A new year, a new hope.

At least, that’s the sentiment I’m feeling lately from the market. For months, investors have been trying to call the bottom in the oil markets, which makes perfect sense given the fact that nobody wants to catch a falling knife.

And you certainly don’t need me to tell you that 2015 was a rough year for the energy sector; I felt that harsh sting right alongside you.

So are we expecting more of the same pain? Unfortunately, the answer is both yes and no.

A year ago, I would’ve told you that a recovery was inevitable and most likely to occur in the fourth quarter of the year. The problem, however, was that we didn’t see production decline until May.

Yet even as we kick-started 2016, the headlines remained bearish, reiterated by Goldman’s call for $20/bbl oil.

Remember, these were the same analysts that said oil was going to $200/bbl back in 2008, just before prices crashed from $147/bbl all the way down to $33/bbl. Of course, the four-year run-up that followed led to unprecedented gains during the next five years.

Granted, most people probably didn’t see that coming because of the overwhelmingly bearish headlines calling for oil to hit $20/bbl.

But like I mentioned, we can’t expect the same kind of quick recovery. When WTI prices dropped to $33/bbl back in February of 2009, it only took three months to jump back into the $70/bbl-range.

If nothing else, the massive supply glut will put a stopper on any price surges. This week, the EIA reported that U.S. stocks of crude oil stood at 482.3 million barrels. Even though that amounts to a 5.1 million-barrel decline over the previous week, let’s not forget that we haven’t seen levels this high since 1930!

Fortunately, there are a few bullish catalysts that will help ease the glut in North
To start, we’re finally going to see U.S. oil hit the global market — much to the ire of Saudi Arabia.

Here’s a sight not seen in the Gulf of Mexico in roughly four decades:

What you’re looking at is the Angelica Schulte, an oil tanker that was parked in the Houston ship channel this past week. The historical part of this story is that it was loaded with 600,000 barrels of crude oil from the Eagle Ford shale, and it is now on its way to Europe.

In case you missed the news, it turns out that Congress finally lifted the 40-year export ban on crude oil.

That’s right: U.S. shale oil is going global, and it’s about time.

As you might expect, the winners and losers of this decision are clear, with independent producers ultimately winning the debate against refiners (who were perfectly content with the cheap feedstock available).

Before we celebrate, however, let’s wait to see how this situation plays out in the coming months (I’ll have more for you on this at the end of the issue).

No matter how you look at it, lifting the export ban is certainly bad news for Saudi Arabia, who has been stubbornly fighting tooth and nail for the better part of 18 months to keep oil prices low.

But not only does the House of Saud have to contend with a potential flood of shale oil on the global market (assuming tight oil producers in the U.S. are able to weather this price storm), it also has to deal with a new spat against one of its fellow OPEC members, Iran. Diplomatic relations between the two were cut recently after the execution of a Shiite cleric in Saudi Arabia.
The fact that WTI prices hit a fresh low of $32.10 per barrel during trading yesterday is a testament to how much Middle East volatility is already baked into the market. If this news came out a decade ago, prices would have soared higher.

What’s also interesting is that OPEC is going to have to pick up the slack when it comes to global oil supply, with growth in non-OPEC countries expected to decline by 700,000 barrels per day this year, followed by further decline in 2017:

News hasn’t been all bad, mind you...

Natural gas prices, which have remained low due to warmer-than-expected winter weather, may get a boost in the short term. As I type this now, the sun hasn’t yet come up over Baltimore’s Inner Harbor, and temps have officially turned frigid. And although we’re expected to get a slight reprieve this weekend, it’s back to freezing temperatures next week.

Playing the weather, however, doesn’t suit our strategy within the Energy Investor community... but we both know it would be foolish to count out natural gas over the long run.
For the first time in a long while, U.S. natural gas production is starting to slip. Now, it’s no surprise that production in most regions has been in decline. The difference now is that it is declining in the Marcellus, which has single-handedly kept output propped-up over the last few years.

