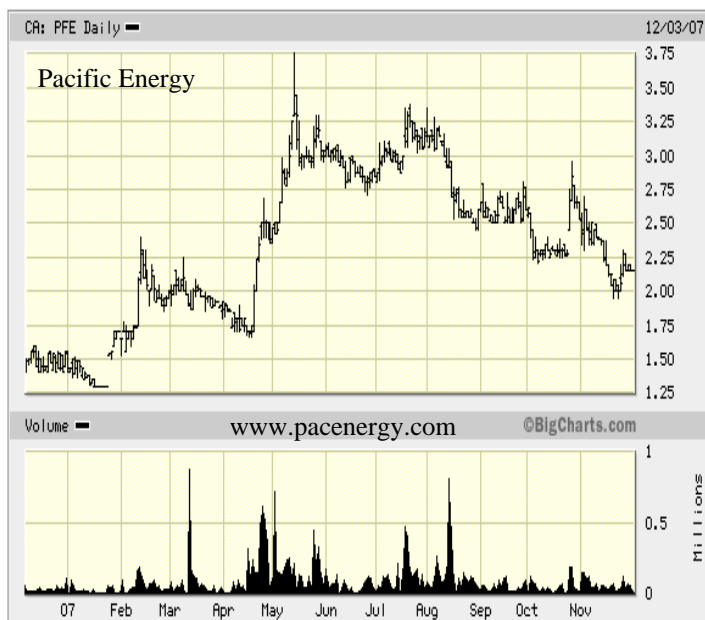


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**AN INTERVIEW WITH ANDY GUSTAJTIS,
ANALYST WITH DOMINICK AND DOMINICK
(As of November 28, 2007)**

We're here with *Andy Gustajtis*, probably one of the top commentators on the subject of oil and gas over the last year or two. Right now Andy we could use a little hand-holding.

David Pescod: This oil and gas market almost tells us that we are in a recession or the market expects one sometimes soon. We should be having a lot of fun with \$90 plus oil, shouldn't we?

Andy Gustajtis: David, before we begin this interview I would like your readers to know that I no longer call myself an analyst and spend my days as an investment banker. I am happy to share my opinions with you and your readers and I would like it to be clearly understood that they are not **RECOMMENDATIONS**.

With this out of the way let's get back to your question and state that I see this as an extraordinary paradoxical market which one could almost describe as psychotic. I think the investors have lost touch with reality. We have \$90 oil, gas of course has been very disappointing in North America this year and certainly I've been wrong on my call on natural gas but that is a short term problem for another time. Looking at my portfolio and looking at my oil stocks in general, you would tend to think we are heading back to single digits for oil prices.

I just got back from a day in Quebec City attending an Exploration 2007 Conference. I went there primarily to listen to a number of technical presentations on shale gas and shale opportunities in Quebec and Eastern Canada. I had an opportunity to listen to some very talented people talking about the Trenton Black River – which is a play that Talisman has been very successful with in upstate New York, drilling some of the **BIGGEST NATURAL GAS WELLS IN NORTH AMERICA**. It was interesting getting some of the buzz from some of these very big companies.

