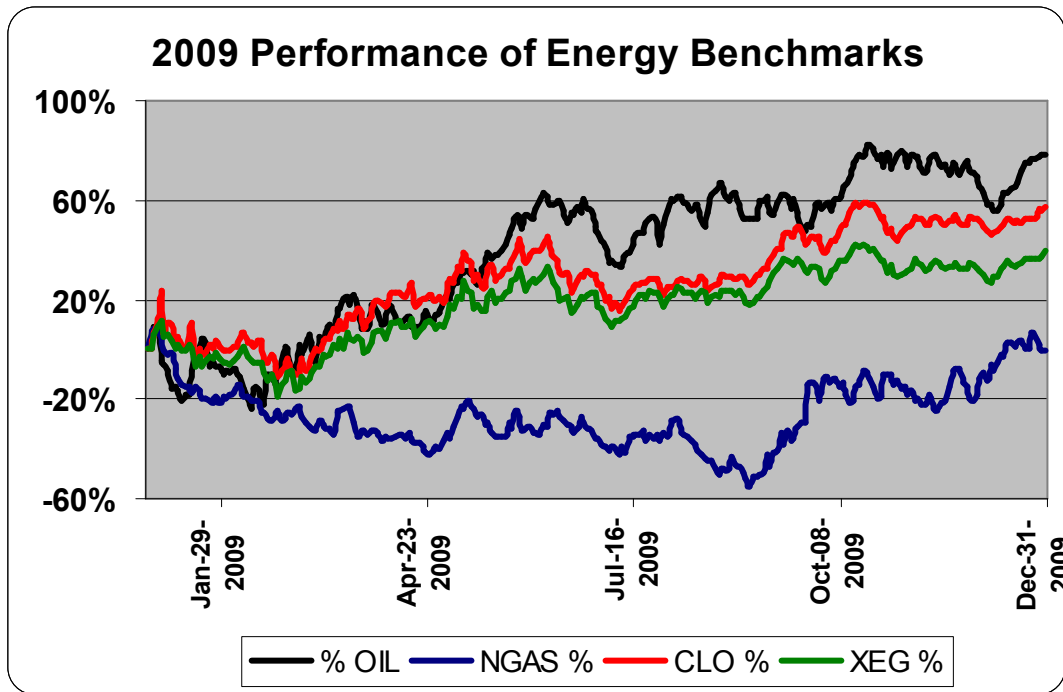




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Crude oil is running ahead of the energy stocks including the oil sands index. This is a rare occurrence and has two possible resolutions based on past historical data. The first resolution is that energy stocks (especially oil sands stocks) rise significantly above crude oil prices over the next year or so. This was the situation between 2004 and 2006 when crude oil initially rose and followed by energy stocks six months later. The other resolution is crude oil collapses when the obvious artificial demand from investment sources such as institutional speculators is abruptly removed. A possible trigger for this event would be a massive rebound in the US dollar. In that case we would experience another period similar to July 2008 to March 2009. You might ask what would trigger such an event and my answer would be market forces. The belief in gold and the demise of the US dollar is almost one sided (90%+ based on recent Commitment of Traders reports). Similar one sided belief was attributed to crude oil in the summer of 2008. Markets go in both directions. The opportunity to profit (by doing the opposite of the prevailing trend) is always highest when such one sided investment opinion exists.

However the current trend is resolved, I feel that the oil sands index is a more representative index for the energy sector in Canada. Within a decade, over 70% of the petroleum based energy will be sourced from Canada's oil sands. The export revenue from oil sands will greatly exceed natural gas exports. Conventional oil and gas production will continue to decline while oil sands



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production will continue to climb. Already the oil sands index is more diversified than the benchmark S&P/TSX Capped Energy Index. For proof take a look at the following table that shows the top 5 holdings of the two indices at the 2009 year end.

S&P TSX Capped Energy Index		SWM Oil Sands Sector Index	
Suncor	20.22%	Suncor	9.71%
Canadian Natural Res.	13.66%	Connacher Oil & Gas	8.06%
Encana	9.15%	BlackPearl Resources	7.31%
Cenovus	6.89%	Imperial Oil	7.12%
Talisman	6.65%	Canadian Natural Res.	7.03%
% of Total in Top 5	56.57%	% of Total in Top 5	39.23%

There are 43 holdings in the benchmark index and only 17 in the Oil Sands Index. It is clear that there are dozens of insignificant holdings in the benchmark index that have no impact on performance. For instance, the best performing stock in the Oil Sands Index in 2009 was Ivanhoe Energy which has a 6.76% weighting. In the benchmark it is not even represented at all. Same goes for BlackPearl Resources. Long term winner, Petrobank is up over 1800% since it was added to the index 5 years ago and represents 5.65% of the index at this time. Its weighting is only 1.78% in the benchmark index at this time and had less than 0.50% weighting during the high growth phase of the company.

If you want to own the benchmark you would be better off just buying Suncor, Canadian Natural Resources and Encana and saving yourself 0.55% in annual management fees. If you want to participate in the growth of Canada's Oil Sands, the SWM Oil Sands Sector Index (CLO on the TSX) is your benchmark.

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Iraq makes deal with Big Oil

Missy Ryan and Ahmed Rasheed

06:52 EST Friday, Dec 11, 2009

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.



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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.

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“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.



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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 hit 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



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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 Shahrstani said the Iraqi Oil Ministry would develop them on its own.