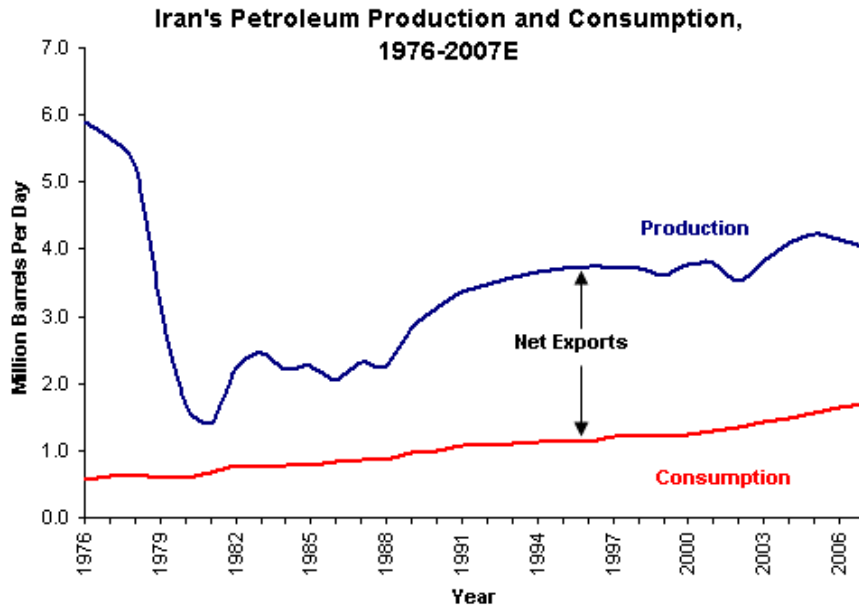






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Source: EIA World Petroleum Consumption & Short-Term Energy Outlook (January 2009)

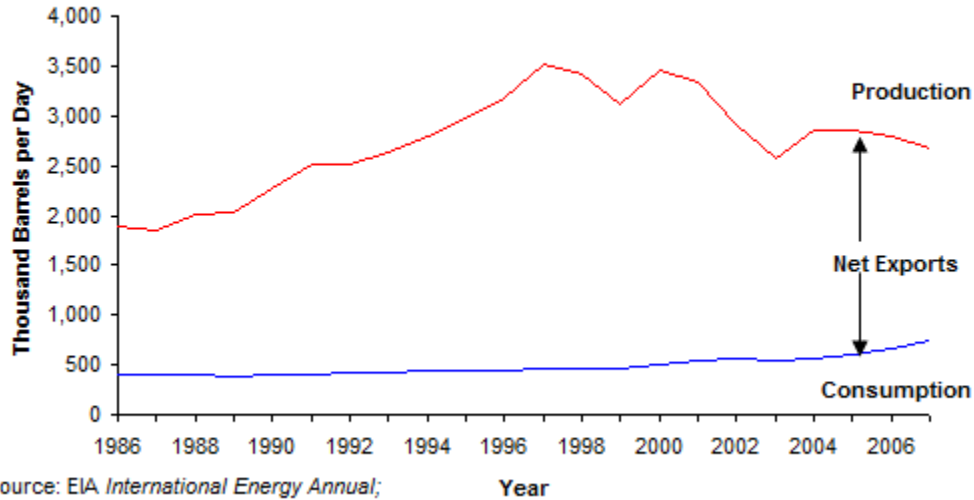
Iran's oil production is currently 3.8 MM boe/day and has been declining since 2006, meanwhile domestic consumption is now over 1.7 MM boe/day and growing. Iran subsidizes domestic gasoline consumption yet must import gasoline because refining capacity is only 1.5 MM/day. They plan to increase refining capacity to 3.0 MM/day by 2012 but I suspect that this will all go toward domestic use within a decade. The reality is that Iran will not have the same export capacity in the future and will sorely need another source of energy when their primary source of foreign income evaporates.

Venezuela is in a similar situation but has a potentially much larger oil resource in the form of extra heavy oil that rivals Canada's oil sands. Venezuela also subsidizes its own gasoline consumption which is dramatically increasing domestic consumption. At the same time production peaked in 2000 at 3.5 MM boe/day and currently sits at 2.7 MM boe/day. Without an all out effort to develop their extra heavy oil resources, I expect their production will continue declining in the future.



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Venezuela's Oil Production and Consumption, 1987-2007



Source: EIA International Energy Annual; International Petroleum Monthly; Short Term Energy Outlook

The irony of using a more efficient and powerful energy source to extract more petroleum resources is not lost on me. The reality is that the infrastructure of the developed and developing world is based on crude oil and it will take decades to change. Building enough nuclear power plants to offset the decline in crude oil production will be costly and might be delayed by environmental concerns.

I think dirty oil sources such as Canada's oil sands and Venezuela's extra heavy oil will be essential during the next few decades as we transition to more powerful energy sources. If I am right Canada's oil sands will be one of the most profitable investments you can make at this time.

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