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In the belief that the majority of big stocks are over-merchandised and often over-bought, TAI focuses primarily on a few early-stage resource micro-caps & energy trusts that show promise of substantially out-performing the averages over a 12-18 month period & beyond. The "micros" should probably not constitute >20% of most portfolios, depending on risk tolerance. With confidence in higher oil & gas prices, this old oil analyst much prefers selected oil & gas royalty trusts, p particularly since the Flaherty nonsense, to the vast majority of mutual funds & business trusts.

S&P/TSX: 13,689	Energy: 327	TSV: 3,737	S&P500: 1,481	DJIA: 13,371	NASDQ: 2,661	WTI $88.70	AU:782
Chg.*-6.4.%	-8.9%	+19.2%	-4.4%	-4.0%	-7.0%	-7.5%	unch

THE MARKETS ARE TRYING….BUT DOUBT THAT'S GOOD ENOUGH!
[Hedge Fund activity is clearly excessive in all markets]

Unfortunately the vast majority of hedge funds are geared to knee-jerk perception and short-term trading, with little or no interest in building long-term values.

At the same time, the ready availability of dozens of web sites has brought thousands of new players into the market in recent years, lured by the prospect of easy money, with no appreciation of how often they can get whip-sawed.

The combination of the two, leveraged by the spreading of program trading, has created markets that are more liquid, but noticeably less stable, in recent years than heretofore.

Witness the soaring of the Canadian dollar to US$1.10 a couple of weeks ago, before crashing to only slightly above par, and crude oil recently reaching our outside estimate of US$100/ bbl., prior to experiencing volatility of several $3+/bbl ups & down days never experienced in that time frame before.

What it all means remains to be seen….for certain nobody ***knows.***

We are inclined to join the bears, with the sub-prime mortgage mess in the U.S. developing into a major problem, and at least one experienced market guru, Prem Watsa [Chrmn/CEO, Fairfax Financial] stating he has never been more bearish. Quite a statement from someone with a right to an opinion, unlike so many given space they haven't earned.

The major appreciation in the Venture index noted above will surprise many and may well confirm that our bull market is behind us.

Harvest Energy Trust [HTE.un, Tsx: $21.40], our favorite royalty trust, has taken a big hit with a 21% reduction in monthly distributions to 30c/mo [$3.60 annually]. We knew that Q3 would be the weak quarter, but assumed they would ride through into clearly stronger Q4 & Q1/08 with no change. C'est la vie. In any event, the Q3 distribution of $1.14/unit [the old rate] was still well covered, representing a payout of 87%. At 90c, the payout would have been reduced to 69% and can be expected to be further reduced in Q4 to below 60%.

Q3 production averaged 59,961 boe/d, 73% oil with an average gravity of 24º. Refinery runs averaged 103,983 b/d. With higher oil prices, the old pressure on refining margins raised its ugly head, with the Q3 margin diving to $3.08/bbl. from a 6-month average of $13.69 and a hi of $15.64 in Q2.

Management is on record stating "One of Harvest's unique advantages is our willingness and ability to quickly react and evolve to address challenges and changes in our business. We have faced several substantial changes over the past 12 months that have effectively changed the industry. Through this, we have continued to evolve and drive forward with our plan to grow Harvest into a leading integrated and competitive oil & gas company.

Over the past five years…..we have followed our value principles and successfully assembled a unique suite of assets that would be very difficult, if not impossible, to replicate today.

Our asset base is predominantly large pools of light/medium & heavy crude oil which have significant opportunity for sustainable development and are complemented by our very long-life refining & marketing assets.

We have…..a unique inventory of future development opportunities in the upstream and downstream business segments that we can invest in to generate attractive rates of return. Given our size, liquidity and integrated structure, we are well positioned to supplement our internal portfolio with value-added acquisitions that help to drive Sustainable Growth."

Management further notes that, " We have a number of assets where we are implementing and optimizing long-life primary and secondary recovery through more active reservoir management. We have over 2 billion bbls. of conventional original-oil-in-place [OOIP], and an incremental 1 billion bbls. of oil sands OOIP. …[We have] over 1,000 drilling locations …..on our existing portfolio of properties, representing a 4-5 year development plan based on our current capital budget levels. Year-to-date in 2007 we have drilled 161 gross wells, achieving a 98% success rate."

