The Tides are Changing!

How We See the Oil & Gas and Metals Sectors in 2008

Oil & Gas Sector

The downturn in the junior oil and gas industry ("Juniors") in 2006 and 2007 will go down as the worst downturn for this sector, but we believe the tides are changing! The following is a review of the downturn in the Juniors sector as we see it:

- Juniors are predominately weighted to natural gas production
  - Poor natural gas fundamentals sent prices plummeting which in turn eroded Juniors' margins
- Triple digit cost inflation squeezed margins
- The Canadian dollar appreciated dramatically which eroded export value
- The Federal government changed the rules for Income Trusts - investors reacted with a sell-off
- ABC paper and sub-prime issues stressed investors
- The Alberta government changed the royalty tax regime - and again investors reacted with a sell-off
- Investors reach a point of capitulation in 2007
- Year-end tax loss selling provided a final blow to Juniors
- Juniors' cash flow and net asset value multiples reached historically low levels

The tides are turning going into 2008, as we believe we now have one of the best value-based buying opportunities for Juniors on record as indicated in the following comments:

- Sector costs have improved significantly which will positively impact profit margins
- Natural gas fundamentals have improved dramatically causing the price to increase
  - Inventory storage levels are decreasing
  - North American natural gas withdrawals reached 854 Bcf so far this winter which is the second highest level in the last five years
  - US production has only increased slightly despite significant drilling activity
  - Historically low Canadian drilling activity has negatively impacted supply
  - Consumption is putting further pressure on supply
  - Current oil-to-gas ratio of 13:1 is not sustainable - move towards 6:1 as natural gas price increases
  - Natural gas price is significantly higher in other parts of the world which caused LNG imports to the US to drop dramatically
- With the price of natural gas increasing, Juniors' margins will improve
- Compelling value in Juniors:
  - Cash-flow multiples have dropped from an average of approximately 8 to12 times down to a low of approximately 1 to 2 times
  - Net asset value multiples have dropped from approximately 1.4 to 1.6 times down to a low of approximately 0.8 to 1.0 times
- Mergers and acquisition frenzy is occurring - recent examples include:
  - Iteration Energy acquires Cyries Energy
  - Profound Energy acquires Defiant Resources
  - NuVista Energy acquires Rider Resources
  - Petrobank Energy acquires Peerless Energy
  - Tristar Oil & Gas acquires Bulldog Resources
  - Galleon Energy acquires Exalta Energy
  - Zargon Trust acquires Rival Energy

- Large sophisticated institutions are quietly, but aggressively, returning to the Juniors sector which confirms a bottom of the cycle:
  - Ontario Teachers Pension Plan invested $84 million in NuVista Energy
  - Caisse de Depot Placement du Quebec invested in Duvernay Oil and Gas in the open market
  - Denham Commodity Partners invested $100 million in Fairborne Energy
  - Centennial Energy Partners LLC invested in Galleon Energy in the open market
- Share prices for strong Juniors responding positively
- Examples of Juniors' share prices increasing - percentage return from their December low to January 23, 2008:

- TriStar Oil and Gas	20.10%	- Delphi Energy	19.86%
- Breaker Energy	22.11%	- Vero Energy	17.72%
- Galleon Energy	3.62%	- Duvernay Oil & Gas	92.96%
- Celtic Exploration	21.51%	- Peerless Energy	11.06%
- OPTI Canada	0.12%	- Oilexco	0.42%
- Cyries Energy	35.74%	- Storm Exploration	7.77%
- Solana Resources	32.65%	- Orleans Energy	18.54%
- Open Range Energy	21.74%		

We believe the demand for oil will continue to pressure supply keeping the price of oil relatively high:

- Real demand has caused oil to reach new record prices
- Global oil supply remains tight despite the billions of dollars spent annually to explore for and produce oil
- Boston-based Cambridge Energy Research Associates reported the world's existing oilfields are declining at a rate of 4.5% annually
- Strong consumption growth continues in the Asia Pacific and Middle East regions
- The tight supply/demand balance and price of oil are positive factors for Juniors producing oil

The bottom line... We are bullish on the oil and gas sector, and in particular, the Juniors sector in 2008 because we believe:

- The Bank of Canada's and U.S. Fed's rate cuts will stimulate economic growth domestically and globally
- Inflationary pressures are bullish for oil and natural gas prices
- Oil prices will remain robust and natural gas prices will outperform
- Juniors will offer attractive returns on the back of increasing profits
- There is a strategic opportunity to take positions in undervalued companies which are potential take-out candidates
- Acquiring companies will offer investors of take-out candidates an attractive premium - 25% to 30% range

Premiums for oil and gas flow-through shares to continue to trend downwards in 2008:

- This trend started in 2007:
  - Our average weighted premiums paid for our spring offering was 19.8%
  - Our average weighted premiums paid for our fall offering was 13.3%
- Only the most sought after deals still have high premiums
- Premiums likely to range from 0% to 20% in 2008

METALS SECTOR

We are selectively bullish on the precious metals and stainless steel sectors in 2008:

- In the precious metals sector we like gold and silver:
  - The U.S. dollar's weakness is beneficial for gold and silver prices so we favor producers of these precious metals
- Demand continues for stainless steel, therefore we favor iron ore, coal and moly focused companies

For those companies in the above commodities, we will look for companies with:

- Excellent management teams who have either taken their mining projects to a scale that is attractive to senior companies looking for acquisitions, or
- Have taken their mining project to a point where they are less than 18 months to production