

January 2007

Warm Weather Weighs in on Energy Sector; Pace of US Drilling Key to Improving Gas Market Sentiment

Crude Oil: Crude prices reached a three-month high on OPEC's December 14 announcement that the cartel would cut supplies by an additional 500 mb/d, but ultimately this was not enough to overcome the pressure of continued mild weather. The forward strip is currently averaging ~US\$61/b through 2008, 11% lower than the end of November. Reflecting lower heating oil consumption due to warm weather, we have reduced our 2007 WTI price forecast by US\$3/b to US\$65/b. We expect oil prices to average US\$68/b in 2008.

Natural Gas: With December 2006 20% warmer than normal and the forecast for January shaping up for more warm weather, we see the US gas market driving to 1.75 Tcf in storage at the end of winter for the second year in a row. Combined with rising onshore supply, the near-term picture is relatively bearish for gas prices and gas stocks. Reflecting the lack of heating demand this winter, we are lowering our 2007 NYMEX gas price by US\$1.50 to US\$7.00/mmbtu. We expect gas to average US\$8.50/mmbtu in 2008.

Investment Thesis: Aside from the weather impact on crude demand, oil fundamentals remain strong and current equity market weakness suggests better leverage to oil today. However, lower commodity prices are likely to see selling pressure on gas stocks, particularly resource players whose programs are far more sensitive to gas prices. In the **near-term**, our strategy is to own low-cost gas producers which also tend to be the best managed companies. They will benefit in this environment by having the financial flexibility to execute planned programs and be consolidators in a 'buyer's market'. Look for inflection in US gas rig count to get more aggressive in adding weight to gas resource plays. Our view is that with supply shrinking, the market will tighten through the second half of 2007, creating a tight environment for winter 2007/2008.

Please see the back page for important disclosure information

Tom Ebbert, 403.303.8656
Chris Theal, CFA, 403.539.4349
John Tasdemir, 403.539.8558
Don Rawson, 403.539.4356
Cristina Lopez, CFA, 403.539.8542
Chris Feltin, P.Eng., 403.539.8544

Megan Skelton (Associate), 403.539.8514
Leon Knight (Associate), 403.303.8655
Josh Ochman (Associate), 403.539.4344
Mari Toni Moreno (Associate), 403.539.4355
David Popowich (Associate), 403.539.8529
Jan Cerny, CA (Associate), 403.539.8530
Cheryne Lowe, CA (Associate), 403.303.8666

Market Review

With much of North America experiencing mild weather in December, and forecasts calling for these conditions to persist well into January, natural gas prices declined as did energy stocks. NYMEX natural gas fell 29% in December as the market focused on warmer weather forecasts and on storage continuously being higher than the seasonal 5-year average. Oil prices closed down 3% for the month, as news of further OPEC production cuts was offset by concerns that warm weather would also impact demand for heating oil. The S&P Energy Index fell 1.9% in December, underperforming the S&P 500, which returned 1.3%.

Very few energy stocks were able to withstand the bleak commodity picture in December, with nearly every stock we follow down for the month. The S&P E&P Index fell 9.3% in December, while the OSX performed slightly better, falling 4.7%. However, weak commodity prices translated into strength in the rest of the market, and the Dow Jones Industrial Average continued to push to new heights, closing the year at 12,463 pts. (up 2% in December).

Among the few bright spots in the energy sector in the past month were US Internationals ConocoPhillips and Chevron, which returned 7% and 2%, respectively. Canadian independents Talisman and Nexen also generated positive (albeit small) returns of 1% and 0.3%, respectively. Chesapeake, which fell 15% in December, was the worst-performing US mid-cap we follow. Several oilfield service companies also took it on the chin, as lower natural gas prices are expected to result in decreased service demand in H1/07. Halliburton (down 8%), Nabors (down 12%), and BJ Services (down 13%) are among the names that took big hits.

Investment Thesis

Warm Weather Takes Bite out of Winter Gas Outlook; Soft H1/07 should set Stage for H2/07 Rebound

We have lowered our '07 NYMEX gas price by US\$1.50 to US\$7.00/mmbtu and WTI by US\$3 to US\$65/b. Lower weather related demand (250-350 bcf of gas) this winter is the driver. US storage should end winter at +1.75 Tcf, which combined with rising US supply creates an overhang. Canadian supply will fall by 2% this year, but there is no conviction yet in a US gas drilling slowdown to trigger a turnover in the pace of onshore gas supply growth.

A declining US gas rig count is the key catalyst to buy back into tightening gas fundamentals in H2/07. US E&P budgets coming out in next few weeks may set an early conservative tone on spending pull back. With an expected tightening through '07, we are rolling out our '08 forecast of US\$8.50/mmbtu NYMEX and \$68/b WTI.

Exhibit 1: Tristone Commodity Price Forecast

		2007			2008	Long-Term (Flat)
		New	Old	Change	New	(no change)
Natural Gas						
NYMEX	US\$/ mmbtu	7.00	8.50	-18%	8.50	7.15
AECO Basis	US\$/ mmbtu	0.90	1.16	-22%	1.15	1.10
AECO	C\$/ GJ	6.65	7.80	-15%	8.00	6.60
Nominal Alberta Wellhead	C\$/ mcf	7.10	8.35	-15%	8.55	7.03
Crude Oil						
		New	Old	Change	New	
WTI	US\$/ b	65.00	68.00	-4%	68.00	55.00
Canadian Exchange Rate	US\$/ C\$	0.870	0.890	-2%	0.870	0.860
Edmonton Par	C\$/ b	73.00	75.80	-4%	77.60	63.00
LLB Heavy Differential	US\$/ b	22.12	23.22	-5%	23.20	18.70
LLB Diff as % of WTI		34%	34%	0%	34%	34%
Brent Crude	US\$/ b	64.50	68.00	-5%	66.50	53.50

Source: Tristone Capital

Short-term (Q1/07) Flight to Quality/Own the Consolidators

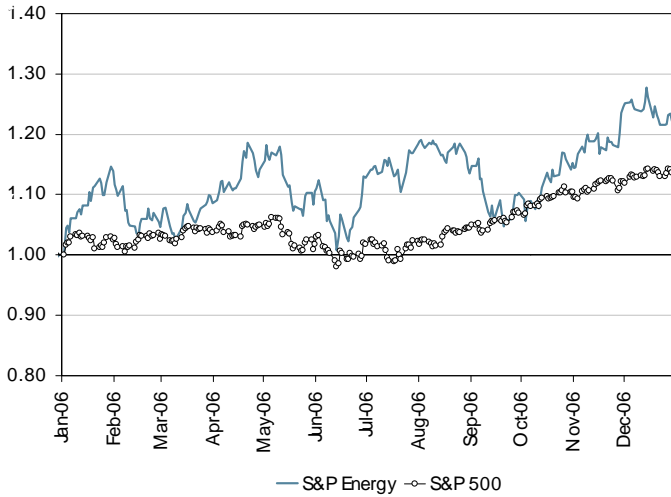
Gas price weakness will continue to result in negative earnings revisions as Wall and Bay Streets revise down estimates on lower spending and prices. As such, gas-weighted producers may underperform ~10% in the near-term. Our strategy is to own low-cost gas producers which also tend to be the best managed companies. They will benefit in this environment by having the financial flexibility to execute planned programs and be consolidators in an increasingly 'buyer's market' - particularly for publicly traded reserves and production. We do not recommend owning/buying junior names that trade at discounts, as those discounts typically reflect capital/execution constraints. As a result, these companies are likely going to be taken out at or near market and likely prior to y/e 2006 reserve reports hitting the streets in March (which will reflect high service costs and lower y/y gas prices). For EnCana, we see the targeted buyback in jeopardy with further gas price weakness, as the 2007 NYMEX strip is only US\$0.10/mcf higher than its budget assumption.

Beyond Winter – US Gas Rig Count is Buy Signal

If we were to put our finger on one data point that will mark the inflection point to tighter gas fundamentals, it is the US gas rig count. The sooner it turns, the sooner supply turns, although we think US budgets in the near-term will be a key barometer to this outlook. Our view is that with supply shrinking, the market will tighten through the second half of 2007, creating a tight environment for winter 2007/2008 pricing. We see a better trade in the resource play gas producers over the coming months as the supply catalyst plays out, and would look to add to positions on further weakness. As an alternative to owning the low-cost gas producers, we continue to see leverage in oil-weighted producers.

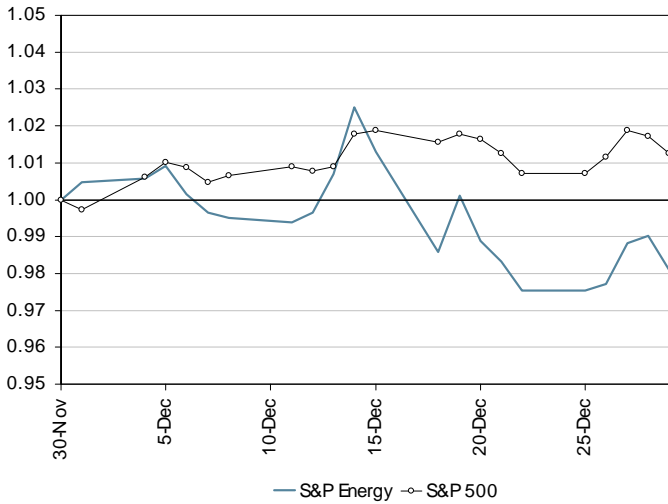
Note: All charts in this report are sourced from Bloomberg unless otherwise noted.

Exhibit 2: S&P Energy Index vs. S&P 500 – Last 12 Months



- The S&P Energy Index ended the year with a 22.8% return compared to the S&P 500, which returned 13.5%.
- Despite December’s lackluster performance, the S&P Energy Index outperformed the broader US markets during 2006 driven primarily by Integrated companies which posted strong second half returns.

Exhibit 3: S&P Energy Index vs. S&P 500 – December 2006



- As December unveiled milder than normal temperatures that reduced heating demand by ~20%, weaker commodity prices led the S&P Energy Index 1.9% lower during December compared to the S&P 500 which gained 1.3% during the month.

