



TETREM

QUARTERLY REVIEW

DRILLING FOR VALUE

We are one quarter into 2008 and the stock market has not painted a pretty picture for investors. This was pointed out to me by my soon to be 3-year-old son, Jack. While I was looking at some stock charts on my laptop, Jack sidled up next to me, pointed at the screen, and pronounced, "those are mountains!" Wisdom from the mouths of babes.

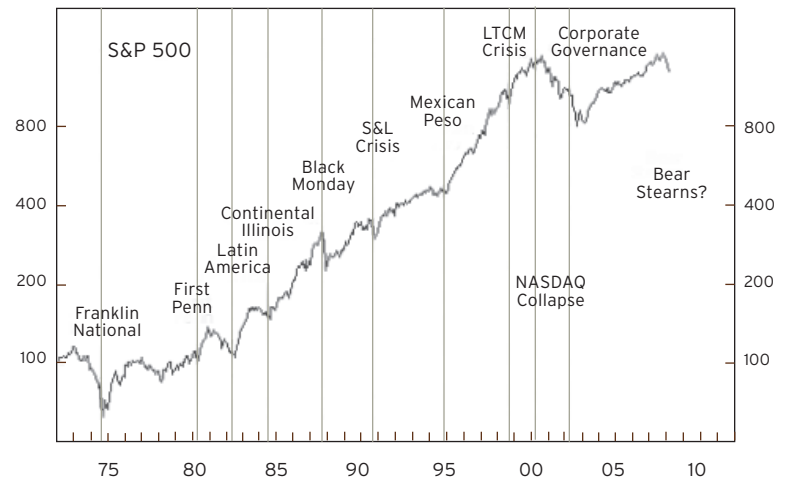
Major stock market indices are well off of the highs reached back in October 2007 when it seemed the U.S.-based sub-prime credit issues were going to be contained. Clearly they were not. The credit panic has infected the broader debt markets, which in turn has led to weakness in equity prices as the underpinnings of global economic growth have come into question. The damage has been broadly based as the vast majority of stocks are well off their highs. The S&P 500 Index declined 9.44% in the first quarter after accounting for dividends. The S&P/TSX Composite Index was relatively more resilient with a 2.84% drop (dividends included), thanks to its heavy weighting in the shares of commodity-based companies.

As the first quarter dragged on, the news from the credit markets grew increasingly grim. It seemed that each day some new, obscure sub-section of the debt market was failing. As one senior investment professional quipped to me, "I don't even know how to spell ABCP." Investors are having difficulty coming to grips with the sheer level of complexity of the debt instruments that have been created by investment banks over the past two decades. If they are hard to understand, they are hard to price. Furthermore, when the underlying collateral (think house prices) is unknown, it should not be surprising that formerly smooth-functioning markets would seize up and stop functioning in a predictable manner.

Eventually the credit issues came home to roost at Bear Stearns, as the investment bank became a victim of an old-style run on the bank. Investors were simply unwilling to provide Bear with the short-term financing it required to operate. When the stock market closed on Friday, March 14th, it was evident that Bear Stearns would either be sold over the weekend or face failure Monday morning. On Sunday night, the online edition of the Wall Street Journal reported that Bear Stearns was being sold for \$2 per share (down from its \$30 Friday close) to JP Morgan. Grim news indeed.

The possible silver lining of the Bear Stearns failure is that it may have marked the lows for equity prices this cycle. Typically there is a defining moment for all market crises that marks the bottom (Exhibit 1) and

S&P 500 PERFORMANCE DURING MARKET CRISES (Exhibit 1)



Source: BCA Research

the sale of Bear Stearns may be that moment for the current crisis. The S&P 500 dropped 20% from its October 9th high to its intra-day panic lows of Monday, March 17th, a decline consistent with previous market corrections.

