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**Sustainable Oil Sands Sector Index® (SOSSI)
China Profits on Oil Sands IPOs
June 2010 Commentary**

Last month I alluded to the possibility that new extraction technologies in development now will make Canada's oil sands the premier, low risk (and potentially low cost) development location for oil in the near future. It looks like other people agree. As I write this commentary, the second major IPO of the year in the oil sands was announced involving MEG Energy. MEG has reserves comparable to Athabasca Oil Sands Corp, Cenovus Energy and Canadian Oil Sands Trust. MEG Energy and recently publicly listed Athabasca Oil Sands. They were partially financed at the early stages by the Chinese via their nationalized oil companies. Good for them and the sovereign wealth funds from Asia that followed along for the ride. I am glad that the projects are moving forward especially since I think geopolitical forces are aligning to benefit the oil sands again just like they did in 2004. More on this later in the article but first lets talk about what happened in May.

Natural gas bucked the downtrend in May by gaining over 10%. Crude oil dropped by over 14% which helped drag down the Oil Sands Index by 9.5%. The diversified benchmark energy index was down only 2.1% mostly due to a rebound in natural gas producers.

Index	Symbol	Region	May 2010 Return
NYMEX Natural Gas	NGAS	US	10.7%**
NYMEX Crude Oil	OIL	US	-14.1%**
Oil Sands Sector Index®	SOSSI	Canada	-9.5%*
S&P/TSX Capped Energy	TTEN	Canada	-2.1%*

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

Dividend payers did well in May while pure play small cap oil sands companies suffered the most from the drop in crude oil prices in May.

Top Performing Stocks May 2010

Worst Performing Stocks May 2010

Penn West Energy Trust	0.6%	Ivanhoe Energy	-21.9%
Cenovus Energy	-2.7%	Oilsands Quest	-18.7%
Enerplus Resources	-2.8%	OPTI Canada	-14.4%
Baytex Energy Trust	-4.0%	UTS Energy	-13.6%
Canadian Natural Resources	-4.8%	BlackPearl Resources	-12.5%



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Why the Chinese are Investing

The Chinese have several unique advantages as an investor in the energy sector. They are aware of the true demand growth for fossil fuels primarily because they are largely responsible for the excess demand. They are not limited by mundane concerns such as shareholder demands, restrictions on environmental practices and ethical restraints that a publicly listed company must concern itself. They are endowed with the world's largest excess of foreign currency that earns very little interest and is constantly being devalued by inflation. What this means is that their increasing investment in the sector can become self-perpetuating and reinforcing. Investing in the oil sands will allow them to guarantee a significant portion of the future production will make it to their shores and bypass the big market to the south. The geopolitical concerns will force the US and other western nations to step up their investments in the sector. This has the makings of another boom in a few years.

Bust before Boom

I see energy demand declining for a while before picking up a few years down the road. My opinion is based on data indicating that the money supply is declining at the same rate as was experienced during the early years of the Great Depression. This means less capital and credit is available to the economy and less economic activity and energy use is sure to follow. If I am right we should see another return to sub \$50 oil. OPEC is raising capacity (mostly in Saudi Arabia) even though their spare capacity is 6 million boe/day. When crude was rising to the \$140+ level OPEC's spare capacity was less than 2 million boe/day. Weak consumer demand with increasing supply is not a recipe for another bull run, but we shall see how it turns out.

Next month I plan on discussing the changes to the oil sands index after the annual rebalance.

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Founder of the Oil Sands Sector Index™

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