Exhibit 4: Broader Market Relative Performance - Last 12 Months

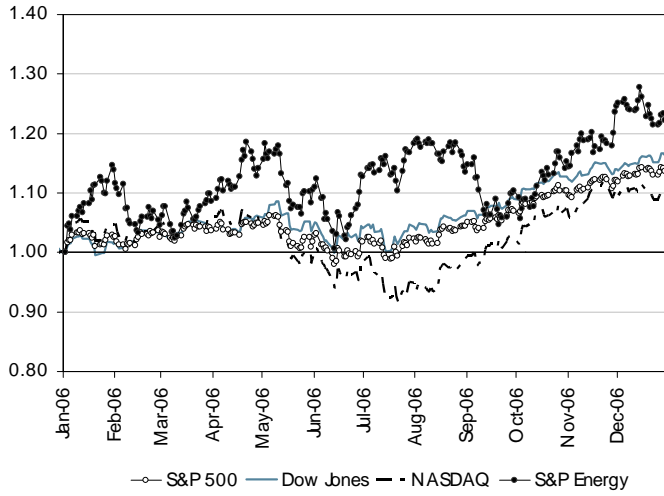


Exhibit 5: Broader Market Relative Performance - December 2006

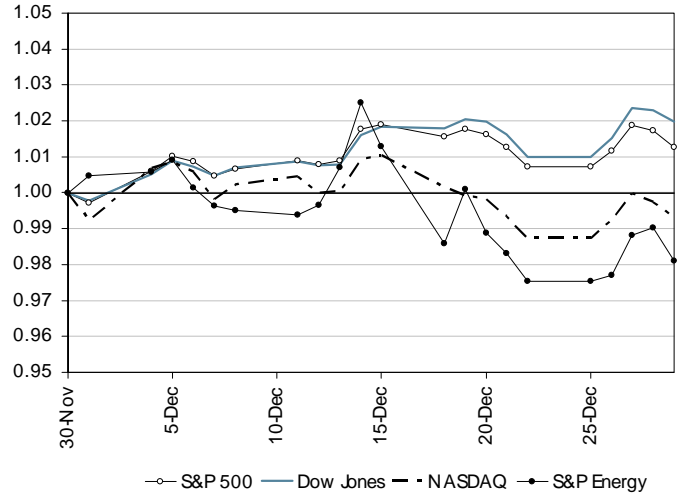


Exhibit 6: Energy Sub Group Performance - Last 12 Months

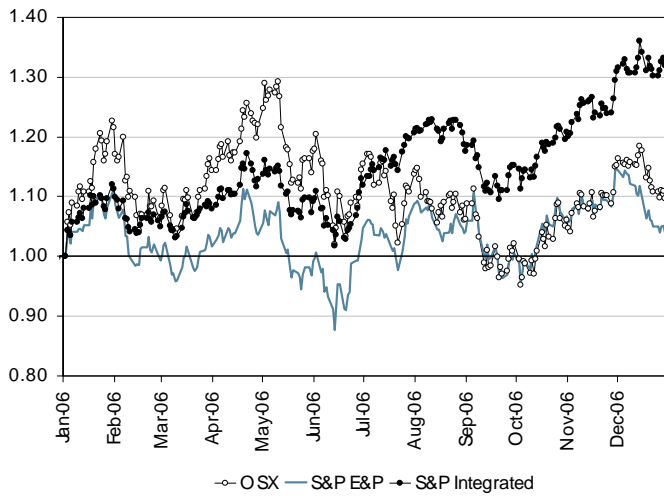


Exhibit 7: Energy Sub Group Performance - December 2006

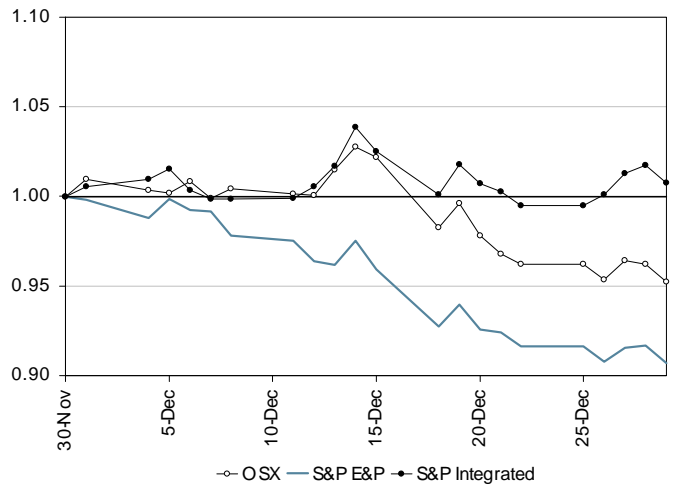


Exhibit 8: AMEX Oil and Natural Gas Index - Last 12 Months

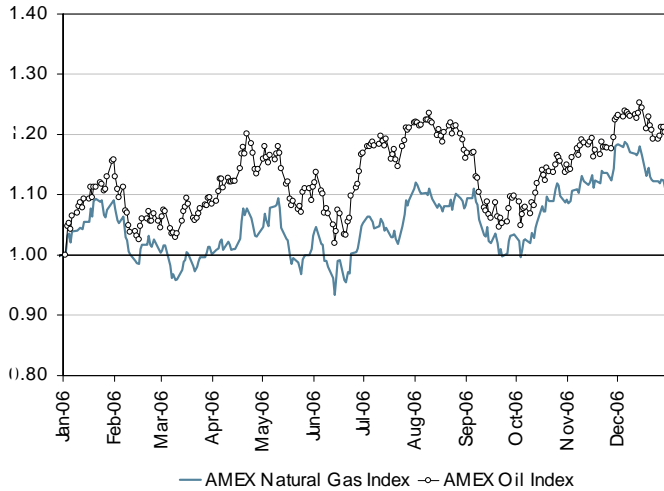


Exhibit 9: AMEX Oil and Natural Gas Index - December 2006

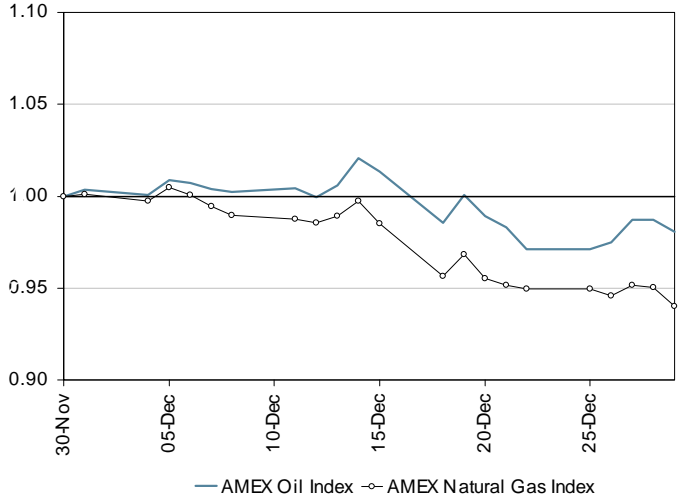


Exhibit 10: US Domestic Integrated / Refiner Performance - Last 12 Months

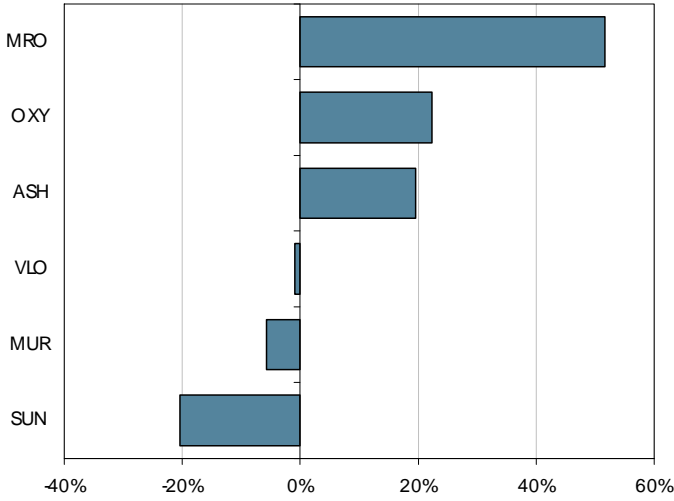


Exhibit 11: US Domestic Integrated / Refiner Performance - December 2006

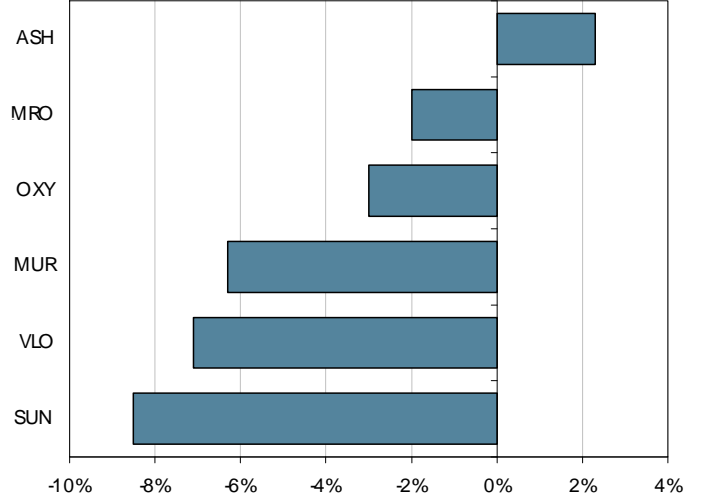


Exhibit 12: International Integrated Performance - Last 12 Months

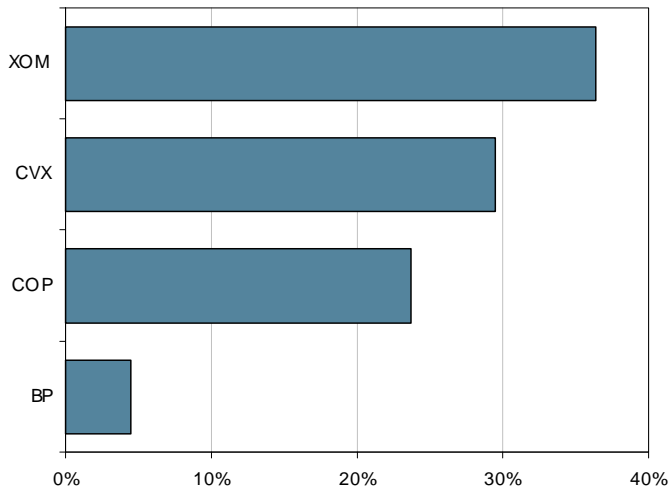


Exhibit 13: International Integrated Performance - December 2006

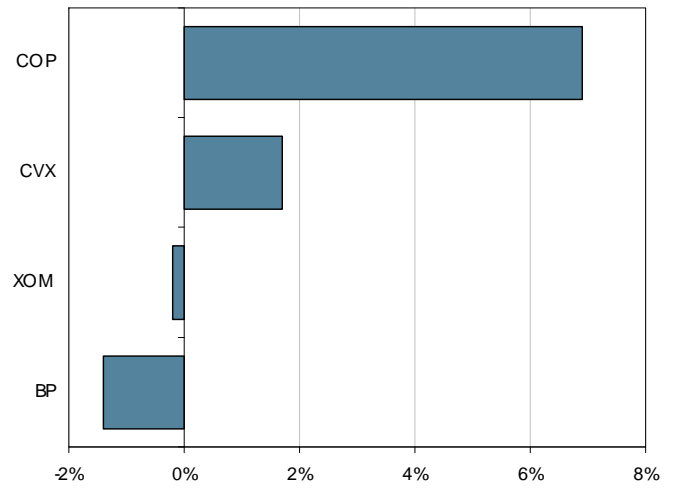


Exhibit 14: North American Large Cap Independent Performance - Last 12 Months

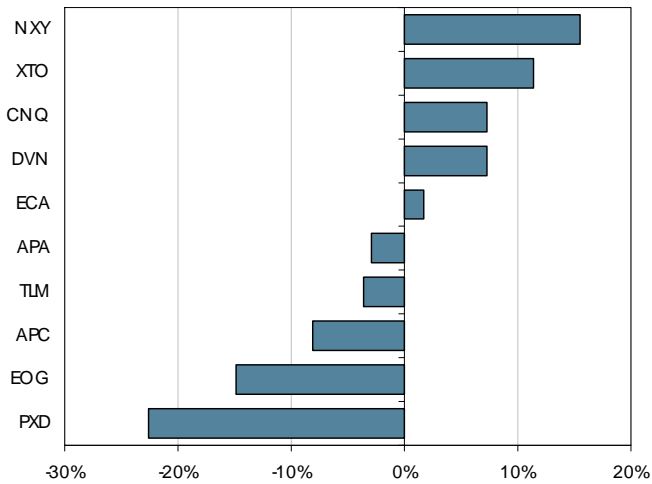


Exhibit 15: North American Large Cap Independent Performance - December 2006