Equity prices are also receiving support from aggressive monetary and fiscal stimuli. The U.S. Federal Reserve is fighting the debt crisis, attempting to restore confidence by aggressively lowering interest rates and adapting policy to create greater amounts of liquidity in the banking system. It has also signaled its intention to continue to do whatever it takes to get credit markets functioning normally again. Separately, the U.S. Government is providing fiscal stimulus in the form of tax rebates aimed at helping the consumer and there is increasing chatter about mortgage relief for beleaguered homeowners. While there are many valid questions around the appropriateness of market and economic intervention by government authorities, they are having the near-term desired effect of subduing the riotous debt markets.

We often refer to investor sentiment as a contrarian indicator. At the end of the first quarter of 2008, equity market sentiment had reached deeply negative levels, similar to where stocks had bottomed after the bursting of the technology-media-telecom bubble in 2002 (Exhibit 2). This is an added ingredient to our thesis that share prices may have found a bottom.

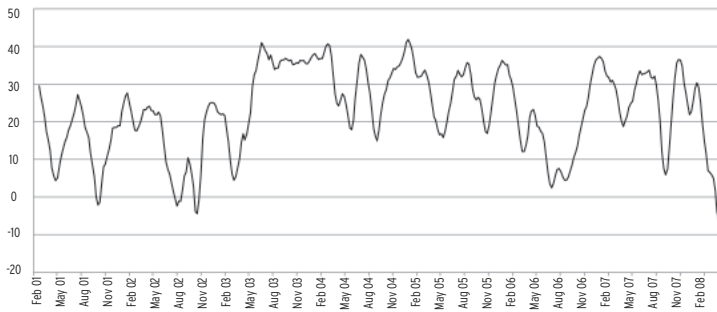




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INVESTOR'S INTELLIGENCE - EQUITY MARKET SENTIMENT (Exhibit 2) (% Bulls-Bears) Weekly Data

Data as of April 4, 2008



Source: Street Account, Tetrem Capital Management

While the storms of the credit crisis will not end overnight, the clouds are gradually lifting. Yes, U.S. housing prices will continue to face downward pressure and consumers need to fix their balance sheets. Savings rates will have to go up and discretionary consumption growth will be limited. However, with the failure of Bear Stearns, aggressive monetary and fiscal policy responses, a 20% equity correction and extremely negative investor sentiment, the probability is high that we have seen the lows for the broad stock market indices.

NATURAL GAS

We continue to be bullish on the energy sector. In particular, during the first quarter we found tremendous opportunities in the shares of companies exposed to North American natural gas. Coming into 2008 natural gas was in a funk: its price was under pressure as inventories were at high levels and the market feared they would stay that way as the North American winter had started out unusually warm. The cheapest stocks within the energy sector were the service companies exposed to North American drilling activity. In many cases they were trading below replacement cost and less than 10 times depressed 2008 analyst earnings estimates. No value was being ascribed to a future rebound in drilling activity or the economic value of each company's unique franchise.

While it is difficult to predict the near-term direction of natural gas prices, we saw a long-term buying opportunity based on cheap valuations and our bullish secular view on natural gas drilling activity.

Weather aside, natural gas demand continues to grow strongly as it is becoming the favoured source of energy for new electrical generation facilities. Today, gas is very cheap relative to oil and is

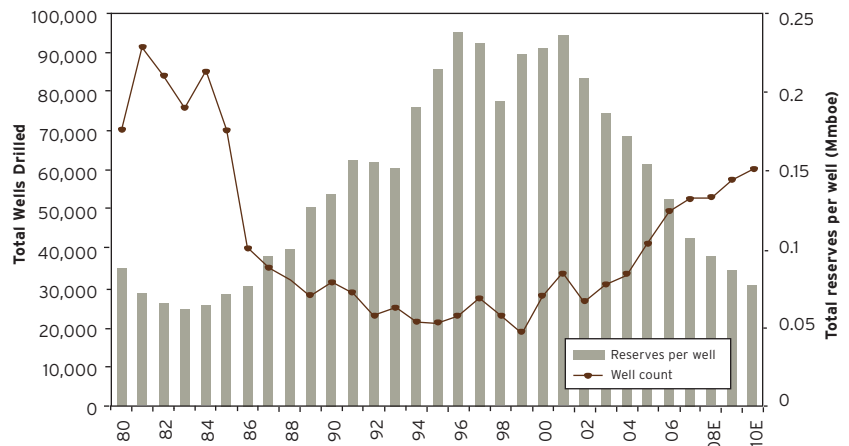
significantly more environmentally friendly than coal. Furthermore, the vast majority of supply comes from within North America, giving it an advantage from a strategic U.S. national security perspective.

