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Top Performing Stocks May 2009

OPTI Canada	69.9%
Petrobank Energy	42.1%
Oilsands Quest	36.0%
Suncor Energy	27.4%
Petro-Canada	26.1%

Worst Performing Stocks May 2009

Connacher Oil & Gas	-7.6%
Ivanhoe Energy	0.6%
Imperial Oil	4.1%
UTS Energy	7.4%
Oilsands Quest	9.7%

Going back to the BP Statistical Review, I wanted to discuss the reserves estimates that were published. For the first time in 10 years the world's reserves of crude oil declined. The decline was minor, only 3 billion barrels out of a total world reserve of 1,261 barrels and should not be considered a big deal on first inspection. Reading the reports each year you realize there is little overall change in reserves each year but I think this is an illusion, meant to assuage our legitimate concern about potential shortages in the future. The current numbers indicate that we have over 4 decades worth of oil left without considering the oil sands or Venezuela's extra heavy oil. My view is quite different, that oil reserves are incredibly variable and are highly dependent on crude oil prices and technology. For example, I believe the real reason reserves dropped for the first time in a decade is that energy prices have experienced their first drop in average annual oil prices during the last 12 months. Reserves that were evaluated in the \$80 to \$140 price range a year ago were evaluated in the \$35 to \$70 range recently. Frankly, I find it incredulous that reserves were down only 3 billion barrels. The point I am trying to make is that cheap sources of oil are depleting quickly, forcing the long term price of crude oil up. Over time, the high oil prices (and technological advances) will increase the reserves of unconventional oil like the oil sands and conventional oil reserves will represent less of total oil reserves pie as fewer sources are found and depletion takes its toll.

Another important milestone in 2008 was that the energy demands of the developing world exceeded the demands of the developed countries (OECD countries) for the first time. Some might view this as a good thing, that the developed countries are finally using less energy however I view this as an economically led decline in energy use and is not related to conservation efforts. Canada will need to establish new markets for the sale of bitumen and synthetic crude oil and preference should be made to the developing economies of Asia which will likely have the stronger currency and economy in the future.

On a final note, it is interesting to see for the third straight year that coal is the fastest growing fossil fuel energy source. Developing countries energy use, particularly, China and India are more dependent on coal than crude oil and



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natural gas. Both countries have abundant coal supplies while they are short on crude oil. This means that if there is a crisis in global oil supply, coal will be a substitute for the developing world that will allow their economies to continue functioning. Meanwhile, most of the developed world will bear the brunt of higher energy prices during a supply shock due to a lack of substitutes (except perhaps Canada and the US with natural gas and coal).

I bring this information to your attention because I feel it is likely that a scenario might soon develop where persistent low crude oil prices could result in major supply declines just when demand is resurging from the recent global economic stimulus efforts.

Next month I will be highlighting the changes to the index after the annual rebalancing and discuss how oil sands projects compare to the recently commissioned Khurais oil field in Saudi Arabia, the largest single addition to global light crude production.

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Founder of the Oil Sands Sector Index TM

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