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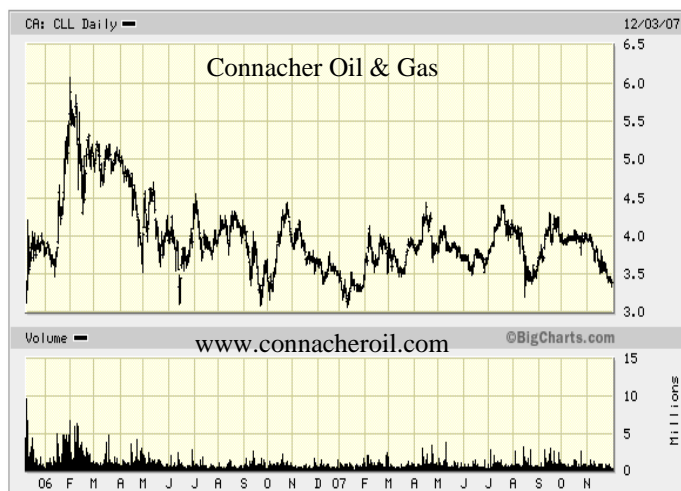
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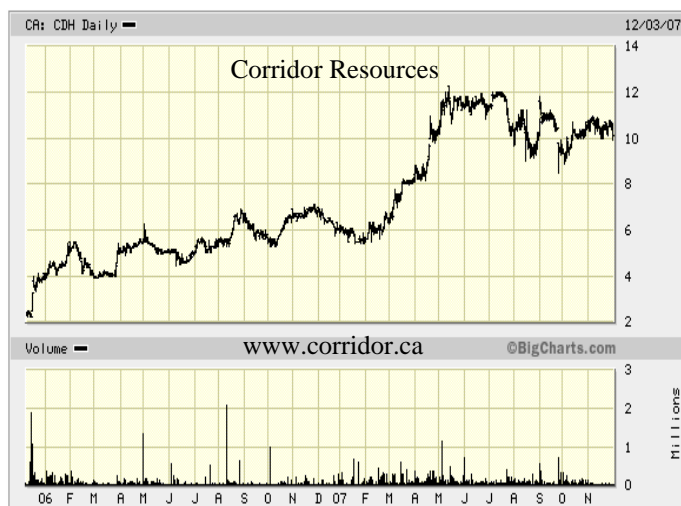
I noticed *Canadian Natural Resources* got hammered a couple of days ago due to the cost overruns on their MEAG Project. Speaking with a number of people from Talisman about their game plan strategies, and why they have avoided the oil sands (rightly or wrongly) they admit it that it is very hard to grow, big reserves are history, conventional production has very short life and cost continues to rise, and of course the Alberta's Royalty increase reduces economics even more. It is a strange time for conventional oil and gas.

D.P: What is your outlook for oil and gas in this market because it feels like anything is possible?

A.G: I've been of the school of thought that the glass has been half empty for pretty much since the late 1990's in terms of the oil picture and I'm a big proponent that we are clearly in a peak oil market in a global sense. I think there is some evidence to suggest that peak oil actually hit a year ago. If you look at some of the global statistics, I think oil production globally in fact peaked in 2005 and what we had is natural gas liquids filling the void. I don't believe we have seen the high on oil prices, although with a run from \$80 to just under \$100 deserves a little consolidation. But I would not bet for much weakness from current levels. I think oil prices are going to spend probably the next decade trading in triple digits and I don't know whether that means \$100's or \$200' or even \$300's a barrel, but I think we are going to see oil trading at triple digits for probably most of the next ten years. It's still the only energy source for transportation globally and my big bet is that at high prices, gas to liquid conversion is going to start to become a reality and then you are going to have a real run for the money in terms of being able to transform coal or natural gas into a liquid form of hydrocarbons that you can put into jet airplanes, automobiles and other forms of transportation, and control oil prices. I am a big believer that cheap oil is history. One big argument that has been made from \$20 all the way up to where we are today is that high oil prices were going to kill the economy. The consumer was going to rebel.



There was an interesting chart in the *Globe and Mail* the other day showing how oil consumption in North America and oil as a percentage of GDP are moving in two different directions. A combination of things of course, we've have closed down much of our primary industries in North America, we don't make a lot of things we are becoming more of a service industry. We don't need to use as much energy to trade shares versus making rail cars and certainly the demand for energy as part of our GDP has been coming down here for 20 years.



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So I don't think high oil prices in themselves have had much, if any, impact of a negative nature on the economy. Certainly the cross currents on the U.S. economy right now are very, very mixed, but I think most of that has to do with the fact that there have been a lot of very, very silly loans made by a lot of very large financial institutions and the market is adjusting to those loans and it's going to take time which will have an impact on availability of credit and consumer spending which probably will lead to a slowdown. But I have found that one should not underestimate the Yankee's ingenuity. Outside of North America, the big drivers in oil will be Asia, China and India and I don't see them changing their economic demands. I think those countries are just beginning to wake up to modernization, development and industrialization and that's not going to come to a stop anytime soon so I think demand is going to stay very strong.

