Sustainable Wealth Management Ltd.

Sustainable Oil Sands Sector Index ™ (SOSSI)
Iraq Rising at Our Expense
December 2009 Commentary

November was a flat month for crude oil and the benchmark energy index. Natural gas prices edged down while the oil sands index gained over 4% for the month. The big news this month was that Exxon made its first major purchase in many years with the all share takeover of a pure play unconventional gas producer XTO Energy. This put a strong bid under the Canadian-based unconventional gas players such as Encana and Talisman on the assumption that other international integrated oil companies follow Exxon's lead. This, coincidentally I'm sure, is timed very well with the split of Encana into a pure play oilsands venture (Cenovus Energy – CVE on the TSX) and the remaining company focusing on natural gas. My take is that the pure play natural gas company Encana would be very attractive to a super major like Shell, BP or Conoco. To bad it is no longer in the index, replaced this month by its oil sands pure play spinoff, Cenovus Energy.

Index	Symbol	Region	Nov 2009 Return
NYMEX Natural Gas	NGAS	US	-3.9%**
NYMEX Crude Oil	OIL	US	0.4%**
Oil Sands Sector Index	**SOSSI**	**Canada**	**4.3%***
S&P/TSX Capped Energy	TTEN	Canada	0.9%*

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

This was a good month for small pure play oil sands companies with newcomer BlackPearl Resources (former management team of Blackrock) making the index for the first time. The recently added Oilsands Quest (re-qualified for inclusion in the index) and Cenovus underperformed in November.

Top Performing Stocks Nov 2009		Worst Performing Stocks Nov 2009	
BlackPearl Resources	14.0%	Cenovus Energy	-5.3%
Ivanhoe Energy	11.9%	Husky Energy	-1.8%
OPTI Canada	8.9%	Imperial Oil	-0.4%
Nexen	6.7%	Canadian Natural Resources	0.4%
Petrobank Energy	6.3%	Oilsands Quest	0.8%

It is a good thing I don't run an international oil company because the recent frenzied bidding over oil concessions in Iraq makes no sense to me at all. The key things I can't figure out are:

1. Who is putting up the money to pay for all the new infrastructure needed
2. Why invest in a war zone where the population is mostly against you

Infrastructure Cost

Before I get into the details of the recent bids for Iraq oil I want to remind the reader that US taxpayers (and all of us via inflation) have or will pay over $2.4 trillion US for the privilege to invest in Iraq oil. Worst yet, there are over 1.3 million dead Iraqis and thousands of dead or injured soldiers on top of the financial costs. To put this into a Canadian perspective that is over 15 times all the money ever spent on Canada's oil sands and counting. The Iraq war adds another $11 billion US in cost every month (source Congressional Budget Office).

Royal Dutch Shell and Malaysian based Petronas were recently announced as the successful bidders of the massive Majnoon field that will eventually be upgraded to produce 1.8 million boe/day. The Iraq government was apparently willing to pay a fee of $2.80 per barrel of production but the consortium agreed to underpay all competitors by accepting only $1.39 per barrel. So in essence, they will be earning about a billion dollars per year revenue on this field before their operating costs which I expect will be substantial. There is no mention in the press release about what the new facilities will cost or what percentage royalties they will pay which makes determining the profitability of this project difficult to ascertain. My point is that profits are being privatized in Iraq while we the taxpayers and holders of fiat money pay the costs.

War Zone Investing

As far as I can tell, this region will always be a war zone and our troops will have to be there to protect our investments. I would rather drill 30,000 feet into the earth's crust or in remote locations than get involved in a Middle Eastern conflict. These investments might be profitable for individual companies but the wealth does not trickle down to the citizens of the countries involved to a large extent (Nigeria, Sudan, etc) and that makes us a target to extremists. It is time we spend that money on developing our own homegrown resources and avoid these costly foreign entanglements.

