

CIJ EXCLUSIVE INTERVIEW

## Hitting Home Runs in the Oil Patch

As June, the days grow longer, the birds are singing, and the boys of summer are back. The smell of fresh-cut grass, the crack of the bat, the smack of leather, and the occasional “spring” of cork — Yes, baseball season is in full swing. Naturally, we thought it a perfect time to sit down with a true heavy hitter — in the Canadian investment arena, that is.

Stepping up to the plate this month is Norm Lamarche, Vice President and Chief Investment Officer of Toronto-based Front Street Capital. Established in November of 2001, Front Street is the result of a merger between Tuscarora Capital Inc. and Casurina Limited Partnership.

Led by Mr. Lamarche and Frank Mersch, the company has a strong and successful record in the small cap sector. They currently manage more than \$10 million in assets in small cap funds, using a “market down, flexible sector” approach that allows them to take advantage of the best opportunities for growth without the restrictions of a specific sectoral focus.

A veteran on the Canadian investment scene, from 1987 to 1995 Mr. Lamarche was a portfolio manager with Altamira Management Ltd. where he managed Altamira's AltaFund Investment Corp., Altamira Resource Fund, and the Orbitex Resource Fund, and was responsible for the equity component of the Altamira Balanced Fund. In 1996, alongside Gary Selke, he founded Tuscarora Capital Inc., one of Front Street Capital's two founding companies.

Our focus today will be the Front Street Small Cap Canadian Fund, for which Mr. Lamarche is lead manager. The fund is

in recent years as his company's Front Street Small Cap Canadian Fund has posted solid gains in recent years.

Without further ado, we look for Mr. Lamarche to hit a few more out of the park for our loyal readers. Play ball!

**CIJ:** A couple of softballs to begin with. Please, give us a brief overview of Front Street's Small Cap Canadian Fund.

**Norm:** We classified it as a small-cap to mid-cap fund as we focus on companies with between \$400 million and \$1 billion Canadian in market capitalization. Through it, we follow a top down approach to finding investments and try to key in on specific themes. These themes would include developing economic, political, industry, and sector issues that would be the driving forces.

**CIJ:** Elaborate on your top down approach.

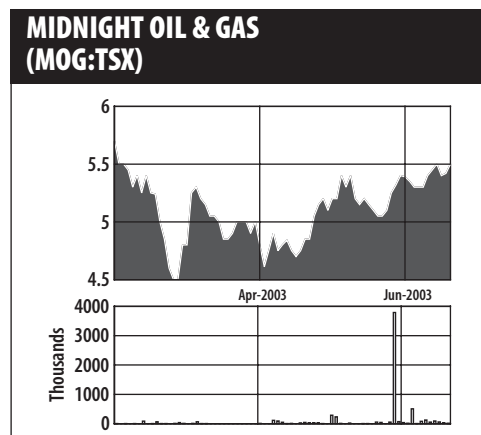
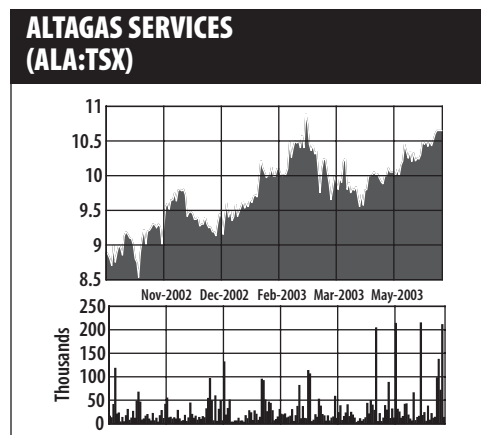
**Norm:** By top down, I essentially mean looking at industries first, rather than companies. From that point, once we have zoned in on the sector, we take a bottom up approach, and look company specific.