D.P.: We are glad to hear that part. While we don't know whether we are in a recession or not and we don't know in the short term where oil and gas prices are going to be, can you give us some specifics on some of your favorite stories? Seeing as you've been down East, Corridor Resources is one of your selections that have done amazingly, particularly since most natural gas stocks have been down hill big time.

A.G.: It certainly has been a great stock to be involved with here for the last several years and *Norm Miller*, the President of the Company was the guest speaker at the Quebec City dinner I attended as a guest of Junex Inc. In fact, he was introduced as "Sir, Norm Miller" Knighted by the Petroleum Group in Quebec City. Here's a small little company based in Halifax, basically created by a bunch of retired oil executives that were trying to keep themselves busy in their retirement years and created this company about 14 years ago. Today, the company has capitalization of almost \$1 billion. It's a company that has a gas project in North America which conceivably could be multi-TCF of recoverable reserves. It's still early to say that categorically, but certainly a company that has a very large gas field which is now connected to the North American market through their efforts - 100% on their own and they've just completed a massive frac program on six new wells that they've drilled in New Brunswick with results coming out here in early December. One of the big unknowns right now is what the commerciality of a shale sequence that they've encountered is and what it might look like. We will have some evidence of that shale well in late December and if the Frederick Brooks shale is commercial, it certainly will get a lot of attention. It was interesting that some very big companies are now doing some serious homework to decide whether they want to get involved in that part of the world to chase the shale potential.

D.P.: They also have the Dawson Settlement way down deep, when is that finally going to be tested? People have been waiting for years to see if that enormous target is there or isn't.

A.G.: The well is currently drilling towards 4400 meters. They started about four weeks ago, so they probably have another couple of months to go by the middle of January or early February before they are down at that level. It's the A-67 deep well test. They put on a 10,000 pound blowout preventer. They are expecting huge pressures when they get into this shale sequence. They are planning to drill this under-balanced and they are expecting to do the testing as they are drilling through this section. So there is going to be some excitement coming out. On the Dawson Settlement, if its there, they are expecting to hit at around 4200-4300 meters.

D.P.: Now of course some people are suggesting that there could be as much as 3-5 TCF down there. What kind of odds of success would you give them?

A.G.: I would probably continue to think that it is probably a one in four shot. Normal exploration is probably a one in 10 to one in 20. I think it's better than normal exploration because of the work that Norm and his team have been doing here for a decade and I think it's a question of whether or not their seismic interpretations are correct. They don't know. No one has drilled a well that deep in that part of North America.

D.P.: Any thoughts on Corridor that you can make at this time?

A.G.: I have been of the view for several years now that the McCully Gas Field is a classic, deep basin centered gas play and is very much like Pinedale and Jonah in Wyoming. I think that all the work that has been done to date by Corridor continues to show that this thing looks bigger and better than the original expectations and I don't have any reason to believe it won't continue to unfold as a bigger and better play. So ultimately, this could be another *Ultra Petroleum*. This run up from \$1.00 to \$10.00 might only be the beginning for Corridor.

D.P.: Now before you get too excited about that, let's come back to reality. Connacher is another story you were quite excited about the last few months and it's gone the way as much of the market over the last while. Within a month, we should know if this Great Divide lives up to expectations or not.

A.G.: That's right David. It's been disappointing. They just closed a \$600 million debt issue in the U.S. at a time when trying to do an issue like this seemed impossible. Right now it looks like the sellers are driving the share prices down and with a buyers strike out there for these resource stories.

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D.P.: Do you have a view on Connacher for down the road?

A.G.: I've been quoted by you, thinking this is an \$8 - \$10 stock in the coming year and I don't see any reason to change my view on it.

D.P.: Well, thanks for that hand-holding. Now onto another company that you've single-handedly raised an awful lot of money for and are quite intimately involved in and that's Pacific Energy. There are some analysts out there with high hopes?