The EIA reported last month that gas production in the Marcellus is expected to decline by 226 million cubic feet per day in January 2016 compared to the previous month. And in case you weren’t sure of the significance here, just bear in mind that the Marcellus region accounts for nearly 20% of total U.S. natural gas production.

If you include both the Marcellus and Utica plays, we’re talking about 85% of U.S. shale gas production growth since 2012!

**A Special Lithium Interlude...**

Those of you that follow me regularly on the pages of *Energy and Capital* are well aware of the lithium revolution taking place right now.

To put it bluntly, lithium demand will be driven by just one sector: batteries. One firm has even estimated that half of the world’s lithium demand will be from rechargeable batteries.

Today, batteries make up a little less than one-third of demand:

**Consumption is generally split between Chemical and Technical**

![Diagram showing consumption split between Chemical and Technical](image)

*Rechargeable Batteries*

The main driver for lithium is growth in the rechargeable battery sector. Lithium is a key component in lithium-ion batteries as well as many battery prototypes.

- **Chemical**
  - Metallurgical Powders: 6%
  - Glass: 9%
  - Glass-Ceramics: 12%
  - Other: 9%

- **Technical**
  - Ceramics: 14%
  - Greases: 8%
  - Polymer: 5%
  - Air Treatment: 9%
  - Primary Battery: 2%
  - Aluminum: 1%

- **Rechargeable Batteries**
  - 79% 3C*
  - 10% Power/Motive
  - 10% Transport
  - 1% Heavy Duty

*Consumer electronics, computers, and communication*
Now, as much as I want to tell you that we are going to see electric vehicles replace every other car on the road this year, it would be nothing more than an exercise in hyperbole.

And although *that* transition won’t take place overnight, it’s interesting to see how many major automakers are making the leap. One of the latest to join the fray is Volkswagen, which plans to unveil its own EV model this month.

Last week I made one of easiest predictions of my life: that energy storage technologies will continue to spread. In all fairness, however, I didn’t need to decipher a centuries-old quatrain to come to this conclusion; making it was like shooting fish in a barrel.

After all, a report released last month by GTM Research showed that 108 megawatts of new energy storage were deployed in the first three quarters of this year, and even more — raising the 2015 total to nearly 200 megawatts — was added before the ball dropped in Times Square.

Again, that amounts to *triple* the installations during 2014.

Look, it’s no secret that commodities in general have been a sore spot for investors all year. Anyone saying otherwise is lying to you. Lithium, however, is one of the few that are in a solid uptrend. Take a look at how lithium prices fared in 2015 compared to other niche minerals:

**COMMODITIES VS NICHE MINERALS - PRICES CHANGES 2015**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graphite</td>
<td>-8.30%</td>
</tr>
<tr>
<td>Cobalt</td>
<td>-28.50%</td>
</tr>
<tr>
<td>Aluminium</td>
<td></td>
</tr>
<tr>
<td>Copper</td>
<td>-26%</td>
</tr>
<tr>
<td>Tin</td>
<td>-24.80%</td>
</tr>
<tr>
<td>Nickel</td>
<td>-41.80%</td>
</tr>
</tbody>
</table>

Key takeaway points:
- Niche minerals proving more resolute
- Fortunes have become removed from traditional markets
- Slow turning circles, but greater upward pressure
- Diverging trends already emerging
I should note, however, that lithium prices aren’t traded publicly, allowing the major producers to set the price, and they don’t offer these statistics frequently.

Of course, we’ve been on top of the lithium story from the outset, and here’s how we’re positioning ourselves...

Company Spotlight: Dajin Resources

Ticker Symbols:

- TSX-V: DJI
- OTC-Pink: DJIFF (Investor note: The secondary listing on the OTC Pink Sheets is “Blue-Skyed” by S&P Capital IQ. You can access its profile on Dajin here.)
- Frankfurt: A1XF20

Market Capitalization: $15.43 Million

Outstanding Shares: 106.52 Million

52-Week Range: $0.04 - $0.16

Since the lithium revolution began to take shape, we have been tightly focused on one aspect: supply. Specifically, we’re targeting the up-and-coming players that are turning Nevada into a world-class lithium hub.

