

Today's Notes:

- 1. The End of Oil**
- 2. Will Saskatchewan's Resources Save the US Economy?**

1. THE END OF OIL

"We weren't ready" Tony Hayward, CEO of BP

In 1915 the U.S. battleship Arizona went to sea. She was the first capital ship from America to use oil instead of coal for power. At the time domestic oil was the symbol of the new American power. Almost a century later we are certain the end of the age of oil has come. The disaster in the Gulf of Mexico is becoming so serious that it threatens to unleash events of macro-proportion. It may, for example, affect Presidential politics. It is obvious that drilling in deep water, at 5,000 feet, is more than a significant technology risk. University of Southern California Research Professor Fred Aminzadeh, an acknowledged expert in oil field technology, suggested this AM that this broken well could, in theory, spew its oil for a decade though relief wells should be effective in a few months.

The oil in the gigantic Brazilian offshore field, Tupi, also in deep Atlantic waters, is now questionable. The competitive race to develop the Arctic Ocean's oil and gas resources, between Russia, the US, Canada, Denmark and Norway, is also open to question today. We have often said that the era of easy access to oil (cheap oil) is past its peak. The limit of technology has been reached and oil prices must increase.

Our good friend Graeme Irvine, from London this AM, provides us with another potential and ominous impact. Apparently BP's business provides a significant portion of dividend payments to British pension funds. When I heard a BP corporate representative yesterday, say that the total cleanup would cost about \$3 billion (who knows?) and the company's dividend would not be impacted, I thought that the statement possibly sounded the death knell for BP.

Now an apparently ineffectual Washington Administration (relative to the runaway oil well) is using the event to suggest that billions dollars of oil companies of tax deferrals to should be rescinded and allocated to "clean energy" R&D. Throwing money at long term, uneconomic solutions (wind and solar) will only waste America's capital further. Others are suggesting a \$1 per gallon tax on gasoline which would have profound negative effects on the U.S. economy.

This singular event, perhaps yet to be acknowledged, is so scarred on the psyche of Americans, that it has signaled the end of oil. Please do not misunderstand. The world's economies must continue to run largely on oil and fossil fuels for decades. No amount of government taxation and funneling of money to R&D projects can speed up the transition to electrification.

Yet economic electrification is clearly the future. But with ~ 250 million cars in the United States, 99.9% using gasoline or diesel fuels, it will be decades before the fleet is replaced. There is also the replacement of the gasoline infrastructure, the building of the necessary electrical infrastructure (nuclear, and grid), the development of the required battery technology (we are coming close here) and the creation of a reliable electric auto technology (no close enough yet).

At The Arizona Memorial at Pearl Harbour a little of its 70 year old oil leaks every day from the corpse of the vessel sunk by Japan's desperate commodity adventure on December 7, 1941. That was perhaps the beginning of America's oil era. BP's adventure in the Gulf of Mexico is the beginning of the end.

2. CANADA: THE OIL SANDS MAY SAVE THE ECONOMY

"Looking ahead, its importance is only going to get bigger."

Daniel Yergin, Cambridge Energy Research

On May 18, the New York Times published the following article titled,

"Reliance on Oil Sands Grows Despite Environmental Risks."

This article was published more than a month after BP's debacle in the Gulf. Till now Canada's oil sands have been uniformly trashed, threatened with taxes and degraded by the US Administration and Congress. Yet the Times commented,

"There is no chance of a rig blowout here, or a deepwater oil spill like the one from the BP well that is now fouling the Gulf of Mexico."

They are right and though the article continues to discuss damage to Alberta's boreal forests, the huge sludge ponds and the water foul that die in the toxic wastes generated in the oil sands, it is very clear that these Canadian resources are critical to a successful recovery and the sustenance of the US economy. Canada's oil sands deliver 1 million barrels of oil each day to thirsty American drivers. This is more than 50% of total Canadian imports (1.9 million Canadian barrels per day overall).

Daniel Yergin, an oil historian and chairman of IHS CERA said,

"The uncertainty and the slowdown in drilling permits in the gulf really underscores the growing importance on Canadian oil sands, which over the last decade have gone from being a fringe energy source to being one of strategic importance ... looking ahead its only going to get bigger."

By 2030 Canada's oil sands will supply 36% of U.S. transportation needs. Does it sound like the oil sands of Alberta are fading away under environmental pressure? Not going to happen.

God Bless the Great White North! A few months ago the Alberta's Deputy Premier presented the case for the oil sands at the Harvard Club here in New York. He was very convincing; indeed and he was warmly received by the audience. My gut feel, and my Canadian heritage tell me that Canadian technology is up to the discovery, extraction and reclamation task that will help us over the next few decades of fossil fuel dependency.

Should there be a pipeline accident (accidents do happen) in the two new pipelines that are necessary to carry the Canadian oil south; Canada will be up to the task of an expedient

solution. Canada's track record in such instances is unblemished. For example Canada's CANDU Nuclear development track record is excellent.

A few weeks ago I was on a panel in Saskatoon discussing such issues with Saskatchewan's Premier, the Honourable Brad Wall. Here is a man with a vision for Saskatchewan. Saskatchewan's oil sands, shale oil and Bakken oil resources have not even been touched. I am a big backer of companies that are moving into the Saskatchewan discovery space. Oil Sands Quest (BQI AMEX NYSE) is one such company. The province is not only rich in oil sands, shale oil, conventional oil, natural gas and coal but it is also rich in uranium, potash and agriculture. This is one Canadian Province whose time has come.

David L. Goldwyn, coordinator for international energy affairs, U.S. State Department said,

“It is undeniable that having a large supply of crude oil available by pipeline from a friendly neighbor is extremely valuable to the energy security of the United States,”

The phrase, “friendly neighbour” rings a reassuring bell. There is however a fly in this ointment. China is aggressively buying up Canadian resources including those in the oil sands. But the good news is that in spite of the tragedy in the deep waters of the Gulf, important Americans in the energy space, such as Daniel Yergin, have embraced the reality of the new energy economics and the interim role that oil must play in this transition.

I will be writing more on the Saskatchewan story as discovery opportunities present themselves. In the meantime you can learn more by going to the web site:

www.enterprisesask.ca.

I hope to see you in Vancouver on the weekend where I will be discussing perhaps the most important topic on the symposium – The Energy Future of Canada and the United States.

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