While we have had to endure some short-term pain for our belief in the inevitable long-term gain, at least unit-holders are being paid to wait. Even if bought @ 50% above the current market, the reduced $3.60 distribution is returning roughly 12%, a rate that may well look very attractive vis-à- vis the average income equity in 2008. At recent market levels, the 16.8%+ currently indicated is a steal.

Oilexco [OIL, Tsx: $14.96] : Q3 results recently reported were exceptional, reflecting a 67-fold gain in revenue to $149.1 million from $2.2 million a year ago, without the benefit of any outside acquisition. "The third quarter was a landmark period for Oilexco",said Art Millholland, CEO, ..."The Company achieved record financial results due to the first full quarter of production from the Brenda/Nicol fields. The Company also enjoyed appraisal drilling success on the Huntington discovery and made a strategic acquisition in the form of the Balmoral FPV.

Over the next quarter Oilexco will continue to benefit from increased production and strong commodity prices, and will progress its aggressive development, appraisal and exploration programs across its portfolio".

EBITDA rose to $118.7 mm from -$1.3mm a year ago, equal to 55c/sh vs -1c/sh. Net income reached $54.6mm.

Production from Brenda/Nicol averaged 26,722 b/d on fully operational days, reaching a peak as expected of 30,000b/d. Allowing for annual maintenance inspection which shut-down production for 17 days, the Company averaged production of 26,722 b/d on fully operational days. For the quarter, production averaged 21,605 boe/d, including a nominal amount of natural gas, converted on a standard 1-for-6 basis.

On the exploration front, appraisal drilling was conducted at the Ptarmigan, Shelley & Huntington oil discoveries. Appraisal drilling @ Shelley will be completed shortly, with first oil targeted for Q4/08. Production will be tied into the recently purchased Balmoral Floating Production Vessel [FPV]. A field development program is currently being developed for Ptarmigan, also centered on a production tie-back to the FPV.

At Huntington, 8 appraisal wells have been drilled in the first phase of appraisal drilling, targeting the Forties oil accumulation. Appraisal drilling of the Jurassic 'Fulmar' accumulation is expected to be completed by the end of December.

Elsewhere, the plate appears full for 2008/9, with appraisal drilling scheduled for Bugle following completion of operations at Morro/Coronado and wells scheduled for Kildare and Moth.

From virtually a standing start < 4 years ago, OIL has evolved into a $3 bill.+ enterprise and what may well be the most active operator in the North Sea. In October it became clear that our $15 target no longer looked very rich to the Street and that a $20 price was now 'eminently realistic'. Last month, with the stock close to $18 and oil prices flying, we noted, "We suspect that the $20 target may well be considered a legitimate 6-mos. objective, with $25-$30 a more realistic target over the next 12-months."

While the recent profit-taking in an increasingly volatile market suggests caution, investment accounts should add to their positions on any further weakness, recognizing that, with the benefit of 20/20 hindsight, reversion to our $20 target over the next 12 months is probably in order.

Canadian Superior Energy [SNG,Tsx: $2.60 Amex: $2.66]: Company has announced the successful closing of an over-subscribed, private placement of 6,472,500 flow-thro' common shares priced @ $3.50/share. Gross proceeds totaled $22.65 mm. Proceeds will be primarily used to ramp-up Western Canadian operations.

Affiliated associate **Challenger Energy Corp.[CHQ,Tsv: $1.70]** has also announced it has closed a private placement of 1.9 million special warrants @ $1.80 each, for gross proceeds of $3.4 million. Proceeds will be used to maintain the Company's 25% interest in the Victory well offshore Trinidad.

While recent market action suggests the well is non-commercial, which may well be the case pending the completion of logging & testing, with 2 additional major structures to test, additional 3D seismic and developing production/cash flow out West, SNP remains an excellent speculation.

First Calgary Petroleums [FCP, Tsx: $2.35] : The exploration and appraisal program on Blk 405 Ledjmet in Algeria will be completed in Q4. A total of 31 wells will have been drilled, of which 25 have tested in excess of 320,000 boes/day, made up of 1.1 billion cu.ft./d of gas & 135,000 b/d of liquids.

Management is of the opinion that all the building blocks are being put in place to move FCP to a major O&G producer in a short time. The initial development approval is in place for the MLE field and a gas marketing agreement covering the entire block has been entered into on very attractive commercial terms.