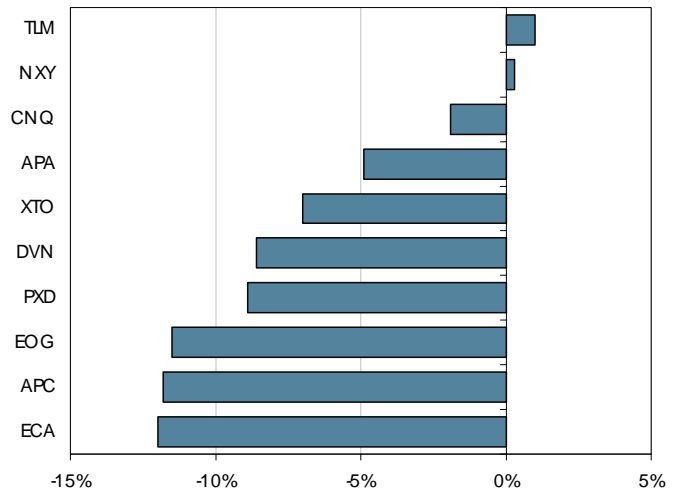


Exhibit 16: US Small and Mid-Size Producer Performance – Last 12 Months

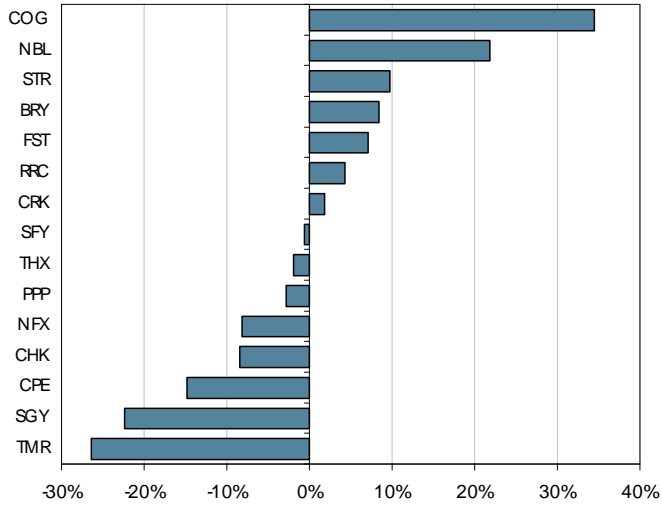


Exhibit 17: US Small and Mid-Size Producer Performance – December 2006

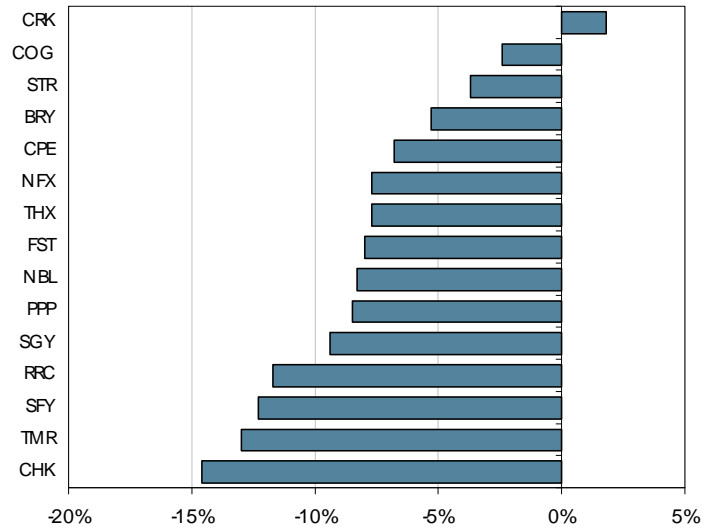


Exhibit 18: US Equipment and Services Performance – Last 12 Months

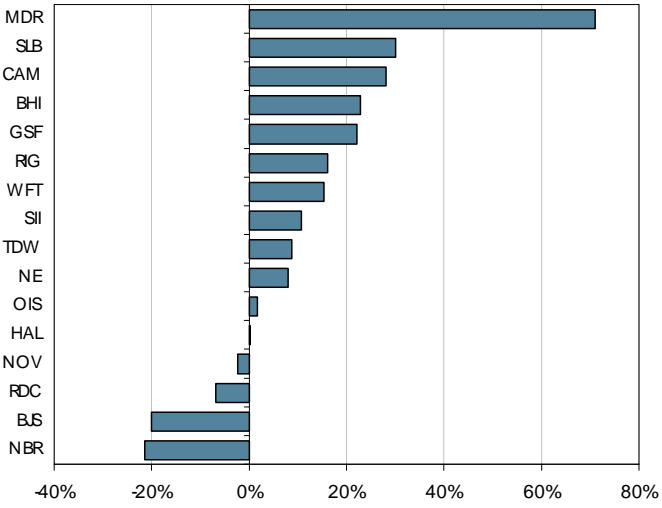
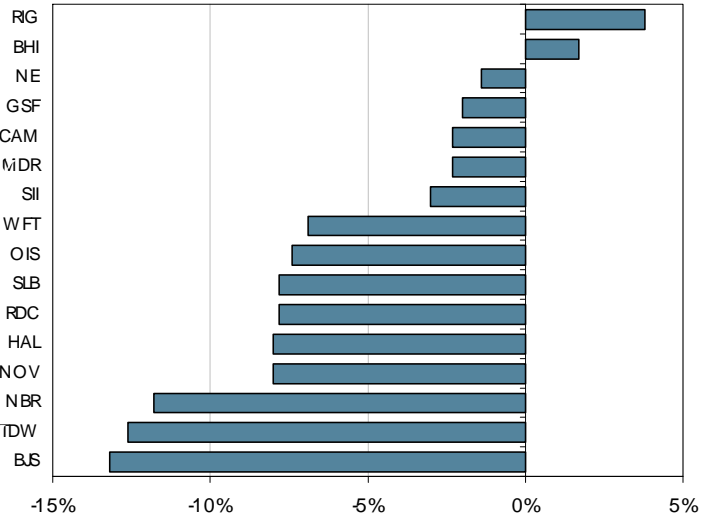


Exhibit 19: US Equipment and Services Performance – December 2006



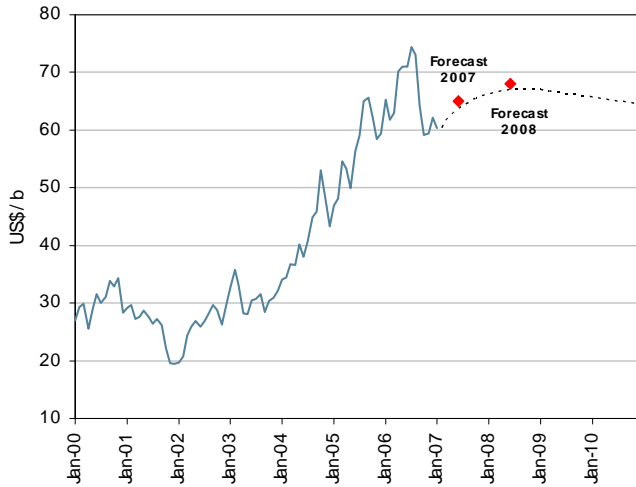
Crude Oil Summary

In the relative absence of geopolitical drivers, crude oil was rangebound for much of December, trading between US\$61-64/b (and recently dropping to ~US\$55/b), as unseasonably mild weather has reduced demand for heating oil. Crude prices reached a three-month high on OPEC's December 14 announcement that the cartel would cut supplies by an additional 500 m/d, but ultimately this was not enough to overcome the pressure of continued mild weather. The forward strip is currently averaging ~US\$61/b through 2008, 11% lower than the end of November. Reflecting lower heating oil consumption due to warm weather, we have reduced our 2007 WTI price forecast by \$3.00/b to \$65.00/b.