As you know, approximately 80% of the world’s lithium production comes from just four major companies operating in three areas — Chile, Argentina, and Australia.
Those dynamics may change...

It turns out that these companies are creating their own lithium hub, which is conveniently located right next door to the site of Elon Musk’s Gigafactory. And as I’ve mentioned several times before, the first Gigafactory is going to need roughly 15,000 tons of lithium carbonate in its first year alone.

And that’s where Dajin comes into play...

Dajin is an early-stage energy metals company with interests in brine-based lithium exploration projects in both South and North America.

Now before we jump into the latest news, let’s briefly run through the company’s two main Nevada projects.

Here’s a quick look at where Dajin’s Teels Marsh and Alkali Lake properties are located, relative to both Tesla’s Gigafactory and the Rockwood Lithium Mine (currently the only lithium-producing mine in operation inside the United States), as well as its proximity to Pure Energy Minerals, which was the first lithium player in Nevada to ink a supply contract with Tesla:
The company’s Alkali Lake Project consists of 191 placer claims on 3,851 acres. The property is actually similar to the Clayton Valley geology, with a classic fault bound closed basin. To the west lies Dajin’s Teels Marsh property, which consists of 215 placer claims on approximately 4,574 acres. Dajin holds a 100% interest in both projects.

Three weeks ago, the company announced that it was advancing exploration and permitting at Teels Marsh.

According to the press release, the company retained the services of Nevada-based geothermal and mineral exploration geologist Dr. Mark Coolbaugh to carry out a structural and stratigraphic analysis of Teels Marsh. Using gravity, magnetic, and geoprobe data already collected, a new structural map of the basin is being created and can lead to the identification of drill targets to test favorable aquifers that might contain lithium-rich brines.

Now, structural analysis has revealed that Teels Marsh is bounded by faults and is tectonically active. Thick accumulations of ash deposits could occur beneath the marsh because the marsh occupies a closed basin and is located east of the nearby Mono Lake, Long Valley Caldera, and other ash-producing volcanic centers.

Why is this important? Well, these ash layers have been proven to be the most productive brine sources in Clayton Valley, where the only North American lithium brine deposit is being mined by Rockwood Lithium.

Moreover, the structural work, combined with the geoprobe results, suggests that stratigraphy similar to that found at Clayton Valley may be present at Teels Marsh.

If you recall (and can see in the stock chart above), shares sold off briefly at the end of November, only to be followed by a strong rally on December 1st. I mentioned in last month’s issue that the catalyst for this move was the encouraging results from the company’s geoprobe sampling program, which was conducted by Pediment Gold LLC.

After a slight dip in mid-December, it didn’t take long for shares to move back over CAD$0.14, and as of yesterday, they are still trading under our buy limit of CAD$0.15.

The good news for us is that I believe we’ll see even bigger moves going forward, and
not just from Dajin’s progress.

Truth is, any positive news released by Nevada’s lithium players will give a boost to the entire group. One recent example was Nevada Sunrise Gold Corp’s announcement that it had entered into a definitive agreement to purchase a 100% interest in the Jackson Wash lithium exploration property in Esmeralda County, Nevada.

Of course, we also can’t forget the progress that Dajin is making in Argentina. Back in early October, the company reported that it was in the process of planning its 2015-2016 exploration program at Salinas Grandes in northwest Argentina.

I hope to have more for you soon.

Dajin Resources is currently rated a STRONG BUY for us at current prices. As always, I recommend you perform your own due diligence before investing, due to the higher risk tolerance associated with these smaller plays.

**Portfolio and Rankings**

**Apache Corp. (NYSE: APA)**

Apache Corporation is an independent explorer, developer, and producer of oil, natural gas, and natural gas liquids. The company has assets in the Permian Basin and the Gulf Coast of the U.S., as well as Western Canada, Egypt, and the North Sea.