**CIJ:** Picking up on your focus on specific themes, give us one or two themes you are looking at right now.

**Norm:** A theme that we have been paying particular attention to and keying in on is the Energy/Power theme. It is a theme that we are hearing much more about from Fed Chairman Greenspan and the Bush administration. In this segment, there will be a great deal of groups that come out both behind and ahead. For example, look at the effects of natural gas prices jumping. When you look at the first level, the companies that



Norm Lamarche



designed to achieve capital appreciation primarily through investment in equity securities of a diversified group of publicly traded companies (primarily, but not exclusively Canadian), and to a lesser extent in equity securities of a diversified group of private companies, subject to certain limits on illiquid investments. The fund targets investors looking to add an aggressive growth component to their portfolios.

While weighted towards Canadian companies, the fund allows Mr. Lamarche to “spray it to all fields” by investing up to 30 percent in foreign securities, which it has done with good success. In fact, Mr. Lamarche has been launching his fair share of “dingers”

consume natural gas, which include fertilizer and chemical industries, are negatively affected. Power intensive companies in North America will and are being affected.

**CIJ:** So, the high price of natural gas is a theme affecting companies both positively and negatively.

**Norm:** Yes, the price of gas and power is pricing some specific companies in specific industries out of business. On the flip side, these high prices are supporting some excellent growth within the oil and gas industry. We believe the price of natural gas is excessively high at the \$6 level. Long-term, I think we will see \$3.50 to \$5.50 mcf, however over the shorter term they will remain high.

**CIJ:** Any themes you are seeing within the oil and gas industry?

**Norm:** Yes, one interesting theme we are seeing is that proven oil and gas management personalities moving back into the small-cap arena. Dollar for dollar you are getting some very solid management teams working for you. I would place these management teams in very high regard.

**CIJ:** All right, get your popcorn and peanuts — we've hit the seventh inning stretch...OK, we're back. Toss a couple of your current producers' picks at us in the oil and gas segment.

**Norm:** We continue to like names like Compton Petroleum Corporation \$5.85 (CMT:TSX) and Cequel Energy Inc. \$6.85 (CQL:TSX) which I believe are both high quality companies. A new addition to our portfolio is Midnight Oil & Gas \$5.40 (MOG:TSX). This small-cap natural gas company produces about 3,000 boe/equivalent, and management has great experience.

**CIJ:** With a relatively strong oil and gas segment, what about those companies that service this segment?

**Norm:** Oil and gas producers are moving into a spending mode, and we believe there will be a couple years of very rapid spending. Oil and gas service companies' clients are the producers, so the drillers are going to be very busy over the next few years.

**CIJ:** So, which do you like?

**Norm:** A few small-cap names that we have include Total Energy Services \$2.76 (TOT:TSX) and Drillers Technology Corp. \$1.45 (DLR:TSX). Drillers is a small-cap that

has a tremendous track record.

**CIJ:** Any other companies benefiting from your Energy/Power theme?

**Norm:** One company that we have been in is, methanol producer Methanex \$15.05 (MX:TSX). The reason why they are benefiting is that methanol is derived from natural gas and they produce all their methanol in areas outside of North America. The company is producing great amounts of cash and solid cash flow.

One company that produces power is AltaGas Services \$10.65 (ALA:TSX), which is a half billion market cap. The company owns gas processing and gas gathering lines. They also are involved with coal power. Essentially, the company moves energy from its source to the end user. They do not produce the energy, just move it. The company does look to be a candidate to move into a trust. If it did move to a trust, it would be trading at \$15 plus.

**CIJ:** Any parting shots?

**Norm:** Yes, nickel is an area that has some supply shortage. One company within this sector that we hold is LionOre Mining \$5.90 (LIM:TSX). The company has great prospects. We would expect them to earn US\$0.50 and cashflow US\$1.00, so we feel it still has legs and we really like their management team. Rio Narcea Gold Mines \$2.48 (RNG:TSX) is kind of like a junior LionOre, with both gold and nickel. The company's nickel production will come on stream next year.

**CIJ:** Well, Norm, our time here is going, going, gone! Thank-you for joining us.

**Norm:** Anytime. ■