

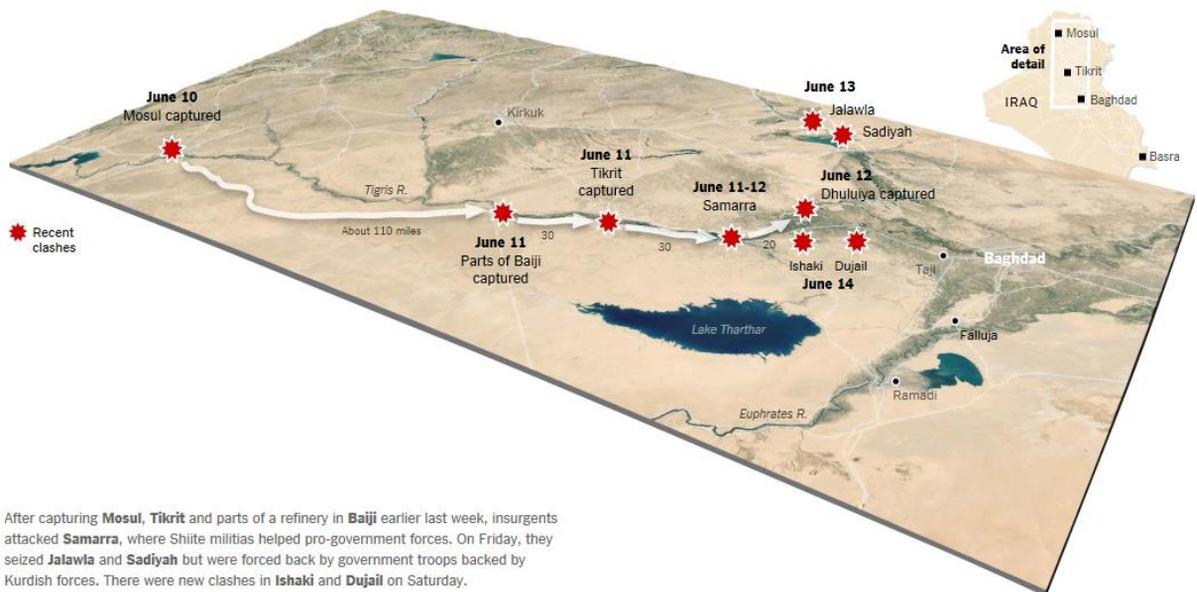
Iraq Sectarian Violence Lifts Risk Premium For Oil

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Marching to Baghdad UPDATED JUNE 14

After sweeping across the porous border from Syria to overrun Mosul, insurgents aligned with the jihadist Islamic State of Iraq and Syria continued to press south down the main north-south highway toward Baghdad. [RELATED ARTICLE »](#)



After capturing **Mosul**, **Tikrit** and parts of a refinery in **Baiji** earlier last week, insurgents attacked **Samarra**, where Shiite militias helped pro-government forces. On Friday, they seized **Jalawla** and **Sadiyah** but were forced back by government troops backed by Kurdish forces. There were new clashes in **Ishaki** and **Dujail** on Saturday.

Source: New York Times, June 12, 2014

Iraq Sectarian Violence Lifts Risk Premium For Oil

1. Oil Prices Will Probably Remain Higher Than Fundamentals Warrant Due To Iraq Sectarian Fighting

World oil prices have strengthened over the last few weeks as the ISIL (Islamic State of Iraq and Levant) a Sunni extremist group expanded its military operations successfully against the Shiite led Government of Prime Minister Nuri al-Maliki. With large parts of eastern Syria and most of western Iraq in their hands, the takeover of Mosul (the second largest city in Iraq) in northern Iraq, a city of 2M people, was a wake up call to this new phase in the ongoing sectarian war that has been going on as the Shiite led government continues to disenfranchise the minority groups of Sunni and Kurds. The resulting extremist led Sunni fighters have now moved southeast and taken over Tikrit and are now moving to surround Baghdad. Iran has upped the ante to protect its Shiite brethren and has sent in some of its best troops to assist the Maliki government stabilize the military situation and begin to push back the ISIL. How this plays out may have significant impact on oil prices in the near term.