Late in 2015, Apache released a review of its North Sea assets, one of the few areas the company will be spending money in coming months.

Remember, Apache is already the second-biggest producer in the area by volume, extracting more oil here than BP, Shell, Chevron, and even ConocoPhillips.

The company has a prolific position in the North Sea and isn’t dependent upon any third-party companies to get its supply out. This means high production in addition to low operating costs for Apache here.
Below you can see the company’s efficiency as compared to other drillers in the area:

Efficiency is exactly what we need to see from our oil and gas picks these days; there’s absolutely no room for excess spending in this market right now. And Apache seems well set here, as 78% of its capex for the year will be spent on drilling and completion in the North Sea.

It also doesn’t hurt that the company also managed to keep its dividend up at $0.25 per share, which will be paid on February 22, 2016.

*Apache Corp. is rated a “BUY” under $3.*

**Approach Resources (NASDAQ: AREX)**

Approach Resources is an independent exploration, development, production, and acquisition company with assets in unconventional oil and gas reserves, mainly in the
Permian Basin of West Texas.

Last month we talked about Approach’s cautious move in halting drilling for the end of 2015. As spending cuts go, this one was pretty drastic but still a smart move.

The company’s presence in the prolific Permian Basin will be its biggest boon in coming months.

There hasn’t been much news on the company since our last update, but I’d like to note that several analysts’ estimates have given it a pretty neutral rating — a 3 on a scale of 1-5. To put it simply, Approach still has some supporters out there among the bears.

Personally, I believe it only serves to highlight the fact that this stock is undervalued right now... especially in the event of an oil recovery later this year.

*Approach Resources is rated a “BUY” under $7.50.*

**Atwood Oceanics (NYSE: ATW)**

Atwood Oceanics is an offshore drill rig contractor for oil and gas exploration and development companies globally.

Last month, Atwood announced that it would be putting off the delivery of its two newbuilds, the *Atwood Admiral* and the *Atwood Archer*, once again.

Rather than being delivered in September 2016 and June 2017 respectively as previously announced, both will be put off another year until September 2017 and June 2018.

Let’s be clear here...

What this essentially does is immediately save the company some cash; Atwood only owes $50 million per newbuild, which was paid at the end of December. The remaining $93 million for the *Admiral* and $305 million for the *Archer* will be due upon delivery.
As I’m sure you’re aware, saving is the name of the game these days. Until oil recovers a bit, every penny counts for producers.

Now, there is one concern brought up by this new delay: one of those newbuilds was chosen to be part of an exploration project in Brazil in the third quarter of 2017, right when the first of these two is set to be delivered now.

It’s likely that the new contract can be negotiated for a slightly later date, given that Atwood was chosen for the exclusive negotiation in the first place.

What’s more, according to a recent analysis of the company, Atwood is outperforming its market peers in earnings momentum, giving it that much more of an edge.

Delays and all, we still think Atwood is worth some attention for investors.

*Atwood Oceanics is rated a “BUY” under $65.*

**Cenovus Energy (NYSE: CVE)**

Cenovus Energy is a developer, producer, and marketer of crude oil, natural gas, and natural gas liquids in Canada. The company is also a refiner, transporter, and seller of petroleum and chemical products in the U.S.

As we said last month, this company is still focusing on saving as much as possible. The latest on this front is that Cenovus has cut its budget for 2016 by about 19%.

Now, that doesn’t in the least mean that Cenovus will be cutting off its projects. In fact, 80% of that new budget will be going toward the company’s established capital investments.

The last 20% will be allocated to Cenovus’s oil sands projects, including expansions of the Foster Creek and Christina Lake operations.

Christina Lake’s expansions will include an additional 50,000 bpd addition to its current capacity by the third quarter of 2016.
Likewise, Foster Creek is expected to have an additional 30,000 bpd by the third quarter.

Both projects have industry-leading operational costs, though the turnaround in Foster Creek has made it slightly more expensive than Christina Lake.