Following through with its promise to consider further output cuts, OPEC announced on December 14 that it would trim production by an additional 0.5 mmb/d, effective Feb. 1/07. This is in addition to the previously announced 1.2 mmb/d cut which came into effect on Nov. 1/06. As of November 30, the cartel's compliance was 60% on the initial 1.2 mmb/d production cut, but it remains to be seen how easily OPEC will be able to carry out the latest cut. The market will likely remain concerned with spare OPEC capacity, which has held stable while production has fallen.

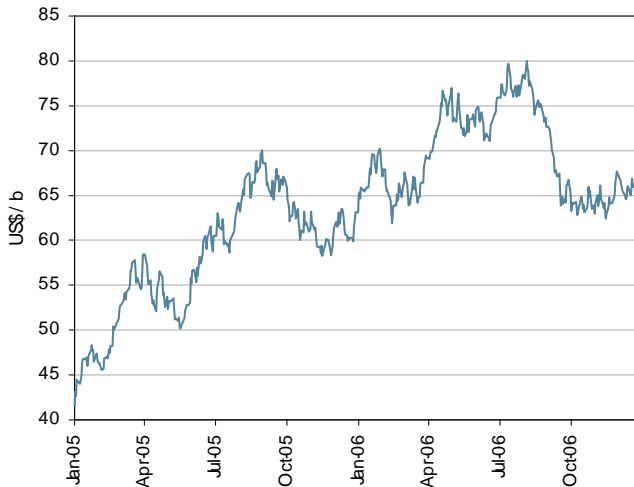
Despite the recent plunge to US\$55/b, we expect crude to drift around the US\$55-60/b level through January, as the market focuses on forecasts for continued warm weather. Incorporating lower Q1/07 weather-related oil demand, reasonable GDP growth in the US and continued growth in China should continue to fuel oil demand growth in 2007. On the supply side, in addition to the latest OPEC cut, non-OPEC supply growth should underperform optimistic forecasts again in 2007. Violence associated with April elections in Nigeria, flare-ups of conflict in the Middle East, and/or an Iranian response to economic sanctions, could see the return of a geopolitical risk premium in crude oil markets.

Exhibit 20: Historical WTI and Forward Strip



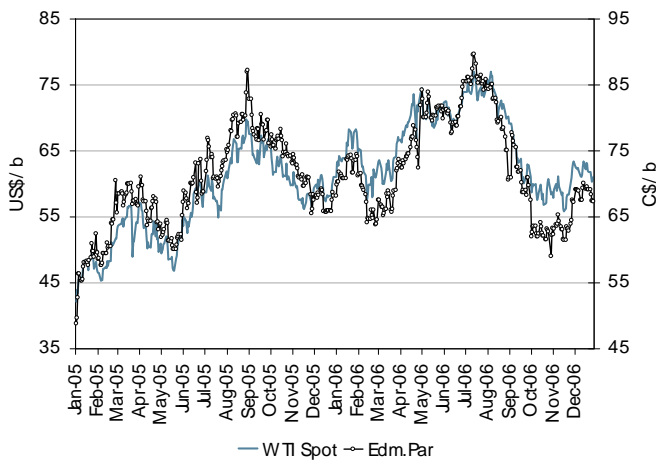
- The forward strip is currently averaging ~US\$61/b through 2008, 11% lower than the end of November.
- Reflecting lower heating oil consumption due to warm weather, we have reduced our 2007 WTI price forecast by \$3.00/b to \$65.00/b. We expect oil prices to average US\$68/b in 2008.

Exhibit 21: WTI 12-Month Forward Strip



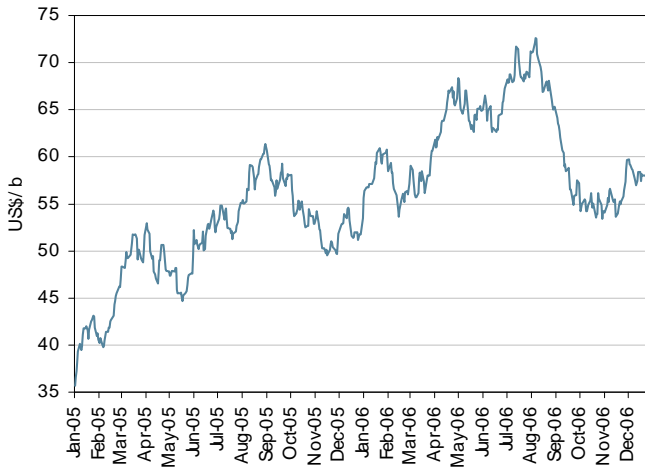
- The 12-month forward strip fell US\$2.31/b (3.4%) in December, closing the month at US\$64.85/b.
- So far this month, the 12-month strip has shed another US\$5.40/b (8.3%) and is currently trading at US\$59.44/b.

Exhibit 22: WTI Price vs. Edmonton Par



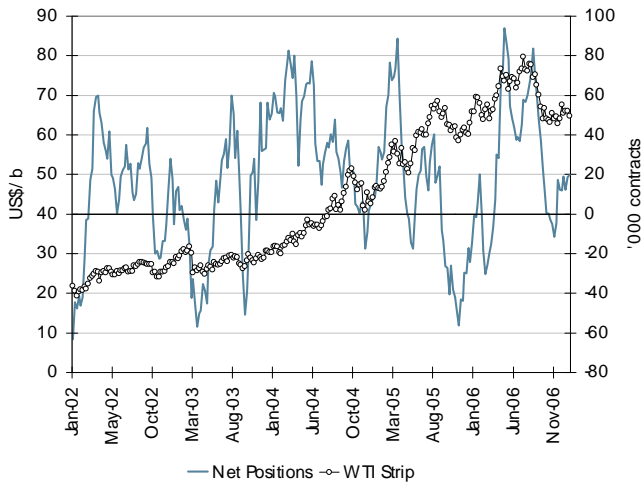
- The WTI spot price averaged US\$61.99/b in December, 4.9% higher than November's average of US\$59.07/b.
- Edmonton Par averaged C\$68.63/b in December, 7.8% higher than November's average of C\$63.66/b.
- After widening through September and October, the Edmonton light differential to WTI narrowed from a discount of US\$4.11/b at the end of November to a discount of US\$2.87/b at the end of December.

Exhibit 23: OPEC Basket Price



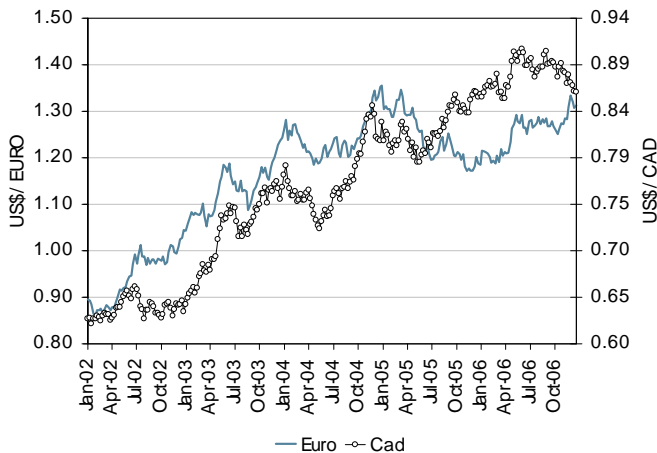
- The OPEC basket price spiked to a three-month high of US\$59.70/b in early December in anticipation of another production cut. The basket price rose US\$2.71/b (4.6%) in December, closing the month at US\$56.00/b.

Exhibit 24: Net Speculative NYMEX Oil Positions



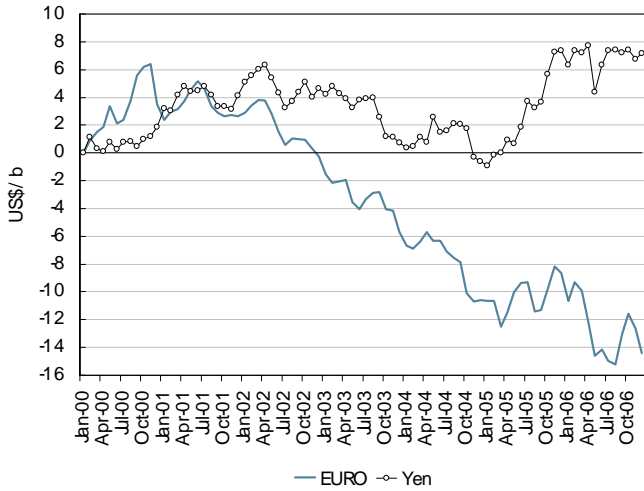
- Speculative positions in NYMEX oil remained relatively stable in December, closing the month at a net-long position of 19,848 contracts.

Exhibit 25: Canadian Dollar and EURO vs. US\$



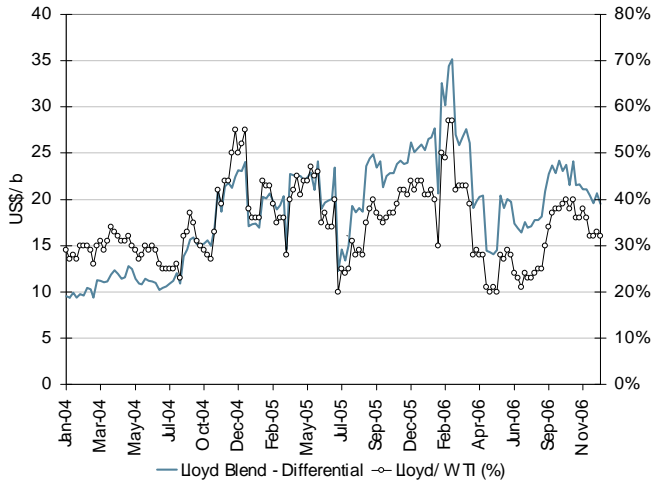
- The Canadian dollar depreciated against the American dollar in December, falling 2.2% to close the month at US\$0.8577/C\$.
- Although the EURO spiked early in the month against the US dollar, it closed December at US\$1.3199/€, down 0.3% from November.

