

New Beginnings

— DANIEL S. CHENG, CFA, PORTFOLIO MANAGER

With the New Year in its infancy, investors are seeing lingering effects of 2009 and signs of a new cycle in oil and gas taking shape. Here are a few of the Alberta-based trends we're tracking closely:

Exploration or acquisition: Junior and intermediate companies appear to be resuming their role as the industry's research and development department. Where there's success and "derisking" of a play, then acquisition by a larger entity is not far behind. We saw this at work in the Bakken play in Saskatchewan in 2008 and into 2009. A similar scenario is unfolding in Alberta's Cardium play where a number of juniors are active along with some larger entities. MFi Energy Fund investors, for example, have benefited from our early participation in the Bakken play. We're now investing in companies in the Cardium play such as Bellatrix Exploration Ltd., NAL Oil and Gas Trust, Bonavista Energy Trust and Daylight Resources Trust.

Under new management: Increased merger and acquisition (M&A) activity and the sale of junior companies generally mean movement by top tier management teams. With one chapter closed, such teams refocus on struggling junior oil and gas companies, recapitalize them and assume management responsibilities, generating investor interest along the way. Recent examples include Wild Stream Exploration, Inc., Legacy Oil + Gas Inc. and Result Energy Inc.

Upcoming transition: In 2011, royalty trusts lose their tax advantage. We're seeing trust to corporate structure conversions underway with notable examples including: Crescent Point Energy Corp. and Advantage Oil and Gas Ltd. We expect this activity may prompt the re-emergence of the intermediate sector and fuel M&A activity as trusts—in conjunction with their transition—look to add growth assets to their portfolio.

Increasing capital expenditures: Reports indicate some companies are increasing capital expenditures over 2009 with spending levels anticipated to be ~15.0% higher year-over-year in Canada thus far. As discussed in the last *Matco Report*, we think activity will be focused primarily on horizontal drilling and multistage fracturing in resource-type plays in both natural gas and oil (i.e., Bakken, Cardium, Montney, and the Deep Basin). MFi Energy Fund has exposure to these trends through Daylight Resources Trust Ltd., NuVista Energy Ltd. and Progress Energy Resources Corp. to name a few.

Revised royalty structures 2010: Ongoing changes to Alberta's royalty structure and temporary incentives have made it difficult for companies to plan for the long term. We're expecting the scheduled January release of the Alberta Competitiveness Study to introduce some positive stability, setting the stage for oil and gas companies to plan 2010/2011 activities with certainty. We think Alberta producers drilling medium- to deep-gas in the Foothills and Deep Basin will benefit most as they have borne the brunt of the pain in the last two years. From our vantage point, we expect junior companies such as Vero Energy Inc. and Angle Energy Inc. to benefit. Both are currently MFi Energy Fund holdings.

In addition to these local themes for 2010, we'll be working with trends such as developments in liquefied natural gas, global supply/demand and carbon tax issues. Through current and prospective holdings, we believe MFi Energy Fund is well-positioned to capitalize on such trends throughout 2010. Looking longer-term, we remain bullish on the strength of commodities such as oil and gas given the ongoing prospects for growth in emerging markets such as India and China. ■



For your information:

MATCO FINANCIAL INC. is a privately owned and independent wealth management office. The material presented in the *Matco Report* is intended to provide information to Matco Financial clients, contacts and affiliates. Readers should not act on this information without first consulting their investment advisor, tax advisor, financial planner, or lawyer. This communication does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

Management fees, commissions, and expenses may be associated with investment management services and mutual fund investments. Before investing, please read the applicable information such as the prospectus, which contains detailed investment information and is available from your advisor. Most marketable securities such as mutual funds are not guaranteed or insured, their values change frequently and past performance may not be repeated. All statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and are not guarantees of future performance. Investors should not rely on forward-looking statements. Actual results, actions or events, could differ materially from those set forth in the forward-looking statement.

Matco Financial Inc.

400, 407 - 8th Avenue SW, Calgary, Alberta T2P 1E5

phone 403.539.5740 toll free 1.877.539.5743 fax 403.539.5744 website www.matcofinancialinc.com