Here you can see a rundown of the company’s spending for the year taken from its December budget conference call presentation:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015F</th>
<th>2016F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oil sands</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foster Creek</td>
<td>735</td>
<td>797</td>
<td>796</td>
<td>415 - 435</td>
<td>350 - 400</td>
</tr>
<tr>
<td>Christina Lake</td>
<td>593</td>
<td>688</td>
<td>794</td>
<td>685 - 705</td>
<td>425 - 475</td>
</tr>
<tr>
<td>Narrows Lake</td>
<td>44</td>
<td>152</td>
<td>175</td>
<td>45 - 50</td>
<td>15 - 25</td>
</tr>
<tr>
<td>New resource plays</td>
<td>302</td>
<td>226</td>
<td>196</td>
<td>70 - 80</td>
<td>60 - 70</td>
</tr>
<tr>
<td>Conventional oil</td>
<td>1,319</td>
<td>1,167</td>
<td>812</td>
<td>250 - 270</td>
<td>175 - 225</td>
</tr>
<tr>
<td>Natural gas</td>
<td>51</td>
<td>27</td>
<td>34</td>
<td>15 - 20</td>
<td>25 - 35</td>
</tr>
<tr>
<td>Refining</td>
<td>118</td>
<td>107</td>
<td>163</td>
<td>220 - 250</td>
<td>230 - 270</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,368</strong></td>
<td><strong>3,262</strong></td>
<td><strong>3,051</strong></td>
<td><strong>1,800 - 1,900</strong></td>
<td><strong>1,400 - 1,600</strong></td>
</tr>
</tbody>
</table>

But *even with* budget cuts, Cenovus has a great outlook on its developing projects. Its $4.4 billion in available cash and $4 billion committed credit facility also means it has some decent liquidity going into the new year.

*Cenovus Energy is rated a “STRONG BUY” under $35.*

**Centrica (OTC: CPYYY)**

Centrica is a highly integrated generator, trader, and optimizer of power from nuclear, wind, thermal, and gas-fired power plants worldwide. The company also explores, processes, trades, and optimizes oil and gas assets in the Atlantic Basin of the North Sea and Canada.
The news on our widest-reaching company is that it’s cutting back on oil and gas investments. We mentioned last month that Centrica is capping these investments at £400 to £600 million.

Historically, oil and natural gas have been among Centrica’s most expensive investments, and the current low price environment for each is clearly making the situation less economical.

Early last year, Centrica’s Chief Executive Iain Conn announced a plan to divest as much as £1 billion in upstream oil and gas, as well as wind energy divestments. The company’s goal is to reach £750 million in savings by 2020 through reducing its reliance on oil and gas revenues, which continue to slip as the prices stay low.

Instead (as I noted in last month’s issue), this company will be focusing on energy marketing and trading. This will include connected business units.

According to Centrica’s December Trading Update, the company’s Connected Home segment has sold over 250,000 smart thermostats in the UK and is offering analytical software to pair with it in both the UK and the U.S.

Even though we’re still bullish on oil in the long term, we can’t blame Centrica for wanting to phase it out a bit. And, of course, the company itself is still worth investing in for its other developing segments.

*Centrica is rated a “BUY” under $17.*

**Egdon Resources (LSE: EDR.L)**

Egdon Resources is a hydrocarbon exploration and production company with assets in the UK and France.

In mid-December, the company announced that it had been awarded 11 blocks and part-blocks in the UK 14\textsuperscript{th} onshore oil and gas licensing round. This, in addition to the seven blocks and part-blocks it was awarded earlier in the year, give Egdon 18 total.

These amount to about 1,126 square kilometers, or 278,220 acres, of land in core areas
of the UK conventional and unconventional oil and gas reserves.

As with the licenses we talked about last month, each of these blocks is being operated in a joint venture, meaning Egdon has different partners for each new plot of land.