Exhibit 26: Relative Cost of Oil in Euros and Yen



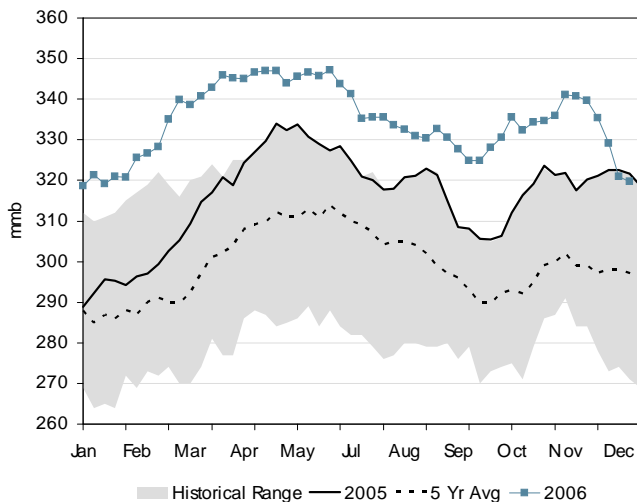
- The US dollar remained flat against the Yen in December, ending the month at ¥117.45/US\$.

Exhibit 27: WTI to Lloyd Blend (LLB) Differential



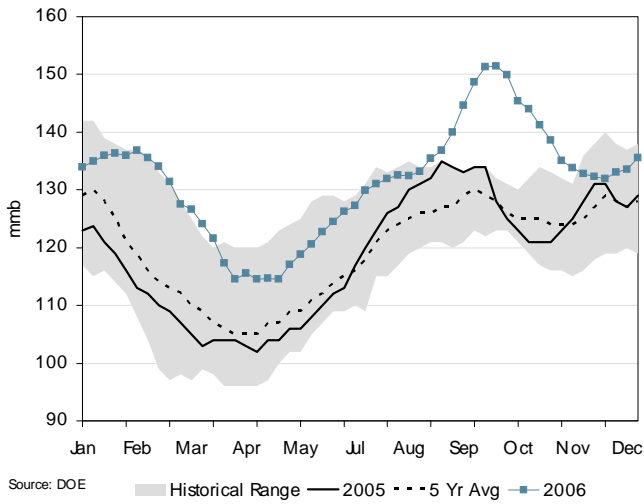
- Since widening significantly in September, the Lloyd Blend differential to WTI has steadily narrowed. In December, the differential fell US\$1.66/b (8.1%) to close the month at US\$18.96/b.

Exhibit 28: US Commercial Crude Inventories



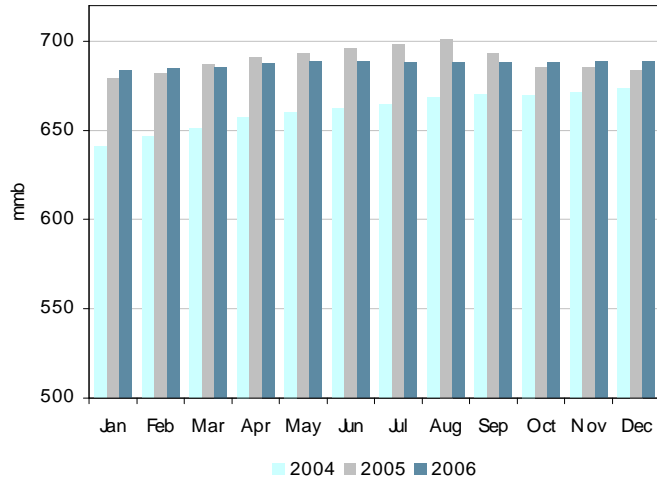
- US crude inventories experienced large draws towards the end of the month, largely due to weather-related (fog) interruptions at the Houston shipping channel. After spending all of 2006 above the upper end of the historical range, US crude inventories have now dipped below last year's levels.

Exhibit 29: US Distillate Inventories



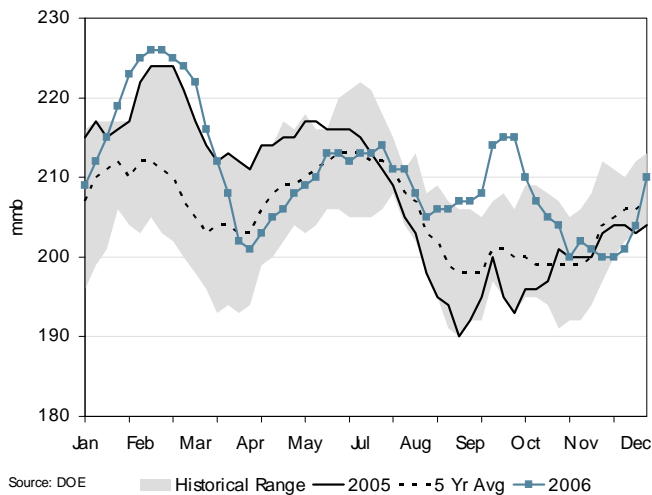
- Warm weather across much of North America has inhibited demand for heating oil so far this winter. As a result, distillate inventories have been tracking at above-normal levels for the past few months.

Exhibit 30: US Strategic Petroleum Reserve



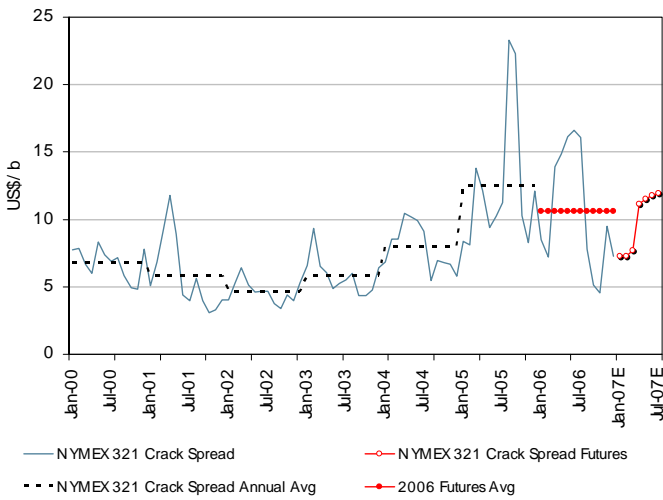
- As of December 29, the US Strategic Petroleum Reserve stood at 688.6 mmb. This is a slight increase year/year, although the reserve has remained virtually flat since May.

Exhibit 31: US Gasoline Inventories



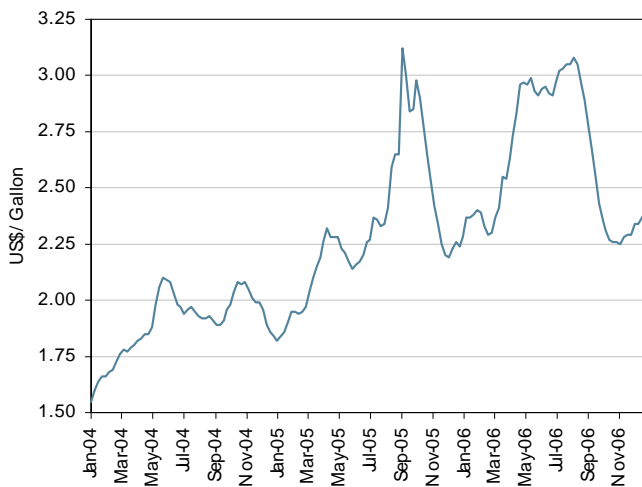
- US gasoline inventories were at 209.5 mmb as of December 29, 2.9 mmb (1.4%) above the 5-year average.

Exhibit 32: NYMEX 321 Crack Spreads



- During December, the near-month NYMEX 3-2-1 Crack Spread averaged US\$8.17/b, 3.5% lower than November’s average. However, the contract closed the month 23% lower at US\$7.28/b.
- Lower margins could reduce the economic incentive of building new refining capacity.

Exhibit 33: US Average Retail Gasoline Price



- Gasoline prices have rebounded slightly in November and December, closing the year at US\$2.39/gallon.

Exhibit 34: IEA World Crude Oil Demand and Non-OPEC Supply

Demand (mmb/d)	2005A	Y/Y	2006E	Y/Y	2007E	2007E			
						Q1	Q2	Q3	Q4
North America	25.5	-0.2%	25.4	1.3%	25.8	25.6	25.4	25.9	26.1
Europe	16.2	-0.2%	16.2	-0.1%	16.2	16.4	15.8	16.2	16.4
Pacific OECD	8.6	-1.4%	8.5	-0.4%	8.4	9.2	7.8	8.0	8.8
FSU	3.8	3.9%	4.0	1.0%	4.0	4.0	3.8	4.0	4.2
Total Asia	15.4	3.1%	15.9	3.7%	16.4	16.2	16.5	16.3	16.8
Middle East, Latin America, Africa	14.1	3.5%	14.6	3.7%	15.1	14.9	15.1	15.1	15.3
Total Demand	83.6	1.1%	84.5	1.7%	85.9	86.3	84.5	85.5	87.5
Supply (mmb/d)									
North America	14.2	1.0%	14.3	1.2%	14.5	14.8	14.4	14.3	14.5
Europe	5.8	-7.8%	5.4	0.9%	5.4	5.5	5.3	5.2	5.5
FSU	11.6	3.5%	12.1	4.1%	12.6	12.3	12.5	12.6	12.8
Latin America	4.3	3.0%	4.4	4.7%	4.6	4.6	4.6	4.6	4.7
Africa	3.7	8.1%	4.0	11.5%	4.5	4.2	4.4	4.6	4.7
Asia, Middle East & Other	10.7	1.0%	10.8	3.0%	11.1	11.1	11.0	11.2	11.2
Non-OPEC Supply	50.3	1.3%	50.9	3.4%	52.6	52.5	52.2	52.5	53.4
OPEC NGL's	4.5	5.2%	4.7	4.3%	4.9	4.8	4.8	4.9	5.0
Iraq	1.8	5.5%	1.9	4.7%	2.0	2.0	2.0	2.0	2.0
Total Non-OPEC/ Other Supply	56.6	1.7%	57.5	3.5%	59.5	59.3	59.0	59.4	60.4
Call on OPEC + Stock ch.	28.9		28.9		28.4	29.0	27.4	28.1	29.1

Source: IEA, Tristone

In December, the IEA slightly increased the "call on OPEC + stock change" by 40 mb/d to 28.9 mmb/d in '06 and by 0.1 mmb/d to 28.4 mmb/d in '07, due to downward revisions to non-OPEC supply (Africa, Europe, and FSU). We expect future downward revisions to Q1/07 world oil demand due to above normal temperatures in the US.