If Iraqi oil production is halted for any length of time, a removal of their nearly 3.2Mb/d would tighten up the supply and demand picture abruptly. In Q1/14, OPEC exceeded market demand, producing 29.8Mb/d against the call on OPEC of 28.9Mb/d. In Q2/14 the call on OPEC appears to be 29.3Mb/d of which Iraq was producing 3.18Mb/d in May, prior to the recent military moves by the ISIL. With many oil fields now in the hands of the militants and one-third of Iraqi production, as well as a key refinery, production from the Kirkuk area is estimated to be 500Kb/d now, down from 1.5Mb/d in May. This is despite the Kurdish military (the Peshmerga) having moved in and taken control of the city of Kirkuk. Most of the oil fields and pipelines are now behind enemy lines. A worry that Iraq may go the way of Libya is a very justifiable concern. Iraqi production is more than twice Libya's before it fell off from 1.6Mb/d to just over 200Kb/d in May. The recent spike in oil prices is the result.

Table 10.2: Summarized supply/demand balance for 2014, mb/d

	2013	1Q14	2Q14	3Q14	4Q14	2014
(a) World oil demand	90.01	90.15	90.20	91.92	92.27	91.14
Non-OPEC supply	54.20	55.56	55.14	55.46	56.41	55.64
OPEC NGLs and non-conventionals	5.66	5.71	5.77	5.84	5.91	5.81
(b) Total supply excluding OPEC crude	59.86	61.27	60.91	61.29	62.32	61.45
Difference (a-b)	30.15	28.88	29.29	30.63	29.95	29.69
OPEC crude oil production	30.20	29.84				
Balance	0.05	0.96				
				30.7 May Production		

Source: OPEC Monthly Oil Market Report, June 2014

Supply and demand

mb/d

2013		12/13	2014		13/14
World demand	90.0	1.0	World demand	91.1	1.1
Non-OPEC supply	54.2	1.3	Non-OPEC supply	55.6	1.4
OPEC NGLs	5.7	0.1	OPEC NGLs	5.8	0.2
Difference	30.1	- 0.4	Difference	29.7	- 0.5

Source: OPEC Monthly Oil Market Report, June 2014

We had been expecting that the slowing world economic activity at the same time as OPEC was losing market share of world demand, would push oil prices lower as countries in the OPEC group in financial need would try to grab market share from their OPEC colleagues and would push oil prices lower to gain needed revenues. The difficulties in Libya has cushioned this view as they have not yet been able to resolve their internal differences and return production to their 1.6Mb/d capacity. If Libya had started to return to full production, and Iran had been allowed to sell more oil as they had made progress on their nuclear negotiations, then the addition of Iranian production of 700Kb/d and Libya production, would have driven oil prices both for Brent and WTI down to the low US\$80's. This of course has not happened!

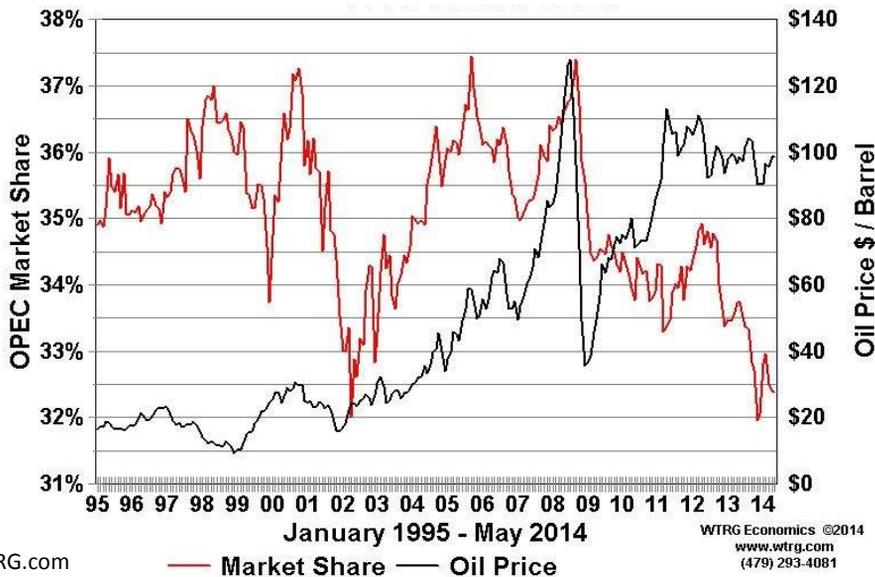
While we view the above scenario as still possible to happen at some point later in 2014, for now the military activity and most importantly all setbacks by the Iraqi government against the ISIL and any further loss of oil producing territory will elevate oil prices. How high they could go will be impacted by the production decisions of the Saudi government, who have capacity of over 12Mb/d and were producing 9.7Mb/d in May.

