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The Energy Industry peaked in early 2006 and the typical spring fallback in prices became a slow slide as hurricane season never materialized in the USA and global strife remained at a minimum. Most recently the Federal Conservatives have announced stringent changes to the income trust market. This has recently caused a sharp decline in these types of securities further acerbating the strength of the Oil and Gas market sector in Canada. This action will likely have serious political consequences from not only the West but elsewhere as income trusts have become the darling of the retirement investment community. As investment statements roll-in in early 2007 and portfolios have been reduced by a "Government market-induced 9-11", the Conservatives may pay a heavy political toll at the polls.

The year in review for seismic has seen a general strengthening in the financial investment community's confidence in the seismic market. We have seen further consolidation with Norex and Conquest completing their merger in early 2006. We have seen Trace's parent company Geokinetics buyout Grant (Solid State here in Canada). Finally Veritas was bought out by the French concern CGG. These actions are largely unprecedented within our world in a cumulative sense in one calendar year.

Gas prices have fallen off throughout most of the year with no hurricane season to speak of in the USA and no further global strife of a calamitous nature. This has softened the economic outlook to some degree and the USA's current economic slump has an additional drag effect on Canada in general. These factors are likely to be relatively short lived and mild.

In general the large Oil and Gas Companies hedge their positions in gas by focusing on heavy oil plays such as the OilSands. These are viewed by investors as long term big-dollar plays that are not impacted by short term commodity prices dips and dives. Certainly for seismic OilSands represents shallow plays with tighter parameters requiring much more equipment than a conventional seismic play. The outlook for Unconventional Gas is also an extremely robust one. These plays are also much tighter than Conventional Gas albeit not as tight as OilSands. So the seismic focus will continue to shift and given the consolidation of seismic companies the supply-demand curve will remain at the very least balanced.

A new type of player has also emerged over the past few years – the FootHills Explorer. These companies are large Oil and Gas firms with an eye to the hills. This methodology has seen heliportable summer seismic go virtually flat out over the past two summers. With unpredictable weather in these geographic locations these programs often end up extended into fall and provide our companies in such markets with year-round revenue streams. The use of such seismic techniques, albeit expensive, has a positive impact on how seismic is viewed by the public and slowly but surely we are seeing a greater movement towards, and acceptance of, such more expensive methodologies by the Client base.

Spec seismic companies are also expanding their roles. As I have written in previous columns factors such as confidentiality, environmental footprint and greater involvement from the public at an earlier and earlier stage increase the business case for utilizing a spec mentality when shooting seismic in new areas of interest.

The income trust debate may have petered out somewhat by the time this prints but currently remains a very hot topic. The legislation to tax income trusts have taken the carpet out from the financial entity. This legislation was meant to curb the movement by very large entities towards these types of vehicles however a wide net was cast and no one received any exclusion from the legislation. Thus it had an immediate and negative effect on the stock prices of such entities. Likely by the time this prints some of the initial reaction will have warn off and the market may have bounced back but gone is this type of financial vehicle from the corporate arsenal.

There is/was a good and bad side to income trusts. These entities were originally considered to be exploiters. Entities which would exploit the product / business it was involved in, soak out the revenues, and distribute them to their unit holders. This could be deemed as bad when corporate entities utilize existing infrastructure without concern for replenishing for the future – thus the government's knee-jerk reaction when large utilities started to look at this vehicle. The Energy trusts argue they have a different role – one in which marginal or unproductive plays are able to be exploited in a manner that would not be done so by a tax-paying corporation. The good side also includes the investment vehicle that became the darling of the retirement sector. Good investors will maintain a balance in their portfolios however no one likes a Government Inducement market correction.

Biggest income trusts on the S&P/TSX Capped Income Trust Index, by weight

Rank	Trust	Market Cap	Weight
1	Canadian Oil Sands Trust	$14.2	9.3%
2	PennWest Energy Trust	$9.9	6.5%
3	Yellow Pages Income Fund	$8.0	5.0%
4	Enerplus Resources Fund	$7.5	4.9%
5	ARC Energy Trust	$5.6	3.6%
6	RioCan REIT	$4.9	3.1%
7	Canetic Resources Trust	$4.5	2.9%
8	Pengrowth Energy Trust	$6.5	2.8%
9	Bell Aliant	$4.2	2.7%
10	Fording Canadian Coal	$4.2	2.7%

From the Thursday Files:

I'll be more enthusiastic about encouraging thinking outside the box when there's evidence of any thinking going on inside it.

- Terry Pratchett