

FORECAST 2006

Jory Capital Inc. Investment Strategy Committee

December 2005

For many investors, 2005 proved to be a difficult year. Indices not significantly weighted towards the resource sector turned in tepid performances at best. As of December 1, 2005 the Dow had crept up a meager 1%, the Standard & Poors 500 3.8%, and the NASDAQ 2.6%.

Because of the continued strength in the Canadian dollar during 2005, U.S. index investors in Canada would have experienced negative returns to this point of the year. Jory Capital believes that 2006 will again prove to be a difficult year for those invested in the general markets. We believe that success can be achieved by following a formula of the themes we, at Jory Capital, followed in 2005.

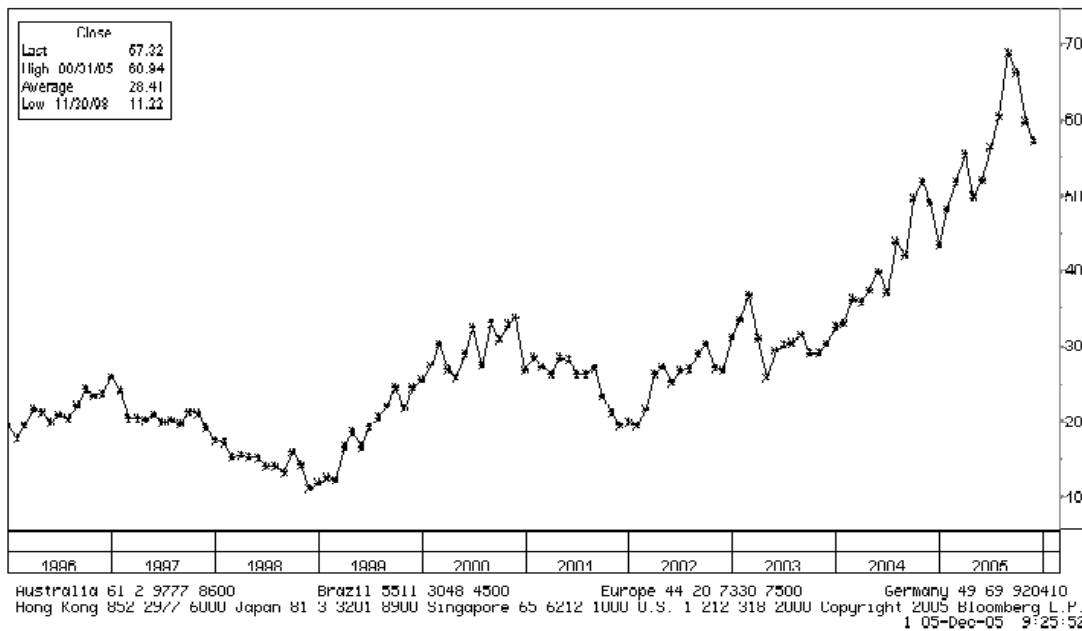
2006 AT A GLANCE

INTEREST RATES ↑ OIL&GAS ↑ GOLD ↑ U.S. DOLLAR ↓

INTEREST RATES:

We believe interest rates could rise higher in Canada during 2006 by as much as 150-200 basis points. We caution however that any substantial weakness in the U.S. dollar could cause us to raise this forecast.

ENERGY PRICES: Oil 1995 to 2005



We believe that during the first quarter of 2006 oil and gas prices will largely be determined by the weather. Warm temperatures in the U.S. Midwest and Northeast will work to keep prices steady. Cold temperatures will push prices higher. But overall we see prices rising as production problems in the wake of Hurricane Katrina persist and demand from China, India, and other Asian countries continues to grow. Of course, the oil and gas markets have long proven themselves susceptible to both unexpected events and political upheaval. In this regard, we will be keeping a close eye on China, Venezuela, Iraq, Iran, and Nigeria, as possible sources of price drivers.

DERIVATIVES:

We continue to be concerned over the explosive growth of the derivative market and the amount of leverage in the banking systems in both North America and abroad. Remembering that the Long Term Capital Management disaster was sparked off by a mere leverage of 300 to 1, J.P. Morgan's leverage continues to exceed 1000 to 1. This means that for every dollar of Tier 1 capital that J.P. Morgan possesses, there is more than \$1,000.00 in off balance sheet leverage. Even the regulators are finally beginning to show concern for an asset class that is largely unregulated. "Generally, changes in notional volumes (of derivatives) are reasonable reflections of business activity but do not provide useful measures of risk."¹

We find all of these numbers disturbing and we will continue to monitor them as to any clue they might provide as to the health of the global financial system.

PENSION PLANS & GENERAL MOTORS:

G.M.'s widely publicized financial woes are the result of an old economy business plan gone terribly wrong. We believe that the era of the "defined benefit pension plan" is over. Going forward, people will be expected to take greater responsibility for their personal retirement planning. Corporate pension plans will lean far more heavily towards the defined contribution model. We believe that within the decade pension plans and their ability to pay their obligations will be the number one issue in North America and Europe. We suggest that investors should begin to plan accordingly. Now.