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The Oilsands Solution

We have just witnessed one of the greatest periods of natural gas reserves expansion in history. This resulted from advanced drilling and completion technologies that enabled previously unreachable reserves (shale and tight gas) to become economic. The result is that our natural gas stockpiles are at capacity and prices are around $5/mmbtu during one of the coldest starts to winter on record. I know that a similar investment in existing or developing technologies for the oil sands will yield similar results. For the amount of money spent on the Iraq war a similar investment in the oil sands could have boosted our production in excess of 10 million boe/day and probably solved a number of environmental issues such as water use, tailings ponds and toxic emissions (I am not talking CO_2 here, I mean sulfur dioxide and nitrogen dioxide). This would have been a peaceful use of our money that would have added to our wealth and security in the future. Instead we are left with a legacy cost that will continue for generations and we are no closer to gaining energy independence in North America.

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Iraq makes deal with Big Oil

Missy Ryan and Ahmed Rasheed
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Baghdad — Royal Dutch Shell and Malaysia's Petronas on Friday won the rights to develop one of the world's largest remaining untapped oilfields as Iraq staged its second auction of oil contracts since the 2003 U.S. invasion.

The companies proposed a fee of just $1.39 per barrel and pledged to increase output from the supergiant Majnoon field to 1.8 million barrels per day, more than double what Iraq had expected. The fee was below what Iraq was willing to pay.

"We announce that the consortium of Shell and Petronas have won (the contract) to develop Majnoon, and the fee is less than the Oil Ministry specified," Iraqi Oil Minister Hussain al-Shahristani said at the heavily-protected auction.

French oil major Total, partnered with China's CNPC, also bid and was likely to have been disappointed at losing a field it sought to develop under ousted dictator Saddam Hussein. As some consolation, it had a stake in a CNPC-led consortium that won the rights to the smaller Halfaya oilfield.

Iraq is offering 10 oilfields over two days in a rare opportunity for oil firms, from Western majors to Chinese and Indian state-owned giants, to gain access to plentiful and cheap to pump Middle East oil reserves.

Despite the anticipation, no one bid for one of the supergiants, the 8.1-billion barrel East Baghdad field, part of which lies under the sprawling Sadr City slum in the Iraqi capital. Baghdad is still hits by periodic bombings and oil executives considered it unsafe to invest in the field.

The deals have the potential to lift Iraqi oil output to levels which would rival that of top oil producers Saudi Arabia and Russia, and could rattle the geopolitical power balance in the Middle East.

Baghdad desperately needs the billions of dollars of revenue these and other deals would generate to rebuild after decades of war, international sanctions and years of neglect and sabotage.

Competition had been expected to be fierce as the second auction since the invasion includes the last of Iraq's supergiant fields – reservoirs holding five billion barrels or more. They are among the last untapped fields of their size in the world. Collectively, the fields on offer hold about as much oil as all that held by OPEC-member Libya.

Executives from the world's top oil companies braved security threats to bid in Baghdad. Forty-four companies were expected to send top-level representatives. They include Exxon Mobil, Royal Dutch Shell, BP, Chevron and Total.

A series of car bombs killed 112 people in the capital on Tuesday, police said, a bloody reminder of the dangers oil firms would face in deploying staff across the country.

Iraqi army helicopters buzzed overhead while convoys of armoured SUVs carrying the oil executives hidden behind tinted windows raced through town to the auction.

Iraqi police trucks and squads of police dressed in commando gear deployed at dawn to line the streets leading to the Oil Ministry, blocking off many side roads.

Crowds of uniformed police and army personnel milled around at the ministry next to Iraq army Humvees and police pickup trucks. The auction, which was being held in a large auditorium, did not start on time.

With 12.6 billion barrels of reserves, Majnoon in relatively stable southern Iraq is one of the largest untapped oilfields left on earth.

Halfaya, with 4.1 billion barrels of reserves, was won by a consortium made up of CNPC, Total and Petronas. They proposed a fee of $1.40 per barrel and a plateau production target of 535,000 barrels per day.

Also on the block were a cluster known as the Eastern Fields in volatile Diyala province, and Qayara, a reservoir in the northern province of Nineveh, where Sunni Islamist insurgents like al Qaeda are still on the prowl and Kurd-Arab disputes have led to considerable tension.

No bids were received for the Eastern Fields and Shahristani said the Iraqi Oil Ministry would develop them on its own.