Sustainable Wealth Management Ltd.

Sustainable Oil Sands Sector Index ™ (SOSSI)
April 2009 Commentary
Why Canada's Oil Sands Must Continue to be Developed

March was a watershed month for the sector. As I discussed in the February, crude oil has rebounded from recent lows and merger activity is on the rise. This might seem like a good thing to most investors but I have a few concerns. For instance, most of the attention has been focused on Total's unsolicited offer for UTS Energy yet little is being said about what Total is doing with its first acquisition in the sector, the Joslyn project. According to a recent news report, they are considering mothballing the SAGD portion of the project and removing the facilities and equipment. They stated that the inability to reach the 10,000 boe/day pilot production level as a concern as well as rising costs and the need for $80/barrel oil. Now super-impose this information with the recent friendly merger of Petro-Canada and Suncor. The stated reason was to create a national champion in the sector that would be more resistant to hostile foreign takeovers. That sounds plausible, however, it will have a major impact on the development of the Fort Hills project jointly owned by UTS Energy and Teck Corp (which has its own financial difficulties). My belief is that the Fort Hills project will have a low priority in the new Suncor/Petro-Canada hierarchy of projects. Like Total, the effect will be the same, a large corporation will be mothballing another project. As an investor, I prefer to have an industry with multiple, pure play oil sands producers that will get the full benefit of their projects. With the recent departure of Sid Dykstra as CEO of OPTI Canada, I expect that another pure play company will be in play next. In fact, as I write this on April 15 the stock is up 135% since the end of March on massive volume which signals to me that something is in the works. The point I am making is that the appreciation potential is significantly lower for the investor once it is owned by a larger company and there is a higher risk that the project will not even go forward in the future.

Index	Symbol	Region	Mar 2009 Return
NYMEX Natural Gas	NGAS	US	-10.1%**
NYMEX Crude Oil	OIL	US	10.9%**
Oil Sands Sector Index	**SOSSI**	**Canada**	**16.1%***
S&P/TSX Capped Energy	TTEN	Canada	10.2%*

* Return in Canadian dollar terms. **Return in US dollar terms.

The chart above clearly shows natural gas producers continue to struggle in this environment judging by how much the Oil Sands Sector Index outperformed the broad based S&P/TSX Capped Energy Index. The best performing stocks in March were primarily oil producers and trusts that had recently cut their dividends drastically.

Top Performing Stocks Mar 2009		**Worst Performing Stocks Mar 2009**	
Ivanhoe Energy	115.5%	Oilsands Quest	-7.7%
Baytex Energy Trust	30.2%	Enerplus Energy Trust	-2.7%
Nexen	23.0%	Husky Energy	-1.7%
Petrobank Resources	21.7%	OPTI Canada	-1.0%
Canadian Oil Sands	21.3%	Connacher Oil and Gas	0.0%

According to the most recent IEA Oil Market report crude oil demand is down 2.4 mb/d to 83.4 mb/d which is the fastest decline since the early 1980s. Supply has also been reduced to 83.4 mb/d which allows the market to remain relatively balanced. The excess supply capacity is now over 5.5 mb/d and storage is at 62 days of supply, up 8 days over 2008 levels.

You might consider this information to be extremely bearish for crude oil and the development of the oil sands in Canada however it doesn't take into account major trends in oil producing nations. The current environment is discouraging development and hurting major producing nations.

For example, Saudi Arabia has increased their government spending from $60 Billion to $160 Billion since 2002 (a massive 167% in just 7 years). This made sense when their oil revenues more than tripled over that time period however the current scenario will result in the first deficit since 2004. Saudi Arabia has one of the fastest growing populations on earth and their population is expected to increase from 27 million now to 50 million plus by 2030. The demographic reality is that they will have less ability to invest in new projects in the future as more of their oil revenue will be diverted to social programs. Massive social programs in Venezuela and Iran are having similar impact on crude oil supply in those OPEC countries.

Canada is in a unique position in that we have a stable population and a flat or declining internal energy demand. That means we will have more crude oil to export in the future and we should have every incentive to develop our own resources. Instead of cancelling or mothballing oil sands projects we should be encouraging a continuous development program with a strong emphasis on the implementation of new technologies. This will keep the economy running, take advantage of the current reduced development costs and prepare us to gain market share during the inevitable recovery in the global economy. For my part I will continue to argue against the current merger trend that, in my opinion, is mostly based on short term thinking. We need long term thinking now more than ever.

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