Table 5.5: OPEC crude oil production based on *direct communication*, tb/d

	2012	2013	3Q13	4Q13	1Q14	Mar 14	Apr 14	May 14	May/Apr
Algeria	1,203	1,203	1,202	1,208	1,202	1,203	1,190	1,190	0.0
Angola	1,704	1,701	1,701	1,625	1,553	1,446	1,599	1,605	6.0
Ecuador	504	526	534	544	553	557	560	554	-5.9
Iran, I.R.	3,740	3,576	3,653	3,239	3,270	3,300	3,250	3,230	-20.0
Iraq	2,944	2,980	3,006	2,915	3,106	3,089	3,064	3,177	113.0
Kuwait	2,977	2,922	2,992	2,912	2,898	2,860	2,927	2,822	-105.2
Libya	1,450	993	752	332	384	241	222	217	-5.2
Nigeria	1,954	1,754	1,824	1,706	1,869	1,825	1,824	1,809	-15.0
Qatar	734	724	719	725	725	710	701	701	-0.2
Saudi Arabia	9,763	9,637	10,115	9,773	9,723	9,566	9,660	9,705	44.7
UAE	2,652	2,797	2,858	2,714	2,733	2,778	2,606	2,847	241.0
Venezuela	2,804	2,786	2,781	2,851	2,870	2,856	2,836	2,832	-4.0
Total OPEC	32,429	31,599	32,138	30,543	30,886	30,429	30,440	30,689	249
OPEC excl. Iraq	29,485	28,619	29,132	27,628	27,781	27,340	27,376	27,512	136

Source: OPEC Monthly Oil Market Report, June 2014

Petroleum Supply OPEC Market Share



Source: WTRG.com

OPEC's highest world wide market share for oil had been 37.5% in 2005 and 2006 and their share fell precipitously post the financial crisis of 2008-2009. Current market share is just under 32.5% and was expected to fall even further in the next few years, as growth in non-OPEC production took all of the volume growth worldwide. The US and Canada, due to the shale revolution, have been the big beneficiaries as OPEC lost market share.

OPEC is continuing as a group to spend significant capital to expand capacity on an expectation of better economic conditions in the world later in this decade. If the drilling and exploration programs now in place succeed in meeting the ambitions of the OPEC countries and Libya returns to full production, than OPEC's capacity could rise 4-6 Mb/d from current levels over the next 3-4 years. In a decent growing world economy this capacity would likely be needed, and the price of oil in such an environment could be north of US\$120/b. This is the optimistic case for oil, but we are not in this camp at this time.