With initial production projected for

the 1st Half 2010, management's view of a 'short' time' is unfortunately out of sync with the general market. Having developed the resource, the Company now has to raise serious capital to finance construction of a major pipeline connection and infrastructure. While the groundwork for that has been done with the recent closing of a 5-year, $267 million, 9% debenture, convertible @ $4.20/share, and it has a solid partner in Sonatrach, the heavy debt financing for facilities lies ahead and has to be finalized & reported.

Conversion of the new debentures would add 63.5 million shares, close to 25% of the stock now outstanding.

News of the recent financing caused the stock to drop 11% to $3.14, with a further 25% drop in the interim. While the stock is clearly over-sold on a fundamental basis, a 2 ½ year wait for first production suggests that new purchases should be deferred until the stock is straightened-out technically and moving to the upside again, which could well take 12-months or more.

OIlsands Quest [BQI, Amex: $4.50] has received the independent reserve report for the Axe Lake discovery in northwest Saskatchewan from McDaniel & Associates:

Discovered Resources*
: Low Est.[P-90]: 1.117 bill.bbls;
: Best Est [P-50]: 1.344 " "
: High Est [P-10]: 1.547 " "
*of Original Bitumen in Place

The area of the Discovered Resources estimate covers approximately 36 sections [one township] located in the north half of Township 94 and the south half of Toenship 95, Ranges 24 & 25 West of the 3rd Meridian. It is approximately 30 miles east of Suncor's Firebag operation.

McDaniel is a leader in the development of in-situ oil sands evaluation methodology practices. It has been involved in providing reservoir engineering & valuation expertise to the majority of in-situ oil sands projects under development in Western Canada.

Management continues to be of the opinion that there are approximately 1 bill.bbls. of additional Undiscovered Resources in the Axe Lake area; and a further 7.5 bill. bbls of Undiscovered Resources located elsewhere on the Oilsands Quest lands.

Activities on the Company's contiguous land holdings in Saskatchewan & Alberta are ramping up for an intensive winter 2007/08 program. Delineation drilling is being conducted in the Axe Lake Discovery area to provide detailed geological definition for specific reservoir field tests, as well as for pilot & development planning. Four drilling rigs are currently at work. At the peak of drilling operations this winter, the Company expects to have a total of 8 rigs working, conducting a balanced program of exploration & delineation drilling. Seismic [2D & 3D] operations are underway on both the Saskatchewan & Alberta permits.

A reservoir field test program is underway at Axe Lake, designed to evaluate the reservoir's response to varying temperatures and steam pressures. The program is scheduled to be completed by mid/08, with the pilot in-situ production program slated for start-up in 2009.

The previously announced public offering of 11 million units & 2.6 million flo'thro' common shares has been priced and is expected to close Dec.5. Units have been priced @ $5.00/unit [one share + ½ a warrant, good for 24 months]], with the flo'thro' shares @ $6.17. The underwriters have been given an over-allotment option of 1,651,000 shares & 825,000 warrants, exercisable up to 30 days from closing. Assuming exercise of the latter, gross proceeds would approximate $79 million.

Net proceeds of the unit financing will be used primarily for reservoir testing at Axe Lake and for general corporate purposes. Proceeds from the flo'thro' shares will be used to incur Canadian Exploration Expense]CEE] through exploration on permit lands.

As we noted in our October issue, ", "**BQI** has doubled since its July low where it had languished for some weeks. With a market cap of roughly $825 and a high probability that bitumen reserves over time may well exceed 2-3 Bill.bbls., the stock continues to be cheap on a long-term basis.

Technically, the stock has become a trading favorite on the Amex and appears to have work to do to get through the $5.25-.50 level.

However, with results from the summer 50-hole drilling program to be reported in the Fall, together with the initial independent reserve report and a TSX listing pending, the 2006 all-time hi of US$8.90 appears in reach, possibly by year-end."[with the benefit of 20/20 hindsight, the latter clearly looks too optimistic in the current market environment, but still remains a legitimate 12-month target].

Connacher Oil & Gas [CLL, Tsx: $3.41] has arranged US$ 800 mm of new financing, designed to fully fund the Company's 10,000 b/d Algar project [US$ 326mm est.], together with re-financing of the current Term Loan B debt [C$175mm], funding a one-year debt service reserve account [C$60 mm] & funding a new, 5-year secured Revolving Credit Facility [C$ 200mm], including a C$50mm. tranche designed to assist the Company's day-to-day refining & marketing business.