¹ Comptroller of the Currency
OCC Bank Derivatives Report
Second Quarter 2005

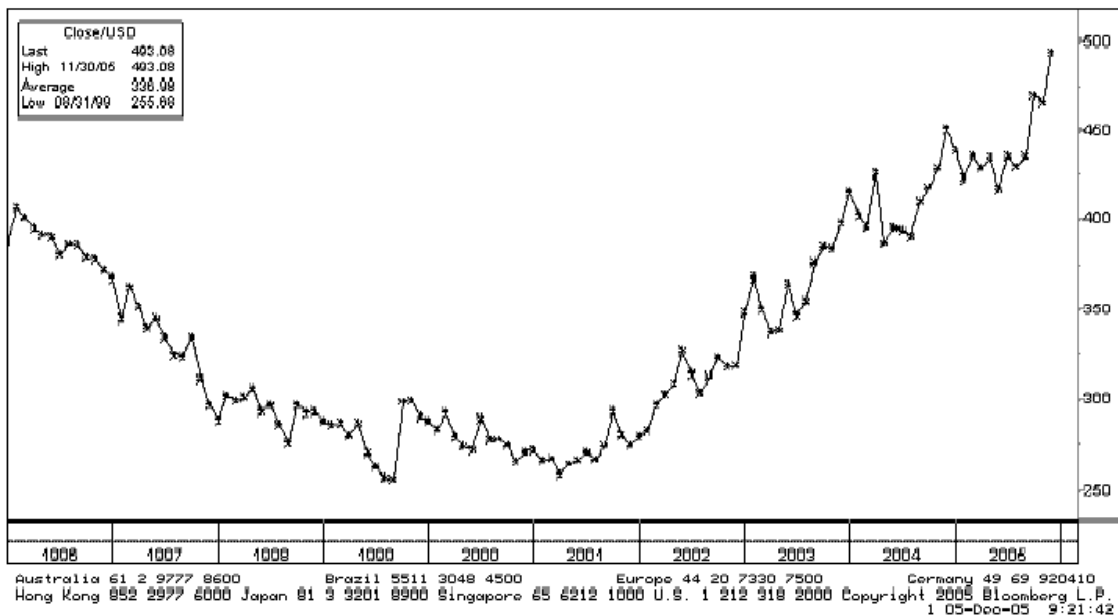
GOVERNMENT AND CORPORATE POLICY SHIFTS:

At Jory Capital we believe that by noting policy shifts both governments and corporations tip their hand as to what they believe is going to happen in the economy next. Thus, we note that in Canada, the United States and Australia legislation has been passed to make it more difficult for consumers to declare bankruptcy. We see this as a recognition that in many cases the consumer has exhausted themselves and the governments in question have moved to protect affected businesses.

Also worthy of note is that credit card companies in the United States have raised the minimum payment per month from 2% to 4% of the outstanding balance. We view this move as an indication of a lack of confidence in the American consumer.

We will continue to monitor policy shifts for further clues.

GOLD: Gold 1995 to 2005



We expect gold to continue to perform well throughout 2006 and beyond. There are a growing number of reasons for our multi-year continued confidence in gold. After several years of divesting themselves of gold, some central banks have announced a policy shift that will see them once again begin to accumulate the yellow metal. Russia has announced they will increase their gold reserves from 5% to 10%. Argentina has announced they too will become net buyers of gold. We expect more central banks to follow this lead in the coming months.

There is growing evidence that countries in the Middle East, worried about the continued erosion of their purchasing power but flush with U.S. dollars from continued high oil prices, are shifting growing amounts of these funds into gold. This is another trend we expect to continue.

Asia as well is exhibiting a growing appetite for physical gold. And we expect that appetite to continue to grow as gold cracks through the \$500.00 U.S. barrier.

We also believe that a move above \$500.00 U.S. on gold will bring a growing stream of individual investors to gold, and ensuring demand continues to grow.

CANADIAN DOLLAR:

In testimony to the U.S. Senate confirmation hearings the incoming Chairman of the Federal Reserve Board, Mr. Ben Bernanke, revealed under oath that his largest single personal investment position was Government of Canada bonds. We applaud Mr. Bernanke's wisdom and urge him to continue holding the bonds for the duration of 2006. We believe that the Canadian dollar will continue to outperform both the U. S. dollar and the Euro.

REAL ESTATE:

We continue to view real estate market prices both in North America and Europe as still in a bubble state. Rising interest rates throughout 2006 should begin to cool the housing market down. Any significant and abrupt upswing in interest rates will cause a rapid unraveling of the real estate market and seriously cripple average consumers. Of particular concern to us is the financial shape of Fannie Mae and Freddie Mac. Together these goliaths stand up for 42% of U.S. mortgages. However, there is concern that both companies are in rickety financial condition. Any further adverse news from either company could spark a swift decline in housing prices.