A.G.: I think this is again, one of those extraordinary stories. Corridor has been ten years in the making; *Pacific Energy* history has been a short 24-month in the making, but again, run by some very clever and dedicated people. Pacific Energy has made two large transactions – one was I think, the deal of a lifetime. They bought effectively a 500 million barrel oilfield with three huge offshore platforms with a replacement value of over \$1 billion all for a mere \$1.00 from Exxon and Shell in offshore California. You don't do that every day! They needed to step into Exxon and Shell's shoes and assume the obligations that came with this acquisition and that are where the equity was raised that we were involved with. The acquisition came with about 2100 barrels a day of production and there are almost 5000 barrels a day of shut-in production which should be on-stream in the coming 12 months, taking this offshore asset to about 6000-7000 barrels a day. The other transaction was a much more aggressive one in the sense that they acquired from Forest Oil, all of Forest's assets in Alaska, representing about 5500-6000 barrels a day of production. This company now has over 100 million barrels of 2P reserves, basically split between California and Alaska.

I think these oil barrels probably have the best chance of remaining among the most valuable because they are in the USA. I don't think we are going to see the kind of royalty grab that we've seen here in our own country. I don't think you are going to see the socialistic moves that we are seeing in Latin America or the outright confiscation in Russia, so I think Pacific Energy bought these assets wisely. Their average cost has been less than \$7.00 a barrel. They have a re-financing undertaking which appears to be quite onerous in the sense that they have some very high coupon debt associated with the Alaskan assets, but I think they will be able to get that restructured and refinanced in the coming months and I think this is a company that could be producing 15,000 to 20,000 barrels a day within the next 12-24 months. At the current trading price adjusted for the Company's debt you are only paying under \$8 per barrel less than a third of what most Companies trade at.

D.P.: There are not a lot of analysts following it so far.

A.G.: No and we see that. Not to sound pompous, but if you track share price performance and strong buy recommendations, there seems to be an inverse relationship. The more buys you have and the more positive reports you have on the stock, the less likely you have the possibility of having a big winner. The big real money situations are made in the under-covered, under-appreciated stories, before the research hits the street. These stories usually take time and they have issues that people either don't have the time or the skill set to fully appreciate and it takes time to get these things understood. Ultimately, you will get coverage. I'm not worried about the fact that it doesn't have a lot of coverage; in fact I find it comforting to get involved in companies that don't. I like to be involved with the companies early when capital risks are low. I have often looked at companies as a young birds needing care to prepare them to soar with the eagles.

D.P.: What could we expect to see for Pacific Energy over the next year?

A.G.: I think that once they get this refinancing out of the way, I think this stock should be trading at least twice where it's currently trading at, if not higher. They are forecasting a doubling in production.

D.P.: There is an interesting play in South America after what you have mention about Latin America – *Petrolifera Petroleum*, which has had a little bit of problems in Argentina, but for anyone who has seen the seismic on their projects in Peru gets excited.

A.G.: With Peru's Camisea Gas Project, Peru is now on the radar screen as a country that has the potential for elephant discoveries. There is a pipeline into the Pacific Coast; there are moves now underway to bring this gas by LNG into North America. I think Petrolifera has a very competent, technical team running the Company. They have been very successful in Argentina, they hand-picked the two licenses they got in Peru. They obtained those licenses before the global oil industry woke up to the opportunities in Peru. The early seismic is confirming they have a huge opportunity which will take time but I am not long the stock for a short term flip. With success Petrolifera could be a multi-billion Company. These type opportunities are extremely hard to land.

D.P.: You've not only been pushing energy stocks, but also some of these alternatives – solar power, wind power and the like. You have two favorites we believe, in *Arise Technologies* which has almost tripled since you first mentioned it and *Sustainable Energy*. What's your look at these two companies now?

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A.G: I think solar, if it isn't already becoming part of the mainstream energy picture, it will be in the next several years. With \$100 oil or higher and the issues of global warming – Solar Photo-Voltaic has become very important. Arise has been working in developing a photo-voltaic cell which is going to be about 30% more efficient than your run-of-the-mill photo-voltaic cells. The government in Germany has done its own homework, it believes that this technology has a real shot and has given the company affectively almost \$50 million in either grants or low-interest money to build a factory and put their technology into production. We will see within a year how successful this photo-voltaic cell is going to be, but if this company could hit the sales targets that they've suggested that they can, this could be a billion dollar company in the next several years.