Petroleum Supply OPEC

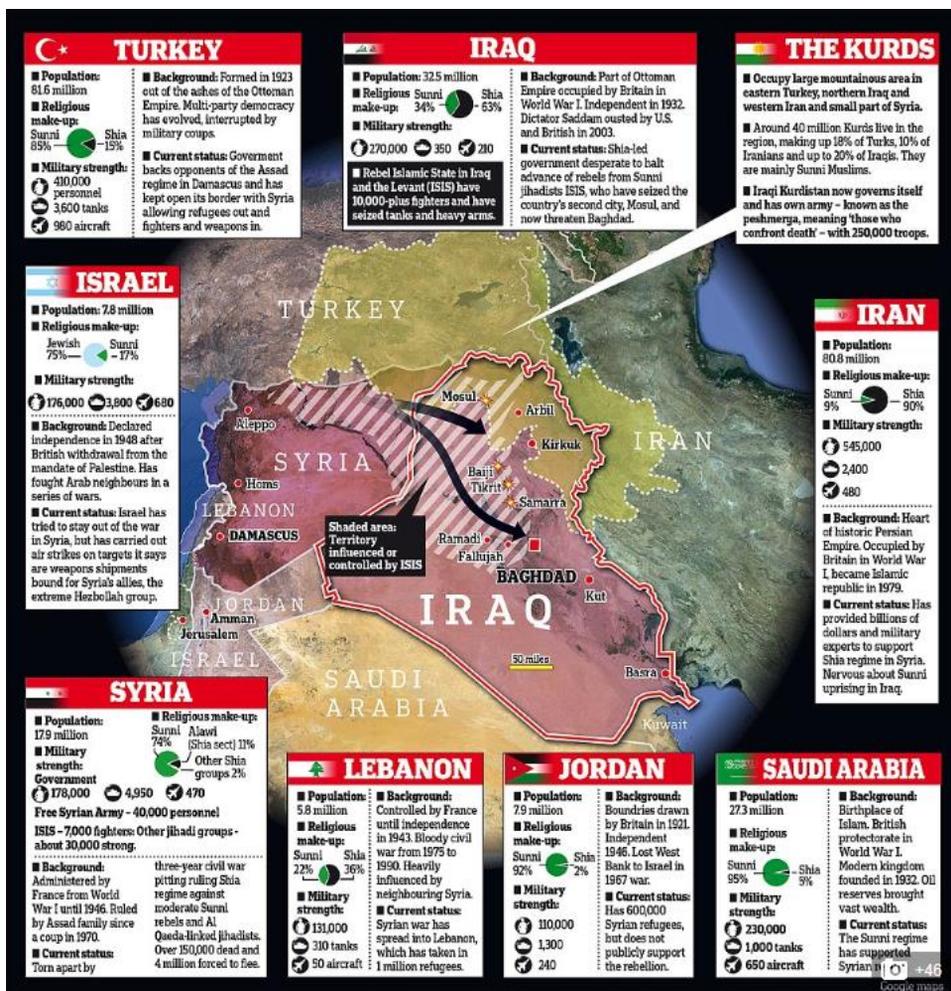


Source: WTRG.com

We remain more cautious as the pace of economic activity has not met the optimists' view. Our key concerns remain the high debt levels across the globe and the use of deficit financing by governments to continue to keep the pace of economic activity in positive pronouncements. The sluggish growth which has been bought with fast debt creation is unsustainable. Also the world economic juggernaut – China, has seen the pace of its economic gains slacken below their desired levels and much below what the world needs to foster healthy economic growth for all.

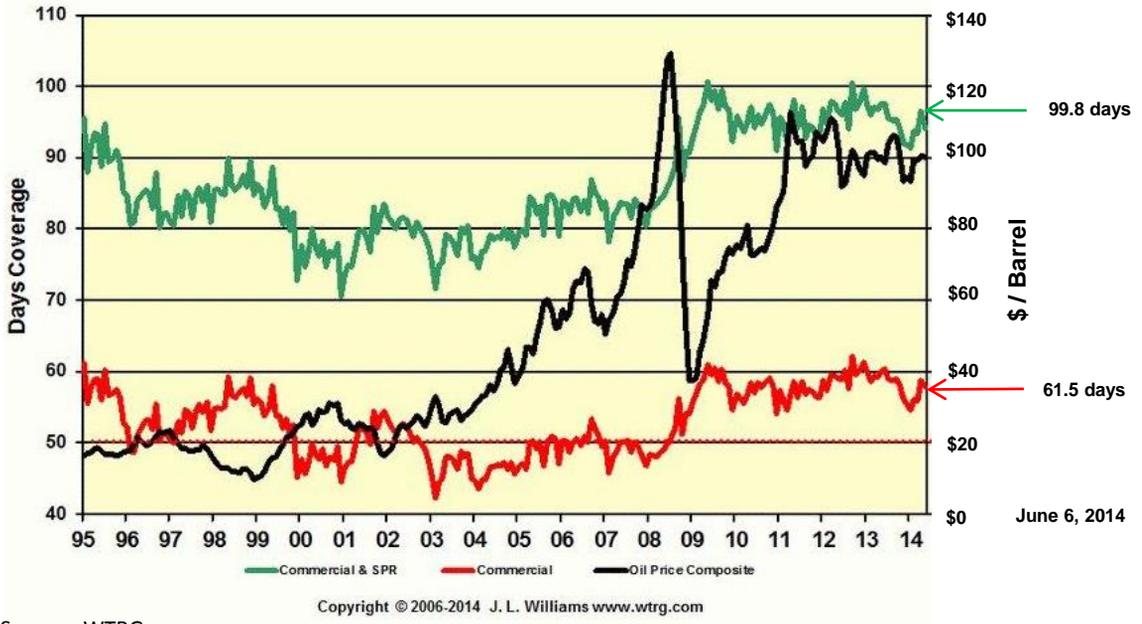
So, the current war in Iraq is the focus of rising oil prices currently and may remain so for some time. If Iran and the US help the Iraqi government to push out the ISIL and the oil production returns to full usage then the price of oil should retreat. This though is a big IF. The US and Iran in bed together to help Iraq seems surreal.