This is a great development for the company. With new exploration and drilling licenses being approved throughout the UK oil and gas sector, Egdon has just gained a lot of room to grow.

“We are delighted with this outcome...” said Egdon’s managing director Mark Abbott. “The blocks... will provide further significant opportunities to grow our business and will be excellent additions to Egdon’s portfolio of UK exploration and development assets.”

We are equally excited about these additions and look forward to the results of future reserve testing.

_Egdon Resources is rated a “BUY” under £18._

**Enbridge Inc. (NYSE: ENB)**

Enbridge Incorporated is an energy transporter, generator, and distributor for much of North America. The company’s main values include safety, integrity, and respect.

Enbridge is the largest transporter of oil from the Bakken shale and West Canada through its massive pipeline network. This network has a capacity of 2.85 million bpd and is connected to more than 8.6 million bpd in refining capacity.

This wide reach in the oil and gas market is Enbridge’s advantage over many struggling producers: as long as there is product to transport — and the glut will ensure that there is — Enbridge will have business.

The company is expecting to see better numbers next year, in fact. The expansions Enbridge worked on throughout 2015, including the successful reversal of its Line 9 pipeline, have helped boost its potential cash flow.
In 2015, the company had an annual available cash flow from operations between $3.30 and $4 per share. It expects to see a range of $3.80 to $4.50 in 2016.

And not only is Enbridge taking advantage of this glutted market, but it is also grabbing its own piece of the renewable energy sector.

Late in November, Enbridge announced its 100% interest acquisition of the New Creek Wind Project in Grant County, West Virginia.

The project will have a power capacity of 103 megawatts and will be commissioned by the end of 2016.

Even more exciting is that this project (at least, it’s believed that it’s this project) has already been entered into a deal with software giant Salesforce.

Salesforce, under a “virtual power purchase agreement,” will buy 125,000 megawatt-hours of electricity from Enbridge at a fixed price for 12 years after the project comes online.

And if that’s not enough to make you want to invest, rough as the market is these days, Enbridge increased its dividend payout in December by 14%, up to $0.53.

It’s a rare company that can keep up this kind of performance within the kind of volatility we’re seeing in energy right now.

*Enbridge Inc. is rated a “BUY” under $48.*

**Encana Corp. (NYSE: ECA)**

Encana Corporation is an oil, natural gas, and NGL exploration, production, and marketing company with assets in the Permian, Eagle Ford, Duvernay, and Montney shale plays of North America.

There’s been a lot of criticism of this company lately, and it isn’t hard to see why.

Late December brought on the dual announcement that Encana would be cutting
its budget for 2016 by $600 million, or about 25% from 2015’s capex, and that the company was reducing its annual dividend payout by 78%.

I’ve said it before, and I’ll say it again: In this kind of harsh environment, if a company can keep a dividend at all, it’s a good sign.

And plenty of people are willing to look only at these cuts, not at the benefits of such savings...

Take, for instance, Encana’s production focus. While the company sees flat production going into the new year, it is honing in on its core assets in the plays listed above.

95% of the company’s reduced capex is being allocated to these four plays, and 50% of that amount is being put toward the highly productive and low-cost Permian basin.

One notable position Encana is keeping is Karnes County in the Eagle Ford shale play, which has been ranked the most prolific oil county in the state by the Railroad Commission of Texas.

“Following the launch of our strategy in 2013, we have built a focused, high margin portfolio in best plays, reduced debt, lowered costs and driven greater efficiency in our operations,” says Encana’s President and CEO Doug Suttles. “As a result, every dollar we invest in 2016 will deliver higher margins and quality corporate returns.”

Despite the gloomy outlook on immediate payouts, Encana is in a great position to survive the current oil glut and build itself back up when the prices finally recover.

*Encana Corp. is rated a “BUY” under $20.*

**EnerSys (NYSE: ENS)**

EnerSys is a manufacturer, marketer, and distributor of industrial batteries in the Americas, the EMEA, and Asia.