The supply side of the equation paints an even more bullish picture for the drillers. While North American natural gas supply is plentiful, the low-hanging fruit of conventional supplies has been picked. Energy companies now need to extract natural gas from non-conventional sources such as shale gas and by drilling very deep wells. Not only is this more expensive but the amount of reserves found per well has been declining, whilst drilling activity has grown steadily since 2002 (Exhibit 3). Like a runner on an accelerating treadmill, we need to drill more wells just to stay in place and maintain current production levels.

For a number of reasons the market was willing to overlook the long-term bullish outlook for drilling activity. In 2007, liquefied natural gas (LNG) imports came into North America at levels much higher than anticipated, depressing North American prices. This year, the opposite has occurred. LNG prices have risen very quickly outside of North America, along with the price of oil, and LNG is now being transported to places such as China, Japan and Europe where exporters are able to realize prices that are at a premium to North America's.

As a bitter winter took hold in North America, below-normal temperatures quickly reduced inventories. During the first quarter, the benchmark price of natural gas rallied 35%, which signaled a much brighter outlook for drilling activity. In our Canadian portfolios we have a number of companies exposed to an increase in energy service activity, the largest and most direct being Precision Drilling, which provided investors with a 64% return in the first quarter. Our U.S. portfolios also hold a number of energy service companies, with

US RESERVE ADDITIONS PER WELL AND TOTAL WELLS DRILLED (Exhibit 3)



Source: EIA and Sanford C. Bernstein & Co.

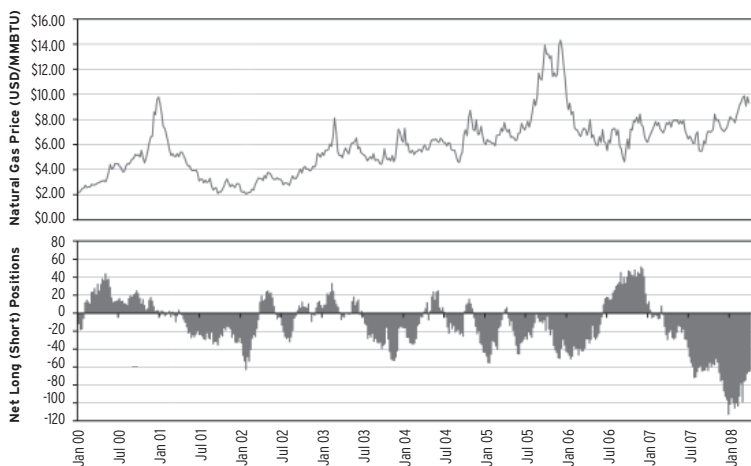




Nabors Industries having the most leverage to an up-tick in North American activity. Nabors returned 33% over the quarter.

Even after the strong performance of drilling stocks in the first quarter, we remain bullish despite the likelihood of a near-term pullback. Good news should continue to come in the form of increased drilling budgets from energy producers and sentiment remains somewhat negative towards natural gas - a positive contrary indicator. Given the big move in natural gas prices it is surprising to see that speculators remain net-short natural gas (Exhibit 4). We would be decidedly less bullish if speculators were long. The short positions will eventually need to be covered and therefore provide an additional underpinning to the rally in natural gas prices. We also like the fact that the drillers have limited exposure to discretionary consumer spending and are largely immune to the credit crisis.