The long term winners in this conflagration could be the Kurds. With their own successful governing of their province and having their own substantial and effective military, they may be able to grab more of the oil fields and infrastructure around the current Kurdish enclave to support their long term viability as an oil producing nation, and eventually secede from Baghdad.



Source: DailyMailOnline, June 13, 2014

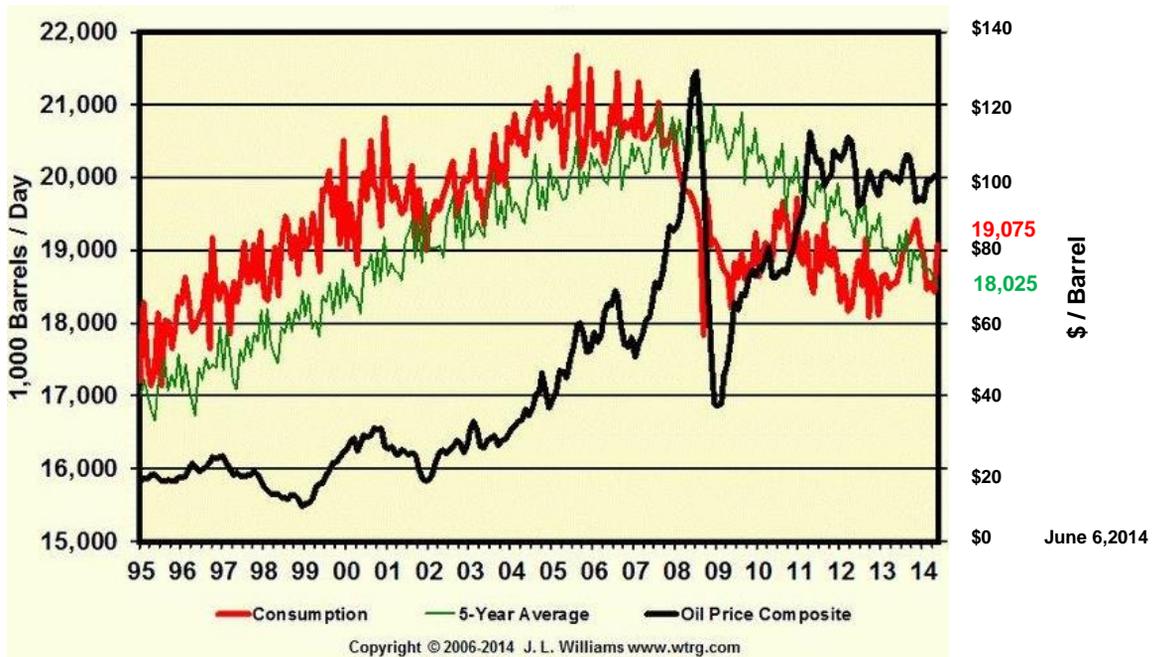
U.S. Petroleum Stock Coverage And Oil Price