Last month, we talked up this company’s latest earnings report. EnerSys was able to raise its EPS and keep up its dividend.
The company’s sales grew by 1.2% year over year for the period, and gross profit increased by 2%. EnerSys also reported $26 million in net earnings rather than any major loss.

Analysts estimate that the company could see an increase of 23% in stock price this year if the success keeps up.

There hasn’t been any other major news from EnerSys since then, but I’ll keep you in the know in my weekly updates as things progress.

*EnerSys is rated a “BUY” at current prices.*

**Gastar Exploration (NYSEMKT: GST)**

Gastar Exploration is an independent energy company focused on the exploration, development, and production of oil, condensates, natural gas, and natural gas liquids in the unconventional shale plays of the U.S.

On December 14th, Gastar announced that it had bought out the Area of Mutual Interest it previously held jointly with Husky Ventures.

The transaction cost the company $42.1 million, fully funded by its revolving credit facility, as well as 11,000 net non-core, non-productive acres in Oklahoma, which were conveyed to Husky and three other joint-holders of the Area.

This has gained Gastar a much better asset: 103 gross wells on 15,700 net acres in Kingfisher and Garfield County, Oklahoma.

Upon completion of this transaction, Gastar and Husky both also dropped the legal proceedings they had against each other, which we will gladly take as one less thing to worry about.

The company also announced the results of its Deep River well testing, reporting that the well was already seeing flowback and has been slowly increasing its production capacity since October 28.
This well is in the Meramec shale play in Kingfisher County and cost the company $6.4 million to drill and complete. Gastar expects that future wells in the area will cost even less — as low as $5.5 million.

Here’s what President and CEO of Gastar, J. Russell Porter, said recently: “It is also worth noting that the percentage of oil in our area is much higher than the production associated with acreage... recently completed at very high valuations. In addition to the high natural gas production in the area, this should allow future drilling of the Meramec play to generate both positive cash flow and strong returns on our investment, even at current commodity prices.”

That’s exactly what we like to hear.

_Gastar Exploration is rated a “BUY” under $3._

**Linn Energy (NASDAQ: LINE)**

Linn Energy is an independent energy company that acquires and develops oil and natural gas supplies in the U.S.

It seems analysts are finally seeing the benefits from Linn’s steep cuts in 2015. The company has suspended its dividend and the payout for its subsidiary. You might also remember that its Wolfcamp acreage in the Permian Basin was divested months ago.

And yet Zacks analysts recently pointed out that the company has a “remarkable” cash flow growth of 82.2%.

What’s more, Linn’s sales are expected to grow 71.9%. This means even after all the company has given up, it’s still working to gain a lot back.

Linn’s last earnings report noted that the company expects to have saved as much as $135 million in cost reductions throughout 2015, and it had already reduced its debt by about $198 million.

And keep in mind that Linn still has a decent reach across the country:
It doesn’t take a mile-long list of assets to keep a company running — just a good strategy. And Linn’s seems set to carry it through the current tough times.

*Linn Energy is rated a “BUY” under $6.*

**ONEOK Partners (NYSE: OKS)**

ONEOK Partners is a gathering, processing, storage, and transportation company for natural gas within the U.S. The company’s transportation segment includes a 36,000-mile pipeline system that crosses 17 states.
ONEOK and its parent company announced financial guidance for 2016 recently, and there was some pretty good news.

The company expects its payout to remain flat, which is a far cry better than gone.

ONEOK doesn’t have any equity offerings until late 2017, and it expects its capital growth expenditures of $460 million to cover ongoing infrastructure maintenance.

“ONEOK Partners is well-positioned to not only withstand the low commodity price and uncertain capital market environment, but also to take advantage of opportunities,” says ONEOK president and CEO Terry Spencer, citing the company’s strong position and high supply in the Williston Basin area.

The company’s midstream ethane processing plants are also being used by about one-third of the U.S. supply, giving the company a boost from the current oil and gas glut.

ONEOK is doing more than surviving here; it’s thriving wherever it can!

