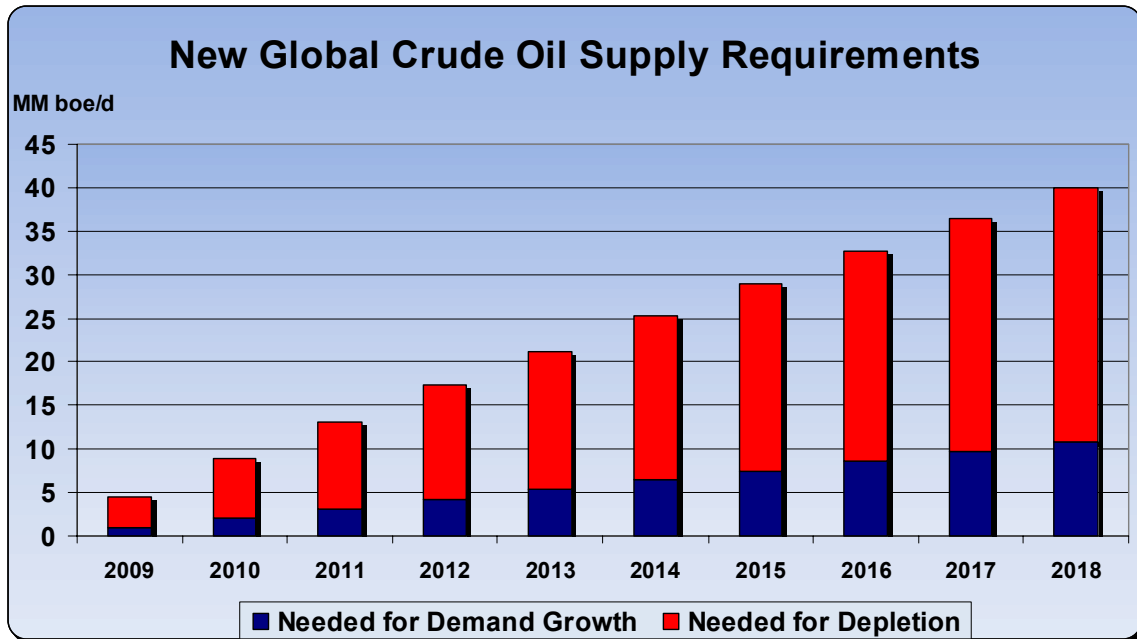




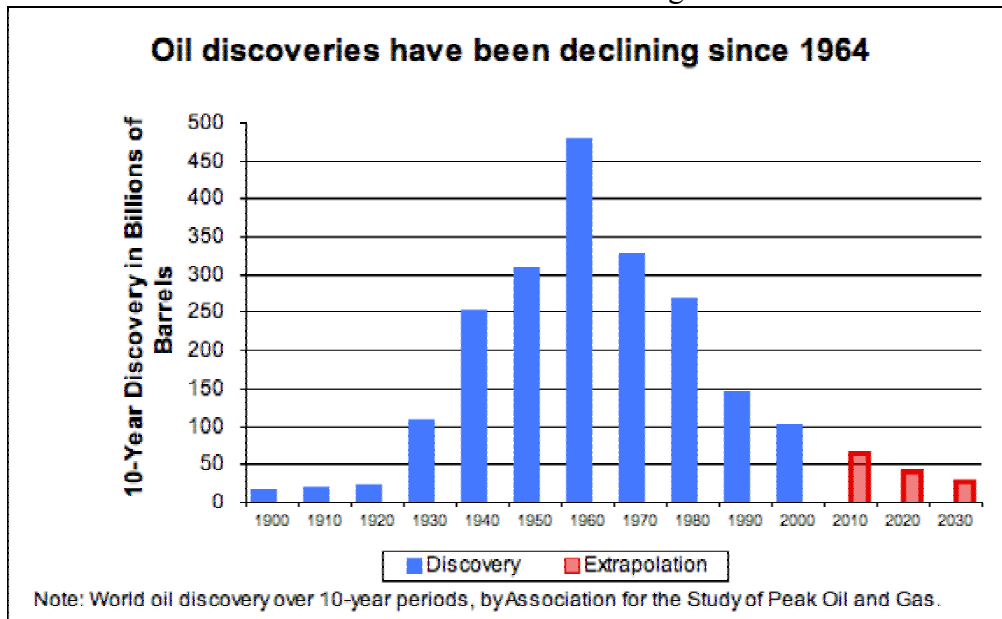
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The decline rate was nearly twice as fast as last year's 3.7% estimate which the IEA admits was inaccurate. Here is where it gets interesting. Those 800 fields represent over 75% of the world's remaining reserves and are already past peak production as a group. The question you must ask yourself is where will we find the equivalent of 4 Saudi Arabia's worth of production in the next ten years and is it even feasible. The next chart demonstrates that this is a very unlikely scenario given the trend in global reserves discoveries.



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Dr Birol highlighted that chronic under-investment by oil-producing countries and unsustainable demand for crude oil will result in a supply crunch over the next five years. He warned that the market power of the very few oil-producing countries that hold substantial reserves of oil would increase rapidly as the oil crisis begins to grip after 2010.

As investors this presents an incredible opportunity that may last a decade or more. It will take decades to retool our modern society to operate on alternative energy sources. Alternatives like solar and wind are not as useful or well adapted to our current energy requirements as fossil fuels. Procrastination and lack of industry standards will delay the implementation of alternatives until it is too late to make a difference compensating for the decline in crude oil production. In addition, the full scale development of alternative energy sources will itself be energy intensive and place further demand on dwindling fossil fuels.

The aforementioned scenario has two silver linings. The first is that investors can own a piece of the oil sands and benefit financially from this trend. I pray this remains the case but recent industry bailouts and outright nationalizations in the US are a cause for concern. The second silver lining is that a wave of innovation in the energy sector is about to be unleashed that promises abundant and cleaner energy that will take us beyond fossil fuels. Necessity is the mother of all invention.



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