NATURAL GAS PRICE VS. NET SPECULATIVE POSITION (Exhibit 4)
Data as of April 4, 2008



Source: Bloomberg, Tetrem Capital Management

TETREM PORTFOLIOS

The Tetrem Canadian Equity Composite declined 2.27% during the first quarter, slightly out-performing the S&P/TSX Composite by 0.57%. The better performance was largely attributable to greater exposure to energy companies while being underweight in financial services companies. In addition to Precision Drilling, Trican Well Services and Savanna Energy Services were very strong contributors to performance.

Gold benefited from its historical role as a store of value during the darkest moments of the credit crisis. This helped long-term holding Barrick Gold, which was the single largest positive contributor to our Canadian performance. We reduced the weight of Barrick by selling

into strength during the first quarter. Proceeds from the sale were used to bring new high quality companies into the portfolio such as Suncor Energy and Investors Group. The Suncor purchase was made at a time when energy stocks had sold off sharply due to fears of a global economic slowdown. This provided an excellent entry point. Investors Group fell out of favour as equity and credit markets went into panic mode. However, we believe that the market is ignoring the long-term growth opportunity at IG. We have happily been buying its shares at a sharply discounted valuation and at a dividend yield that exceeds 4%.

Thomson Corp (now Thomson Reuters) has been a drag on performance. The shares have been weak over concerns that, post the Reuters acquisition, the company will have increased exposure to the financial services industry, where head count reductions seem all but inevitable. These concerns are real, but the acquisition is strategically smart and will ultimately make Thomson a better company. In the meantime, we have been able to purchase this world-class company at very attractive valuations. At current levels, there is limited downside risk to the shares; however, the potential upside over the next five years is significant once they integrate Reuters and financial markets normalize.

The Tetrem U.S. Equity Composite declined 9.63% during the quarter, slightly underperforming the S&P 500 by 0.19%. Our U.S. equity results were disappointing to say the least. Not only are 10% declines a painful and unwelcome experience, but we expect to do better in difficult markets. For most of the quarter we were. Then, in March, three companies held in our U.S. portfolios were hit hard in rapid sequence and performance suffered as a consequence. The three companies are Wellpoint (which we have owned since the 1990's), Merck & Co. and Apollo Group.

In all three cases we believe that the market has severely over-reacted to negative news and, most importantly, we do not consider any of these companies to be "broken." To the contrary, our analysis indicates that the share prices of all three offer excellent risk/reward trade-offs and we have used the recent price weakness to add to positions. For instance, education provider Apollo Group was punished by the market when it released results for the fiscal second quarter that were viewed as disappointing. Despite year-over-year revenue growth of 14% and an increase in student enrollments, the market took issue with lower than expected earnings growth. To be clear, earnings per share rose 9% year-over-year, but the shares fell 41% over the quarter. The market is concerned about students' ability to secure loans, and management's decision to spend money on marketing and on hiring more enrollment officers. Frankly, we were shocked by the market's reaction to decisions that, in our opinion, bode well for the company's future growth and stability.





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Notwithstanding the three aforementioned stocks, many of the U.S. portfolio's holdings delivered solid results, including: Nabors Industries, Estee Lauder, Johnson & Johnson, Qualcomm, and Aflac. We added EBAY to the portfolio in January. The company has a dominant position in e-commerce and generated \$1.3B in free cash flow during 2007. The company is growing at a healthy clip while most U.S. retailers are hurting from a slowdown in consumer spending. We initially bought the shares in the \$27 range and the shares exited the quarter at \$29.84.

We are now going into the first quarter's earnings season. While somewhat more stable, equity markets remain on edge. As we saw last quarter, companies that disappoint will be severely punished in the present environment of fear. Should this occur, we are, as always, on the alert for buying opportunities.

Daniel A. Bubis, CFA

President and Chief Investment Officer

ABOUT TETREM

Tetrem Capital Management offers money management services to institutional and select high net worth clients. Our investment mandates are focused on Canadian and U.S. equities, rooted in our long-standing contrarian value style and tailored to the specific and unique needs of our clients.