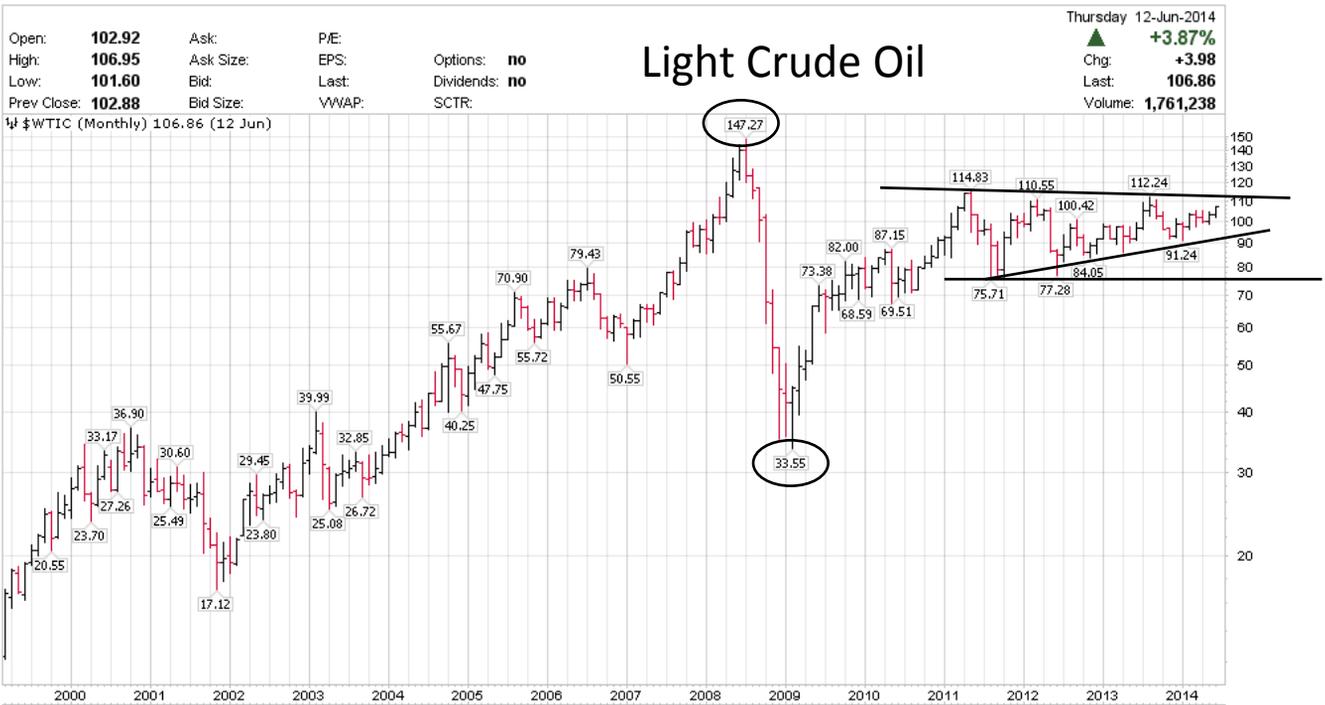
Source: WTRG.com

Part of our concern about current oil prices has been the weak demand in the US and the high inventories in the largest oil consuming nation. Inventories in the US are near historic highs of 101 days (now 99.8 days) and the norm of mid-80's. Consumption has also been weak as high prices and a sluggish economy have lowered usage to just over 18Mb/d, 1Mb/d below the 5-year average of consumption. Current demand is the lowest in a few years and is reaching back to the lows post the financial crisis.