Following through with its promise to consider further output cuts, OPEC announced on December 14 that it would trim production by an additional 0.5 mmb/d, effective Feb. 1/07. This is in addition to the previously announced 1.2 mmb/d cut, which came into effect on Nov. 1/06. As of November 30, the cartel's compliance was 63% of the initial 1.2 mmb/d production cut. It is still early to judge full implementation as the agreement was finalized just 11 days prior to the effective date.

Exhibit 35: OPEC Crude Production

mmb/d	Q1/06	Q2/06	Q3/06	Oct-06	Nov-06	Quota	Sustainable	Available
	Prod'n	Prod'n	Prod'n	Prod'n	Prod'n	Jul-05	Production	Capacity
							Capacity*	Capacity
Algeria	1.36	1.36	1.34	1.35	1.34	0.89	1.39	0.05
Indonesia	0.92	0.91	0.87	0.86	0.86	1.45	0.95	0.09
Iran	3.84	3.78	4.05	3.80	3.73	4.11	3.90	0.17
Kuwait	2.52	2.51	2.49	2.51	2.50	2.25	2.60	0.11
Libya	1.67	1.70	1.73	1.75	1.73	1.50	1.75	0.02
Nigeria	2.23	2.19	2.24	2.24	2.20	2.31	2.60	0.40
Qatar	0.82	0.81	0.82	0.81	0.80	0.73	0.85	0.05
Saudi Arabia	9.57	9.31	9.24	9.07	8.91	9.10	10.80	1.90
UAE	2.60	2.63	2.65	2.67	2.59	2.44	2.70	0.11
Venezuela**	<u>2.63</u>	<u>2.61</u>	<u>2.51</u>	<u>2.51</u>	<u>2.41</u>	<u>3.22</u>	<u>2.70</u>	<u>0.29</u>
Subtotal	28.15	27.81	27.93	27.57	27.06	28.00	30.24	3.18
Iraq	1.71	1.99	2.04	1.94	1.88		2.50	0.62
Total	29.86	29.80	29.97	29.51	28.94		32.74	3.80

* Capacity is defined as available production within 30 days and sustained for 90 days

** Includes upgraded Orinoco extra-heavy oil.

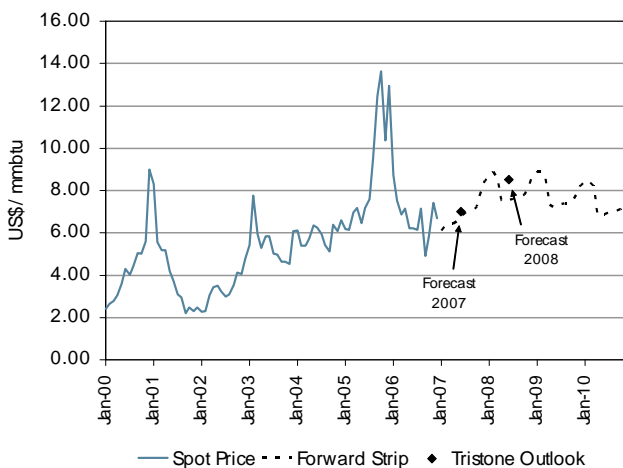
Source: IEA

Natural Gas Summary

We have revised down our 2007 NYMEX gas price forecast by US\$1.50/mmbtu to US\$7.00/mmbtu. The dominant factors impacting our 2007 price revision are the lack of winter heating demand (December 2006 20% warmer than normal) and the outlook for warmer than normal weather for the month of January. Today, end of winter storage looks like 1.75 Tcf – a second consecutive year with US storage levels ending high due to warm weather. We estimate warmer than normal temperatures have reduced winter gas demand by 250-350 bcf. We expect that the impact of US\$6.00-6.50/mmbtu in H1/07 will drive our much anticipated supply response in the lower 48 states. Canada has turned the corner with lower activity already yielding field receipts at year ago levels, and our expectation is that Canada supply falls by 2% or ~350 mmcf/d in 2007. Additional gas consumed by oil sands will crimp exports by another 250 mmcf/d, for total reduced supply from Canada of 600 mmcf/d.

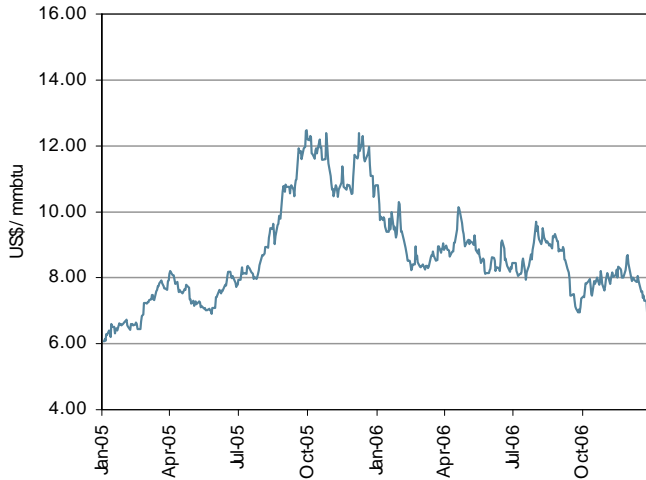
With US storage at high levels and rising onshore US gas supply, the turnover in the US gas rig count remains the catalyst for gas price recovery in 2007. In the US, the independent E&Ps should release conservative spending plans in the next few weeks, which we believe will be the first signal of reduced drilling activity and declining supply through 2007. With the supply side tightening the picture through spring/summer 2007, we expect a gas price recovery heading into H2/07 and set the stage for high prices in 2008.

Exhibit 36: Historical NYMEX Price and Forward Strip



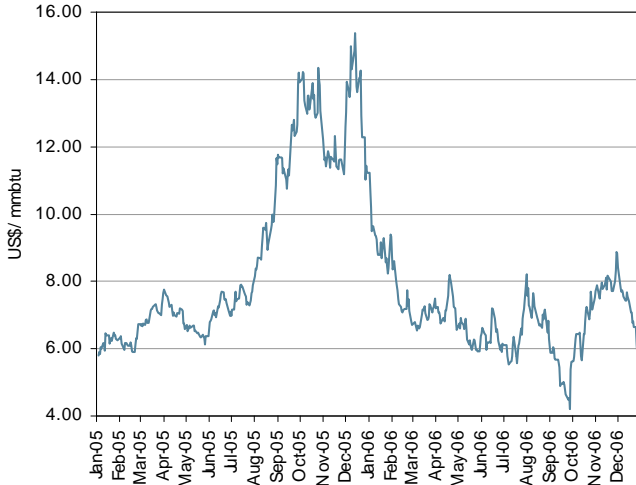
- As the winter unveiled considerably milder temperatures than initially expected, the forward strip shed ~US\$1.50/mmbtu during the month of December. Currently, NYMEX prices through 2011 average ~US\$7.50/mmbtu.
- We forecast NYMEX natural gas prices of US\$7.00/mmbtu in 2007 and US\$8.50/mmbtu in 2008.

Exhibit 37: NYMEX 12-Month Forward Strip



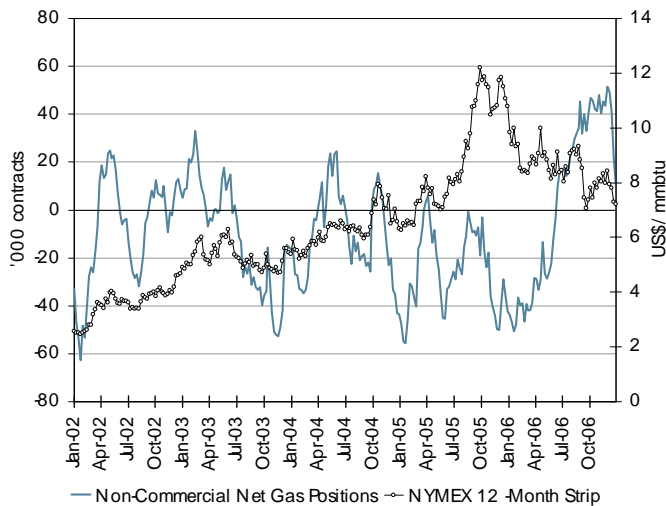
- The NYMEX strip continues to trend downward as warm conditions swell already high inventory levels.
- Current forecasts are calling for persisting warmer conditions across the US through January.

Exhibit 38: NYMEX Natural Gas Near-Month Contract



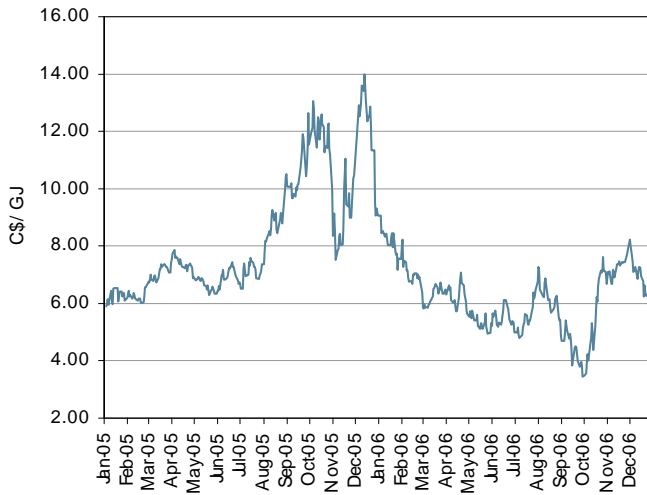
- Throughout the month of December, warmer-than-normal conditions (20% warmer than normal) in the US put downward pressure on the price of natural gas. The price of gas fell from a high of US\$8.42/mmbtu at the start of December to close the month at US\$6.30/mmbtu.
- NYMEX gas averaged US\$6.99/mmbtu in 2006, down 22% from US\$9.01/mmbtu in 2005.

Exhibit 39: Non-Commercial Short Positions vs. NYMEX



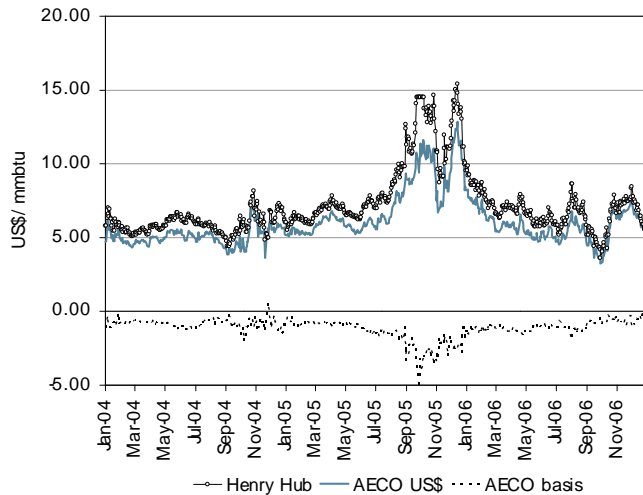
- Net-long speculative natural gas contracts reversed course in December, closing out the month at 9,475 net long positions. This compares with 51,544 net long contracts at the end of November.