D.P: Wow!

A.G: I'm just looking at my quote screen and there's a story out there called First Solar that has continued to hit all-time high through this entire market sell off. I look at it as one of my yardsticks on how these solar stocks are performing in what is obviously a very troubling market. The issue with Arise and Sustainable is that they are tiny companies just beginning to get some recognition. Sustainable Energy is a company that's already has a very good and unique product in the market. They have about 1000 of their inverters installed in Spain that allow the Photo-Voltaic produced electricity to meet the features to permit this electricity to enter the grid and therefore receive payment. Sustainable have a very small staff, but they are working very hard on negotiating some new contracts and I'm hopeful that before too much time passes, we are going to see some meaningful, new contracts come out. In the early stages, it will be dribs and drabs, but if their inverters get the kind of market penetration that they conceivably could, their sales could ramp up exponentially over the next several years.

D.P: Looking down the road, what kind of targets are you associating with these two companies?

A.G: Targets are for analysts. I can tell you why I bought these stocks. In terms of Arise, I think a double in the stock from current levels is reasonable to expect within the next 12 months. They should be in production and operating their factory by this time next year. Sustainable, I think the stock is so undervalued in terms of what its potential could be, it could really surprise us. I think you quoted me at \$2.00 on the stock and I don't see any reason to move off that for the moment David.

D.P: Now you've also been expecting not a lot from Western Canada - high costs and the like. I guess your position there hasn't changed?

A.G: The only areas I believe deserve serious attention are the heavy oil sands and unconventional natural gas. I think you are going to have a hard time really staying ahead of the costs curve which most other projects, and being able to replace and add production. Now, every rule has exceptions and there are going to be some companies that will have the ability to get into a play that has some real potential and meaningful reserves and they will be fortunate. But I think a lot of companies are just going to have a hard time replacing and adding to their reserves with the kind of cost structure that we are dealing with now and I just don't see a lot of interest in their stories with my clients.

D.P: We have covered a lot of stocks. If you could only own three, what would they be? And if you could only own one of those three, what would it be?

A.G: Being a little bit of a gambler, I would basically think that Pacific Energy (if they could get this refinancing accomplished and out of the way) could prove to be quite an exciting story. I would put them as my number one favorite. I'm hopeful that we are going to see some new contracts being announced from Sustainable Energy in the next few weeks, if not months and if that happens, I think the stocks could get some momentum and move to new highs. And I still think that Connacher is so unbelievably undervalued in relationship to what it offers, that I would have to put Connacher as a strong buy here.

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D.P.: Thank you very much Andy!

You're welcome David but once again it is important that your readers remember these are opinions and not recommendations. I own shares in the Companies I mentioned excluding the Canadian Natural Resources and Talisman.

Andy Gustajtis is an Officer and Managing Director of D&D Securities Company which is a member of the IDA and the Canadian Investor Protection Fund. His comments are believed to be reliable but we cannot represent that the information is accurate or complete and it should not be relied on as such. D&D Securities Company, its officers, directors or employees from time to time may hold shares, options or warrants on any issue included in this interview. D&D Securities Company has actively participated in financing of ARISE Technologies, Corridor Resources, Connacher Oil & Gas, Sustainable Energy and Pacific Energy. Comments made should not be construed as an offer or solicitation to buy or sell securities.

Disclosure: **Arise Technologies** and **Talisman Energy**: Canaccord Capital 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.) **Canadian Natural Resources**: Canaccord Capital covers this stock and has a Hold rating on it. (Hold: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.)

Canaccord has recently led a financing for **Arise Technologies**.

Canaccord has recently participated in financings for **Pacific Energy**, **Sustainable Energy** and **Corridor Resources**.

DEB'S DITTY:

After starting a new diet, I altered my drive to work to avoid passing my favorite bakery. I accidentally drove by the bakery this morning, and as I approached, there in the window were a host of goodies. I felt this was no accident, so I prayed...

"Lord, it's up to you. If you want me to have any of those delicious goodies, create a parking place for me directly in front of the bakery."

And sure enough, on the eighth time around the block, there it was!

(God is good)

Thanks Jack J.

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