U.S. Petroleum Consumption And Oil Price



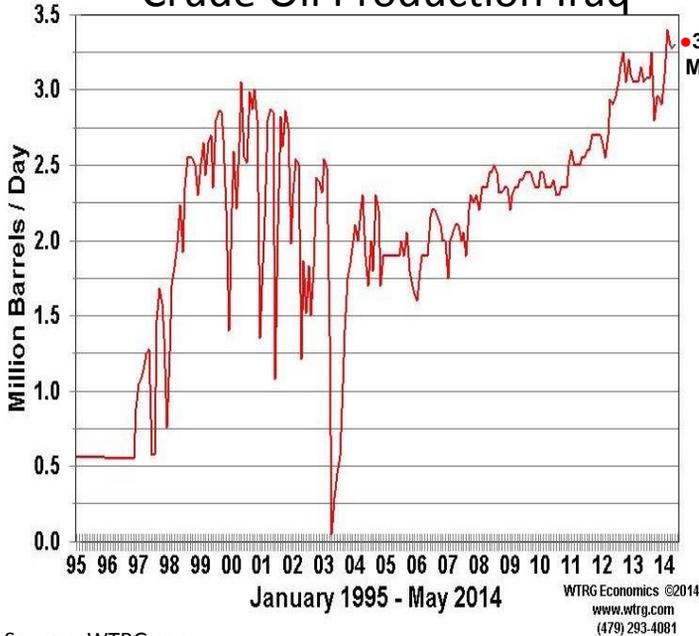
Source: WTRG.com



Source: Stock Charts, June 12, 2014

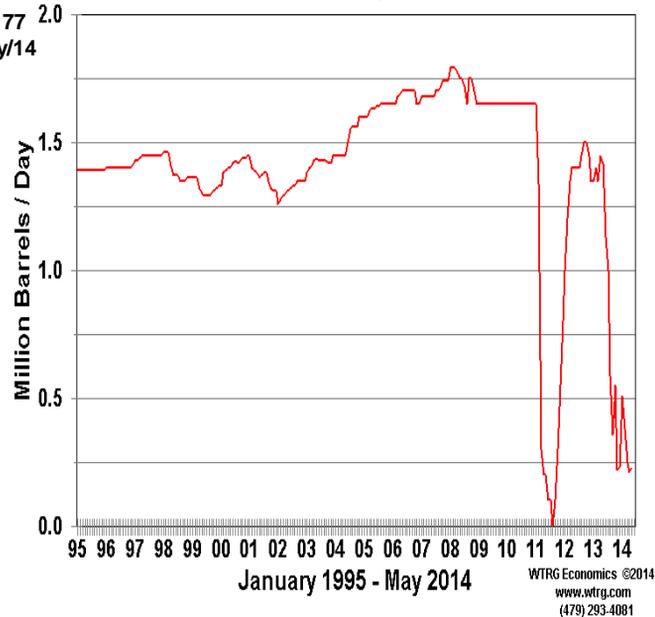
We will be watching carefully as events unfold in Iraq. If things stabilize and production returns to May levels, then the price of oil should retreat. If the violence continues and the ISIL gains more territory then prices will rise even further with how high dependant on what Saudi decides to produce. A range of US\$90 – \$112/b should hold for the coming months unless Iraq falls into a comparable hell as Libya.

Crude Oil Production Iraq



Source: WTRG.com

Crude Oil Production Libya



2. Maison Universe High Impact Drilling Watch List



Europe, India, and the Middle East:

<u>Play Area</u>	<u>SAMI Covered Companies</u>	<u>Target</u>	<u>Location</u>	<u>Ownership Working Interest</u>	<u>Leverage Potential to Upside Success</u>	<u>Est. Chance of Success</u>	<u>Timing</u>
Sidi Moktar Kamar-1	Longreach Oil & Gas (LOI)	>15Mboe	Morocco	50%	\$0.50+	25%	News Q4/14
MJ-A2	Niko Resources Ltd.(NKO)	Gross 3TCF 200B Liquids	Offshore India	10%	\$5+	33%	News Q3/14
Block 2-3	Petromanas Energy Inc. (PMI)	>200Mb	3 wells in Albania	25%	\$0.50+	25%	Milosht-1 News July-August/14
Shukheir Bay	Sea Dragon Energy Inc.(SDX)	5Mb Target Nubia	Egypt	100%	\$0.20	33%	Spud Late 2014 or 1H/15
A8 & Crosgan	Sterling Resources (SLG)	100Bcf	UK N.Sea	30%	\$0.50+	33%	Q2-Q3/14

3. Top Picks: No Domestic Picks This Month

4. Recommended Buy List:

Maison
Placements
Canada

Junior & Intermediate Energy Companies

Recommended Buy List
June 13, 2014



Company	Sym	June 13, 2014		APPRECIATION %		Capitalization \$M
		Stock Price \$	Target Price \$*	Present Price	On the Week	
DualEx Energy International Inc.	DXE-V	0.17	0.50	194%	13.3%	16.3
Longreach Oil & Gas Ltd,	LOI-V	0.30	0.60	82%	-9.1%	24.3
Niko Resources Ltd.	NKO-T	2.47	5.00	102%	-15.4%	226.0
Petromanas Energy Inc.	PMI-V	0.365	0.60	64%	7.4%	253.2
Sea Dragon Energy Inc.	SDX-V	0.075	0.24	220%	7.1%	28.2
Sterling Resources	SLG-V	0.54	1.60	196%	1.9%	167.2
				Week's Δ		
				TSX Energy Index	336.99	5.1%
				WTI	106.74	3.8%
				Nymex	4.75	0.6%
				AECO (C\$/mcf)**	4.72	-2.1%

* Our stock price targets are based upon the Proven Reserve Life Index times our future cash flow expectations.