Exhibit 40: AECO Spot Natural Gas Price



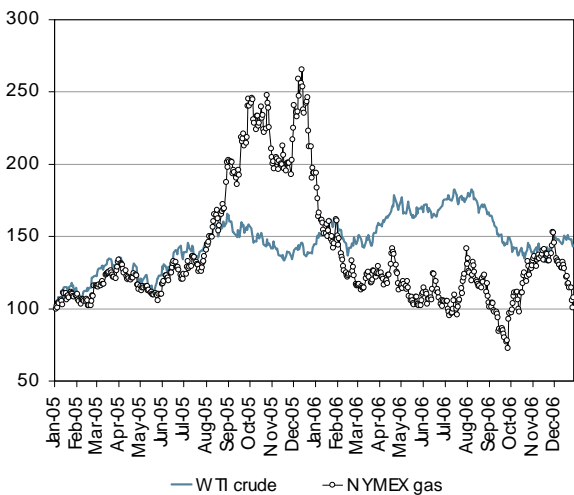
- AECO spot prices fell 31% during December to close the month at \$5.69/GJ. For 2006, AECO prices averaged \$6.20/GJ, down 26% from the average of \$8.36 during 2005.

Exhibit 41: Henry Hub-AECO Differential



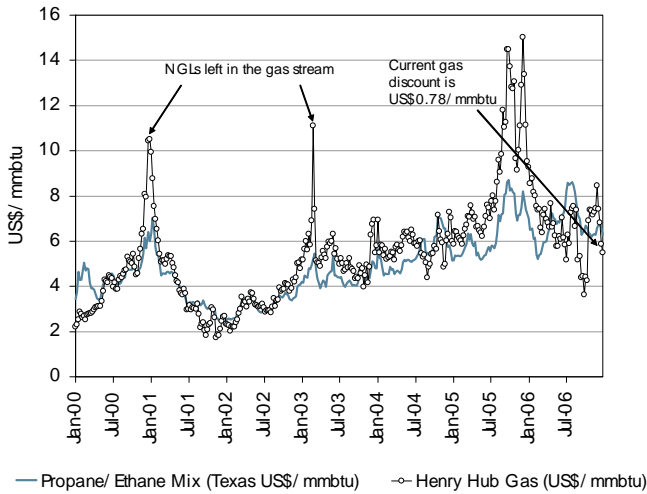
- The Henry Hub – AECO differential narrowed during December to US\$0.35/mmbtu at month end as a result of a considerable decline in Henry Hub prices combined with falling Canadian supply & lower Canadian storage levels, as field activity in the WCSB moderated in H2/06.

Exhibit 42: Relative Natural Gas & Crude Oil Price



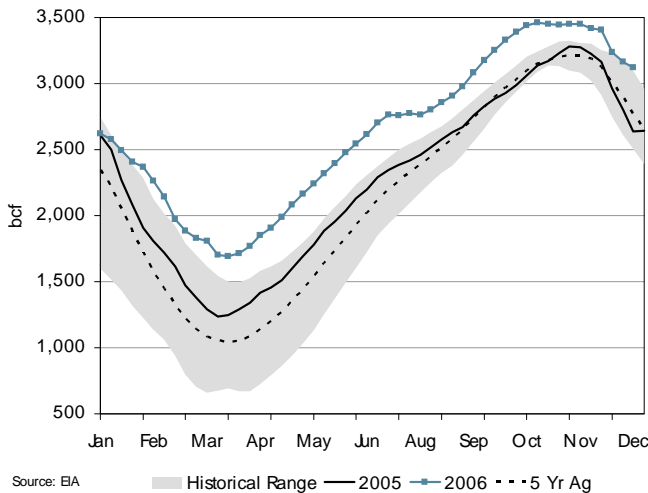
- Crude prices outperformed the price of natural gas in the month of December as crude established a support level around ~US\$61/b following further actions by OPEC to manage output and after larger than expected draws in crude oil inventories throughout the month.

Exhibit 43: Natural Gas to NGL Prices



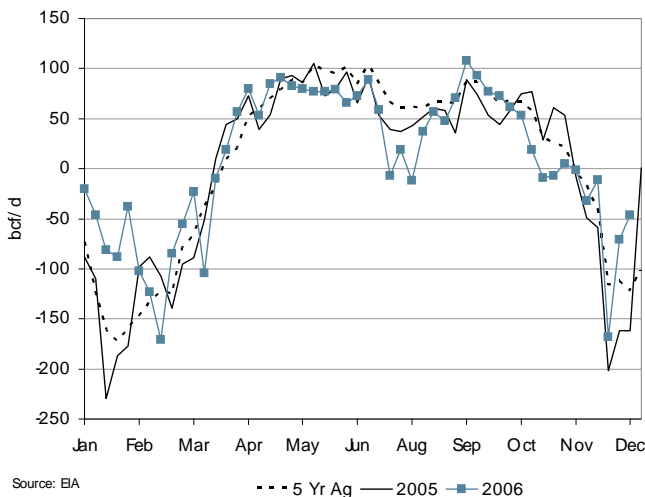
- With natural gas prices sliding downward through most of December, spot prices shifted back to a discount to economic equivalent NGL prices of ~US\$0.78/mmbtu as at December 29.

Exhibit 44: US Natural Gas Storage



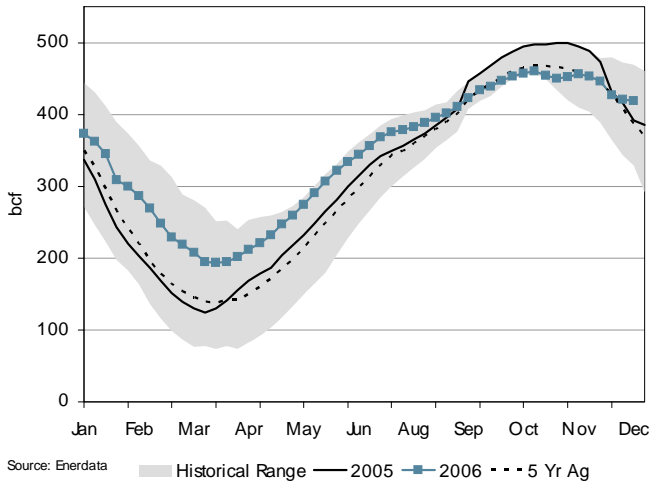
- US natural gas storage currently stands at 3,704 bcf, 433 bcf above the comparable period last year and 437 bcf above the five year average.

Exhibit 45: Average Weekly Storage Injection/Withdrawal



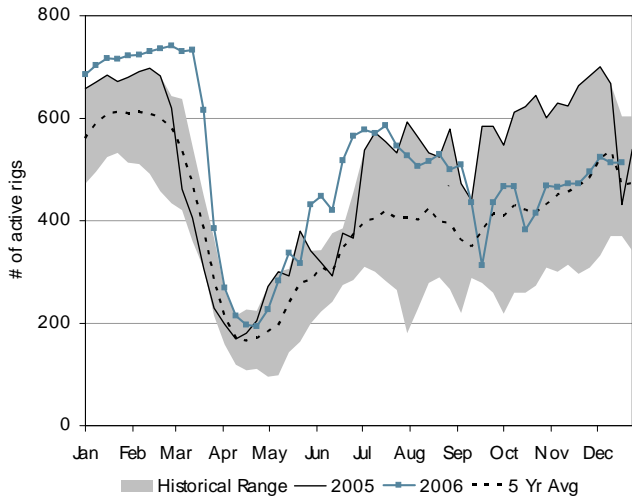
- Although the beginning of the typical heating season in October and November experienced more normal withdrawals from natural gas storage, warmer-than-normal temperatures in the US during the past several weeks has slowed the drawdown on storage during a time of peak seasonal demand.

Exhibit 46: Canadian Natural Gas Storage



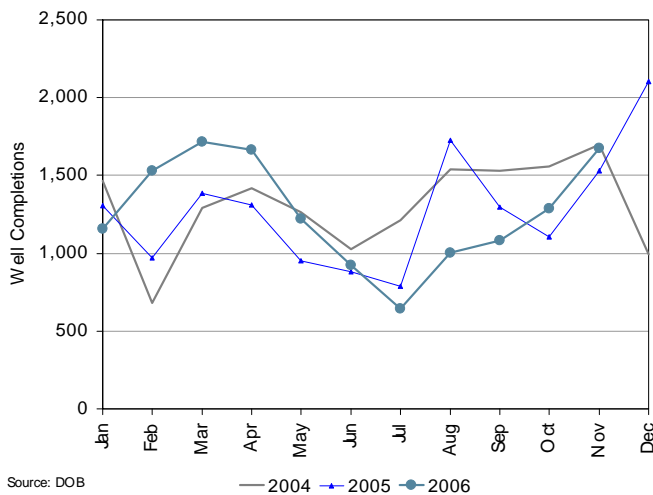
- After remaining near the five year average over the past several months, Canadian natural gas storage has shifted to the upper half of the historical range as a result of relatively weak heating demand.

Exhibit 47: Canadian Active Rig Count



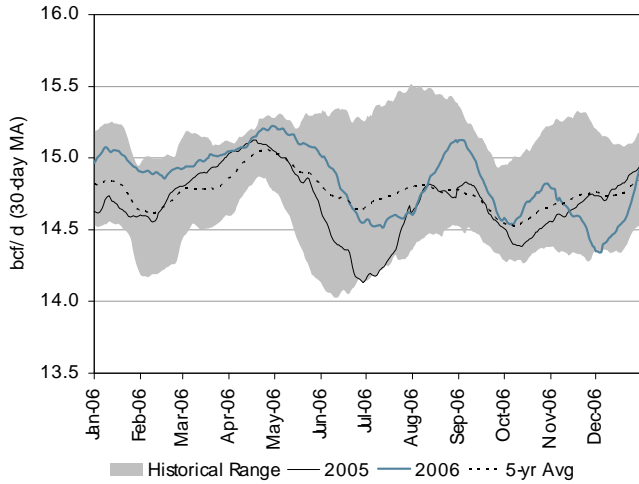
- The active rig count in Canada continues to hover around the 5-year average, considerably below last year's levels as relatively weak natural gas prices prompt a slowdown in activity.