Investing is our profession and we are committed to doing it well. Our experienced team is diligently focused on preserving and growing the assets of our institutional and private clients.

We are contrarian value investors. Our primary focus is seeking out and investing in undervalued companies. For each of our investment mandates, we utilize quantitative and fundamental analysis in our rigorous stock-selection process.

For more information about Tetrem Capital Management please visit our website, www.tetrem.com, or call and ask to speak with us about our investment services.

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TETREM'S CANADIAN EQUITY MANDATES

	Annualized Returns to March 31, 2008					Calendar Year Returns				
	Q1 2008	1 year	3 year	5 year	10 year	2007	2006	2005	2004	2003
Tetrem CDN Equity	-2.27%	-2.93%	10.10%	17.44%	10.60%	3.18%	9.27%	31.13%	15.05%	25.48%
Tetrem CDN Equity Plus	-3.72%	-0.50%	10.36%	17.34%	11.84%	6.10%	9.80%	29.88%	15.24%	25.00%
S&P/TSX	-2.84%	4.00%	14.17%	18.49%	7.81%	9.83%	17.26%	24.13%	14.48%	26.72%

TETREM'S US EQUITY MANDATES

	Annualized Returns to March 31, 2008					Calendar Year Returns				
	Q1 2008	1 year	3 year	5 year	10 year	2007	2006	2005	2004	2003
Tetrem US Equity	-9.63%	-1.01%	9.15%	15.47%	10.27%	8.32%	19.04%	15.22%	15.92%	23.17%
Tetrem US Equity Plus	-7.91%	2.68%	12.82%	18.61%	11.19%	11.49%	19.17%	22.64%	15.17%	30.51%
S&P 500	-9.44%	-5.08%	5.85%	11.32%	3.50%	5.49%	15.79%	4.91%	10.88%	28.68%

TETREM
Performance Disclosure

Prior to June 1, 2004, performance returns were owned by Assante Asset Management Ltd ("Assante"). Tetrem has concluded that these returns meet portability requirements and as such, have been linked with Tetrem's returns for the sole purpose of providing supplemental information to the Tetrem's Composite Performance Presentation. This information is provided to present a longer track record using records available to Tetrem and may have limited usefulness.

Canadian Equity and U.S. Equity returns from January 1, 1997 to December 31, 2003 are based on an audited equity-only (excluding cash) composite of all segregated accounts and are owned by Assante. Performance from January 1, 2004 to December 31, 2004 is based on an unaudited equity-only (excluding cash) composite of all segregated accounts. The calculation of performance returns excludes expenses and is based on a monthly valuation using the Modified-Dietz methodology. Returns from January 1, 2005 to March 31, 2008 are prepared and presented in compliance with Global Investment Performance Standards (GIPS®).

Canadian Equity Plus returns from January 1, 1998 to May 31, 2004 are calculated using the audited NAV per share of a representative account within the composite. The NAV per share excludes management fees and is net of operating expenses. Performance returns for this period are owned by Assante. Returns from June 1, 2004 to March 31, 2008 are prepared and presented in compliance with GIPS.

U.S. Equity Plus returns from January 1, 1998 to May 31, 2004 are calculated using the audited weekly NAV per share, closest to month end, of the sole account within the composite. Performance returns calculated include operating expenses, but exclude management fees. Performance returns for this period are owned by Assante. Returns from June 1, 2004 to March 31, 2008 are prepared and presented in compliance with GIPS.

From June 1, 2004 to March 31, 2008, Tetrem has prepared and presented composite performance in compliance with GIPS. Tetrem has been verified by an independent verifier for the periods from June 1, 2004 to December 31, 2007. Copies of the verification report and a full list of composites are available upon request.

Tetrem's mandates are available to institutional investors such as pension plans, group retirement plans and foundations and certain individual investors who meet specified investment criteria. The mandates' performances are not guaranteed, the values change frequently and past performance may not be repeated.

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