** Based on approximate conversion of 1.0504 GJ heat value = 1mcf NatGas

Source: Schachter Asset Management Inc., June 13, 2014

5. Research Coverage List

Research Coverage List - 13 June, 2014

Maison
Placements
Canada

Rating:	
5 - Strong Buy	2 - Sell
4 - Buy	1 - Strong Sell
3 - Hold	



Companies Covered	Symbol	Stock Price \$ June 13/14	12-M Target	Appreciation Potential %	Rating	M Shares O/S *Basic	\$M Market Capitalization	Debt (Cash) \$M	Enterprise Value \$M	Liquids Latest Quarter	\$ NAV Latest	\$ BV Latest
DualEx Energy International	DXE-V	0.17	0.50	194%	3	108.5	18.4	(2.7)	15.7	n/a	n/a	0.045
Longreach Oil & Gas Ltd.	LOI-V	0.30	0.60	100%	3	81.1	24.3	(29.6)	(5.3)	n/a	n/a	0.51
Niko Resources Ltd.	NKO-T	2.47	5.00	102%	4	91.5	226.0	326.0	552.0	5%	n/a	2.94
Petromanas Energy Inc.	PMI-V	0.365	0.60	64%	4	693.7	253.2	(60.1)	193.1	n/a	n/a	0.14
Sea Dragon Energy Inc.	SDX-V	0.075	0.24	220%	4	376.5	28.2	(4.3)	23.9	90%	0.14	0.09
Sterling Resources Ltd.	SLG-V	0.54	1.60	196%	5	309.6	167.2	225.0	392.2	0%	1.41	1.37
Sonde Resources Corp.	SOQ-T	0.365	NR	n/a		62.3	22.7					

* Our stock price targets are based upon the Proven Reserve Life Index times our future cash flow expectations or a risked NAV

Source: Schachter Asset Management Inc., June 13, 2014

5. Research Coverage List

UR = Under Review

NR = Not Rated

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Commodity Price Assumptions			
	2012A	2013A	2014E
WTI US\$/b	\$94.21	\$98.00	\$92.18
NYMEX-US\$/mcf	\$2.79	\$3.72	\$4.64
AECO -C\$/mcf	\$2.40	\$3.17	\$4.87

Symbol	% Insider Ownership	Production 6:1				% Production Growth 2014	Enterprise Value Latest Q /boe Production	Cash Flow/share 2014 \$	Cash Flow Multiple 2014 est	P RLI	\$M Cash Flow 2014 est	\$ Capex est 2014	Last Report Date
		Latest Quarter	2012A	2013E	2014E								
DXE-V	11%	n/a	n/a	n/a		n/a	n/a	n/a	n/a	n/a	0.8	7.0	Oct/1/12
LOI-V	<10%	n/a	n/a	n/a		n/a	n/a	n/a	n/a	n/a	n/a	24.0	April 18/13
NKO-T	<10%	17,920	26,190	17,920	21,000	17%	\$30,804	1.61	1.5	7.0	146.0	146.0	April/2/14
PMI-V	14%	n/a	n/a	n/a			n/a	n/a	n/a	n/a	n/a	15.0	Sep/05/12
SDX-V	8%	1,779	1,147	1,783	1,700	-5%	\$13,456	0.01	n/a	4.7	9.5	8.5	Jan/02/13
SLG-V	1%	3,597	0	0	3,820	n/a	n/a	0.21	2.6	8.6	66.0	71.0	May/1/14
SOQ-T													

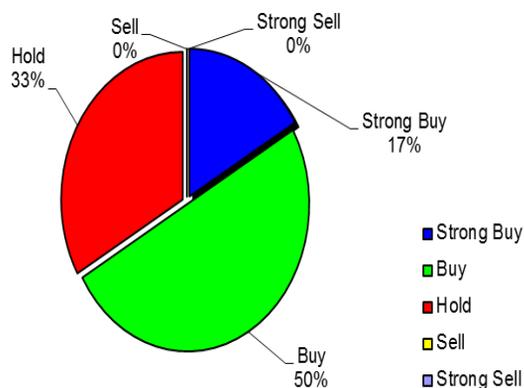
Source: Schachter Asset Management Inc., June 13, 2014

Analyst Disclosure

Rating:

5 – Strong Buy 4 – Buy 3 – Hold 2 – Sell 1 – Strong Sell

Company Name	Trading Symbol	*Exchange	Disclosure Code	Rating
DualEx Energy	DXE	V	5	3
Longreach Oil & Gas	LOI	V		3
Niko Resources	NKO	T		4
Petromanas Energy	PMI	V		4
Sea Dragon Energy	SDX	V	1	4
Sonde Resources	SOQ	T		N.R.
Sterling Resources	SLG	V		5



N.R. = Not Rated, U.R = Under Review

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