Exhibit 48: Western Canada Gas Well Completions



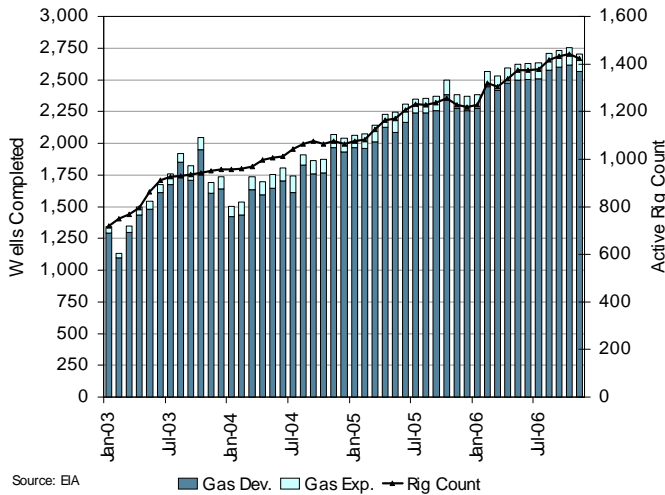
- Natural gas well completions in Western Canada reversed back to a year-over-year surplus in October and November following a considerable slow-down during the summer with depressed natural gas prices. Completions in Q1/07 are likely to be 10% below year ago levels.

Exhibit 49: Major WCSB Natural Gas Field Receipts – 30 day Moving Average



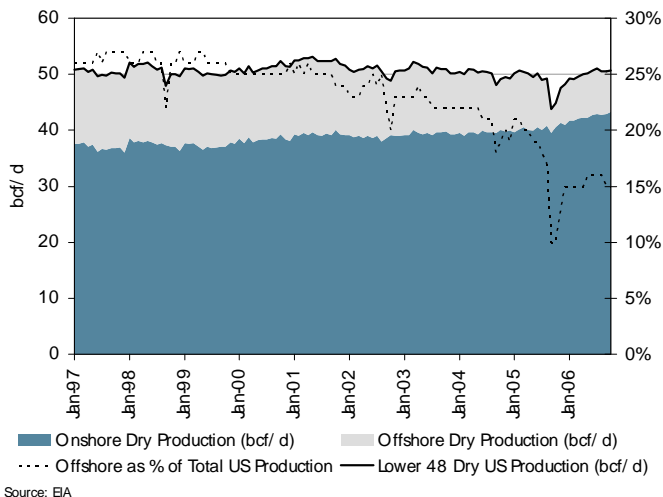
- Natural gas field receipts in Western Canada shifted to a year-over-year deficit in mid-November as lower gas well completions through the summer reduced Canadian supply into the fall. However, higher y/y completions in October and November have helped to lift field receipts to almost flat to last year following a brief period of significantly lower receipts due to shut-in wells from cold temperatures in Alberta.

Exhibit 50: Lower 48 Gas Well Completions vs. Rig Count



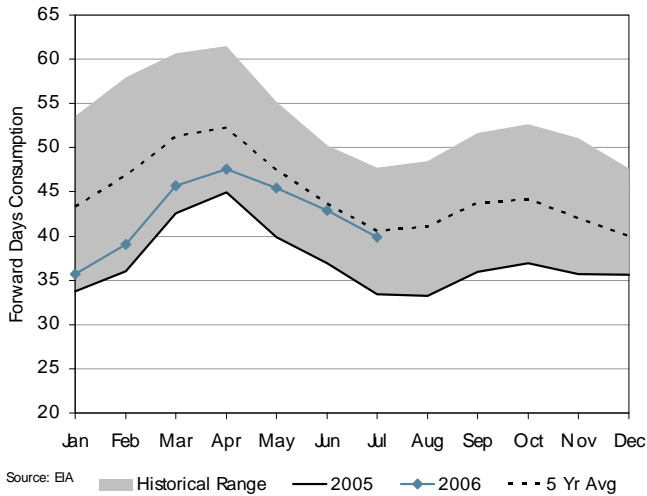
- The US active gas rig count appears to have stalled around the 1,400 – 1,450 mark over the past several weeks which should reflect in relatively flat gas well completions in the near-term. We look for a significant pullback in US natural gas drilling to help alleviate the oversupply of gas.

Exhibit 51: US Natural Gas Production



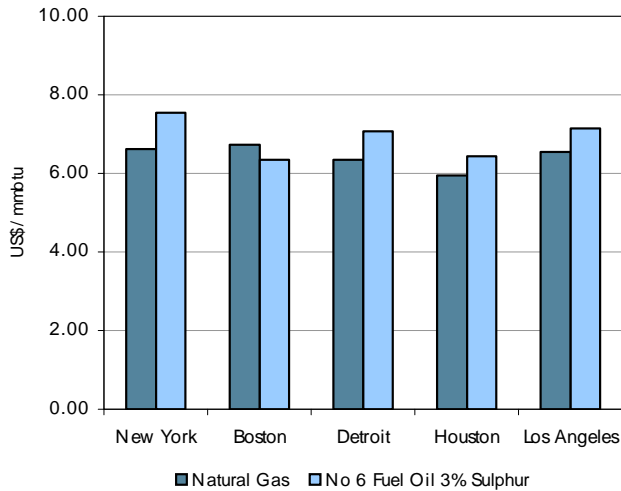
- Natural gas production in the US continues to modestly as continued growth in onshore production has offset natural declines in the Gulf of Mexico through October, 2006. With the active rig count in the US having stalled at 1,400 – 1,450 rigs and likely lower spending with lower gas prices, we should begin to witness a slowdown in onshore production growth to help tighten the market in H2/07.

Exhibit 52: Forward Days of Coal Consumption by Electric Power Sector



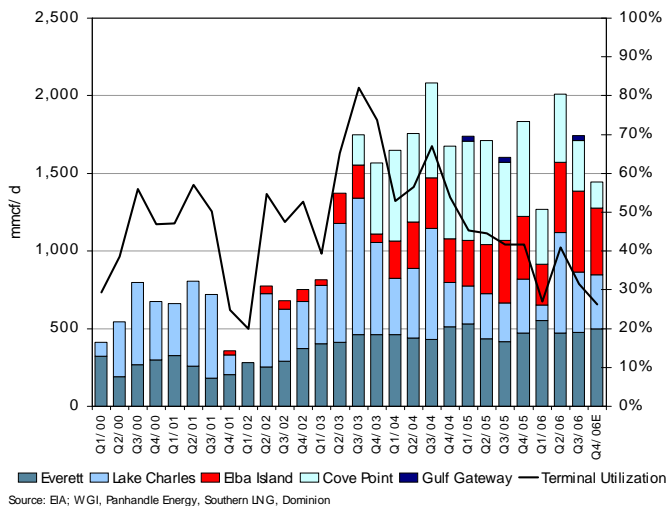
- Forward days of coal consumption by the electric power sector moved closer to the historical average as a result of building y/y stockpiles and relatively flat coal production for much of 2006.

Exhibit 53: Gas to Residual Fuel Oil Spreads



- Relative weakness in natural gas prices through December moved natural gas to a slight discount to residual fuel prices in most major consuming regions in the US.

Exhibit 54: Quarterly LNG Imports into the US



- Estimated LNG imports into the US eased in Q4/06 to ~1.45 bcf/d from 1.74 bcf/d in Q3/06 and 1.84 bcf/d in Q4/05. In early December, LNG imports breached 2.0 bcf/d for approximately a week. Low prices in the US are likely to limit imports in H1/07.

Tristone Capital Inc.
 Suite 2020, 335 – 8th Avenue SW
 Calgary, Alberta, Canada T2P 1C9
 Tel. 403 294 9541
 Fax 403 294 9543
 www.tristonecapital.com

Tristone Capital LP
 333 Clay Suite 4060
 Houston, Texas, US, 77002
 Tel. 713 651 4200
 Fax 713 651 4202

Tristone Capital Limited
 28 Grosvenor Street
 London, UK, W1K 4QR
 Tel. +44 20 7399 2470
 Fax +44 20 7399 2479

Chairman, President & CEO	Direct	email@tristonecapital.com
George F.J. Gosbee	(403) 303-8652	ggosbee

Corporate Finance – Calgary

R. Bradley Hurtubise (Managing Director)	(403) 539-8507	bhurtubise
Thomas E. MacInnis (Managing Director)	(403) 303-8650	tmacinnis
David M. Vettters (Managing Director)	(403) 539-8524	dvetters

Acquisitions & Divestitures – Calgary

Ian van Staalduinen (Principal)	(403) 303-8660	ivanstaalduinen
David Horn (Principal, OGAC)	(403) 303-8668	dhorn

Corporate Finance, Acquisitions & Divestitures – London

Simon Ashby-Rudd (Managing Director)	+44-20 7399-2480	sashbyrudd
--------------------------------------	------------------	------------

Institutional Research – Calgary

Tom Ebborn (Managing Director)	(403) 303-8656	tebborn
Chris Theal, CFA (Managing Director)	(403) 539-4349	ctheal

Institutional Research – London

Peter Nicol (Managing Director)	+44-20 7399-2478	pnicol
---------------------------------	------------------	--------

Acquisitions & Divestitures – Houston

Rob Bilger (Managing Director)	(713) 651-4222	rbilger
Dane Isenhower (Managing Director)	(713) 651-4227	disenhower
David Marcell (Managing Director)	(713) 651-4230	dmarcell
Miles Redfield (Managing Director)	(713) 651-4229	mredfield
Christopher J. Simon (Managing Director)	(713) 651-4240	csimon
Tom M. Duncan (Vice President)	(713) 651-4223	tduncan
David Hopkins (Vice President)	(713) 651-4220	dhopkins
Kevin McNichol (Vice President)	(713) 651-4221	kmcnichol
Doug Perley (Vice President)	(713) 651-4215	dperley
David Edwards (Associate)	(713) 651-4219	dedwards
Christopher Heath (Associate)	(713) 651-4252	cheath