Financing includes US$ 600mm of 10.25% Senior Secure Notes, due Dec.15, 2015, at a price of $98.657

to provide a yield to maturity of 10.50%. Net proceeds to Connacher will be approximately C$563mm. Both the Notes & the Facility are secured by substantially all of the Company's assets, excluding the Petrolifera holding [the market value of the Company's nearly 26% interest is currently $160mm].

The Algar project is expected to be completed within the 300-day time frame required for the nearby Pod ONE. Costs will be higher, in part due to the project's more remote location 7 miles from the main highway. Start-up is projected for late /09.

Separately, Connacher recently completed the sale of C$52mm flo'thro' shares @ C$5.00/share. Proceeds will be used to fund this winter's 3D seismic program and the drilling of 120 exploratory core holes on the main lease block, substantially on defined anomalies from last winter's drilling season. This program will effectively double Connacher's core hole inventory @ Great Divide.

Management is of the opinion that production can be increased to around 50,000 b/d over the next 5-7 years. Also planned is a $100 mm pipeline [50,000 b/d capacity], plus a 20,000 b/d line for diluent as management pursues its strategy of making CLL operationally 'hedged' i.e.gas production upstream for fuel, refining/marketing downstream to improve bitumen/product margins.

Of interest is the fact that, despite the major increase in debt, S&P has increased its rating on Connacher to BB- from B+.

In our October issue, on the heels of a 15% gain to over $4, we commented, "With improving downstream/refining economics, CLL is on course to reach our 12-month target of $6.00 with room to spare". As with the above, we appear to have been a little premature!

Corridor Resources [CDH, Tsx: $10.55] reports that the McCully J-76 well has been drilled, logged & cased to 3,100m & encountered 15m [net] of porous B sand, while the A sand was thin & tight @ this location. The well also penetrated 237m into the Frederick Brook formation and has been suspended as a potential gas producer. The well is expected to be completed and tied-in to the gas plant during next summer's frac campaign. Corridor expects to provide an update on the current summer frac program in early December.

The Company also reports that Q3 saw a net profit of $1.1 million, compared with a loss of $0.1 million a year ago. Cash flow increased to $6.2 million vs $1.4 million in Q3/06. "The third quarter marked an important milestone for the Company as it represented the first full quarter of McCully natural gas production to the Maritimes & NE Pipeline," said Norman Miller, CEO.

CDH has held relatively well with the general profit-taking in the oils, down only 14% from its $12.25 hi vs 25%- 30%+ declines for many others.. With major production gains ahead and significant exploration opportunities down the road, CDH remains an attractive investment commitment.

Darnley Bay Resources [DLB,Tsv: $0.60] the Company has filed an independent 101-page technical report on the base metal exploration program over the Darnley Bay Anomaly near Paulatuk, NWT, on the edge of the Beaufort in the Canadian Arctic.

The DBA and regional evidence indicate the characteristics of two types of sources that would explain the anomaly, each of which is associated with prolific mineral deposits elsewhere. These are:
[1] Mafic magna body with associated nickel, copper, platinum group element [PGE] and /or cobalt mineralization, as @ Sudbury, Voisey's Bay & Noril'sk; and [2] Magnetite breccia with associated iron-oxide, copper, gold [IOCG] and uranium/rare earth element [REE] mineralization, as at Olympia Dam [Australia].

Eleven discrete gravity targets were located over residual gravity anomalies. Some of the targets modeled to within several hundred meters of the surface. These are typically offset from the previously interpreted magnetic targets, and may indicate concentrations of high density material that could incorporate ore.

The Company has been exploring for base metals in the area since 1994. It discovered 10 kimberlite pipes on the Parry Peninsula , 6 of which proved to be diamondiferous. Ongoing diamond exploration is being carried out through a JV with Diadem Resources.

In our summer issue, with the stock @ $0.69], we noted, "Accordingly, we would suggest establishing the 1st half of a full position around current levels, with the balance added in line with news & one's comfort level. We suspect announcement of a firm financing deal may well result in a possible doubling of the stock."

As it turned out, we were a bit premature [what else is new!]. In the current environment, it is hardly surprising that a major Chinese company is showing significant interest in the Company's desired financing of at least $15 million. We understand that meaningful progress has been made and it would appear that current negotiations may shortly result in an agreed upon Letter-of-Intent. Positions should be completed around current levels.

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