*ONEOK Partners is rated a “BUY.”*

**Pacific Drilling S.A. (NYSE: PACD)**

Pacific Drilling S.A. is an ultra-deepwater offshore drilling company with operations in Brazil, Nigeria, and the Gulf of Mexico. The company’s drills are high-specialization, some tailored for depths of 7,500 feet or deeper.

Pacific Drilling is still banking on the fact that oil supplies will dwindle, oil demand will go up, and the call for high-spec deepwater drills will come.

Any one of those may take a while to happen, but there’s no doubt in my mind that they will.

And when they do, Pacific certainly has the most capable fleet to take on a recovered oil market:
The company still boasts having the most efficient drill in Chevron’s Gulf of Mexico fleet and the strongest-performing drill in all of Total’s fleet.

In fact, that much of this company’s backlog is dominated by these two oil majors is encouraging. Moreover, Pacific also had a liquidity of $651 million and expects to have an annualized savings of more than $150 million as of the end of 2015.

Going into the new year, Pacific sees further expansions into the Gulf of Mexico and West Africa, as well as a revitalization of resources in Brazil.

To check out the status of the company’s fleet, click here.

Pacific Drilling S.A. is rated a “BUY” under $5.
Range Resources (NYSE: RRC)

Range Resources is an independent company that acquires, explores, and develops oil, natural gas, and natural gas liquids assets in the Appalachian and Mid-Continent regions of the U.S.

I’d like to reiterate some of the benefits Range will enjoy in the new year due to the divestiture of its Nora, Virginia acreage.

The company lost some 3,500 operational wells on 460,000 acres in the area and production that accounted for about 7.5% of its November total.

However, the company gained quite a bit of extra cash. And the divestiture didn’t affect Range’s revolving credit facility, which remains $3 billion, and it brought the company’s liquidity up to $1.7 billion.

The company’s overall savings go beyond land sales:

As of its latest investor presentation, Range can boast a 35% drop in cash unit costs since 2008 and one of the most efficient spending plans of any oil and gas company today.
The company’s drilling and completion costs have together decreased 57% since 2011, making future exploration more viable.

Range also managed to keep its dividend up at $0.04 per share; this was paid at the end of December.

*Range Resources is rated a “BUY” at current prices.*

**Trinidad Drilling (TSX: TDG.TO)**

Trinidad Drilling is a company that designs, builds, and operates oil and gas rigs. The company also refurbishes older rigs and related equipment.

Last month, Trinidad announced its capital program for 2016. The company reduced its expenditures by 84% from 2015 to $30 million but is allowing for another possible $15 million if the market recovers later in the year.

CEO Lyle Whitmarsh admitted, “We closely examined our operations and selected only those projects we felt were necessary to maintain our operations.”

It’s a cold, hard truth, but it’s what needs to be done. Exploration will likely start back up when oil prices get better.

Meanwhile, Trinidad is buckling down and focusing on its best assets.

Trinidad’s fleet is beating the industry average for active rig count and Canadian utilization rates. The fleet is full of in-demand specification rigs, only about a quarter of which are older than 10 years.

This kind of efficient fleet can go for high day rates, meaning even if less of Trinidad’s fleet was being used, the company could still be making money.

As it stands, Trinidad has 82 land rigs in Canada, 71 land rigs in the U.S., two barge rigs in the U.S., and 11 international rigs, four of which are in the prolific Ghawar field in Saudi Arabia.
To get a full update on the fleet, click here.

Trinidad Drilling is rated a “BUY” under C$7.

On the Radar...

I only have one quick note left today before heading out.

In the beginning of today’s issue, I told you that we’d get back around to the U.S. export situation. Within the next two weeks, I’ll be releasing our next trade, which focuses on an investment that is making money hand over fist no matter how oil prices swing.

Just as refining stocks were a great way to play low oil prices, this small, elite group of stocks are taking full advantage of today’s supply glut.

I’ll have more for you on this new report next week.

Good investing,

Keith Kohl
Energy Investor