Tightening Global Oil Supply - The Stars Are Aligning for the Oil Sands Of Canada

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We believe that high oil prices are here to stay; the recent period of high oil prices is neither a short-term nor temporary phenomenon. Although supply interruptions from various countries including Iraq and Venezuela have contributed to higher prices in the last year, the issue is much more complex than this alone. There are many other factors that play into the equation including: declining production from many countries, increasing demand in developing economies, the lack of large conventional discoveries, political instability in several countries with large oil reserves and, moreover, the fact that oil is a limited and non-renewable resource. Further, we do not believe that increased volumes from Iraq, Venezuela, Russia, the Caspian Sea area or the offshore of Africa will reverse the trend of higher oil prices as these reserves will take time to bring on-stream due to political instability, lack of infrastructure and lower quality crude. The world as a whole is now exploring for the more marginal barrel and the cost of that barrel is not low cost.

In 1956, the geophysicist M. King Hubbert predicted that oil production in the U.S. would peak in early 1970s; he was proved to be correct 14 years later when, in 1970, production in the country did indeed peak. With almost 50 years more production data than Hubbert had, we use his type of analysis to show that world oil production will likely peak in the next ten years. However, from an investing point of view, we do not need to know exactly when world oil production will peak, we only need to know that we are getting close to the peak; the closer to the peak, the more sustainable are higher oil prices. We believe the best way to invest into this circumstance is to own the companies with significant leverage to the oil sands of Canada because they have proven production technologies which can grow production when most of the world cannot.