INCOME TRUSTS:

We continue to see resource and royalty income trusts as a clear bright spot for 2006. We do however strongly encourage the investor to differentiate between business trusts and resource trusts. We believe that, as was too often the case in the last two quarters of 2005, certain business trusts will seriously under-perform their counterparts in the resource sector. As we come to the end of the current business cycle we expect that negative trend to continue.

THE MARKETS:

We have little interest in being involved in the general markets in 2006. We find the markets at these levels more than fully valued. We would not be surprised if the markets were to suffer a significant correction in 2006 with a significant low in perhaps the 3rd or 4th quarter.

CONCLUSIONS:

1. To protect you against rising interest rates, we suggest you either liquidate or shorten the maturity of long-term bonds.
2. We continue to urge investors to purge themselves of U.S. dollar and Euro assets. The continued strength will make holding those assets a difficult proposition.
3. We believe energy prices will continue to rise. You can participate and benefit from these price increases in a couple of ways. You can purchase tax assisted flow through shares in oil and gas properties. Or you can purchase high quality resource and royalty trusts for both high stable income and strong capital growth.
4. We continue to recommend the purchase of selected gold stocks. We believe gold will seriously outperform the market in 2006.
5. We cannot urge the individual investor too strongly to take full advantage of the current RRSP rules and contribute the maximum dollars allowable. We believe that the shift in government policy will continue and investors will be allowed more and more control over their retirement funds. We especially urge owners of defined pension plans to make sensible provisions for their retirement.

2006 FORECAST – TECHNICAL ANALYSIS

OVERVIEW

We believe the stock market is approaching an important top. The high may be made in January 2006 or earlier. From that top, the market should begin a gradual decline and then accelerate into a significant low in the September – October period. This decline could be 20% or greater in magnitude. From that low, another cyclical up-trend should begin.

RATIONALE

We study over 20 technical indicators daily. The indicators that guide our analysis are those with 70-90% historical accuracy.

The above Overview is based on the following:

1. 4-Year Cycle Lows

These have been amazingly regular and predictable.

We can go back to November 1903, then November 1907, October 1911 and March 1915. All were important lows 4 years apart.

However, the last 43 years should serve us well. Major lows were made in the following 4-year intervals.

June 1962	September 1986
October 1966	October 1990
May 1970	June 1994
December 1974	October 1998
March 1978	October 2002
August 1982	

Like clockwork, these 4-year lows appear with regularity. 2006 should follow that pattern.

2. Duration – Cyclical Up-trend

The move, which began on October 9, 2002, is 1145 days old. The work of one of Wall Street's best researchers, Ned Davis, shows that average bull market length is about 850 days.

This is an old and aging up-trend nearing its end.

3. High/Low Logic Index

This is an indicator that reflects the internal health of the market. When its readings are low, the market is moving strongly in one direction (up or down). High readings indicate churning, drifting, narrowing and a market trying to go in 2 directions at one time.

Historically, readings above 4.50% have not only been cautionary but dangerous. In the last 55 years, they have called important market tops.

The latest reading is 5.81% - a definite warning signal.

4. Divergence

At most market tops, prices keep rising while the market internals deteriorate. This means major indexes such as the Dow Jones Average and the S&P 500 keep making new highs but fewer and fewer issues account for the gains. This happened in early 2000 when concentration was mainly in the Internet issues.

To a lesser degree this divergence is happening now.

5. Sentiment

In the first quarter of 2000, leading up to the March 2000 major market top, investor psychology was euphoric, optimistic, and bullishness was rampant. This was clearly evident in the heavy call option buying.

We believe that the psychological state of mind at that time has to be interpreted in a secular (long-term) generational way. The euphoria of early 2000 ushered in a secular bear market. There will be cyclical up-trends within that long term bear market but a genuine bull market of the 1932-33, 1975 and 1982 variety seems to be a long way off.

In addition to the above 5 very central indicators the following 5 are of concern as well:

1. Foreign buying of U.S. stocks is at the highest level since February 2000.
2. Mutual fund cash levels as a percentage of total assets are at a 40-year low.
3. Seat prices on the New York Stock Exchange are at record high levels (4 million dollars each).
4. New 52-week lows hit a high of 543 on October 14th. They have been running at unhealthy levels each week since then.
5. The ARMS Index (which needs explanation) is flashing a caution signal.

All of the above 5 have had a history of accompanying or preceding market tops.

Finally, we believe the XAU Philadelphia Gold/Silver Index may rise to the 150–155 level as 4 previous bull markets have.

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Commodity Exchange Tower
360 Main Street, Suite 2070
Winnipeg, Manitoba R3C 3Z3
Tel: (204) 942-7711 Fax: (204) 942-0047
Toll Free: (800) 545-4069