., Perspective, December 15
7. Antioquia Gold Inc., Perspective, December 14
8. Botswana Metals Limited, Perspective, December 14
9. Consumers' Waterheater, Perspective, December 17
10. Buhler Industries Inc., StockPotentials, November 25

Bi-Weekly Top Five

(Includes reports and articles only)

The top five downloads from www.eresearch.ca since December 27, 2010

1. Groundstar Resources Limited, Perspective, January 6
2. Foundation Resources Inc., StockPotentials, December 31
3. SLAM Exploration Ltd., Perspective, December 16
4. Novus Energy Inc., StockPotentials, December 22
5. Currie Rose Resources Inc., StockPotentials, December 13