Fall - 2007

BARLOW

BARLOW CAPITAL PARTNERS INC.

Dear Clients,

The third quarter of 2007 was memorable for many reasons; notably the Canadian dollar reaching parity with the US currency, the continuing credit market crisis caused by the US sub-prime mortgage debacle, and the increased volatility in the major market indexes.

Our overall portfolio strategy remains unchanged. We wish to be well diversified by asset class and within each asset class. For those segments of the portfolio where our primary focus is on generating income, we also pursue certain investment themes; namely energy, volatility, and yield.

Our energy strategy is to focus on conventional oil production while avoiding Canadian natural gas producers. Low gas prices have dramatically curtailed drilling activity in the Western Canadian Sedimentary Basin (WCSB). The current down cycle is proving to be one of the longest on record. After a disastrous 2005 hurricane season, there has not been a single storm in the Gulf of Mexico that has lead to a halt in offshore natural gas production. No storms, mild winters and no long summer heat waves have combined to leave gas storage levels at record highs. The outlook for 2008 drilling is uncertain. Proposed changes to Alberta royalty taxation are not helping. Our portfolio's performance has been hurt by our exposure to the WCSB service sector, which will recover with the price of nature gas, we just don't know when.

Increased volatility has lead to very attractive option premiums. As such, we have started buying US large capitalization stocks and selling call options. For example, we purchased General Electric (GE), and wrote (sold) the December at the money call option for a premium of almost 6%. On an annualized basis, the premiums represent excellent value. We have utilized the US market as option liquidity is much greater in the US. We must therefore hedge our US currency exposure, which we have done.

Finally, yield is one of our key investment themes. With the demise of the income trust "vehicle", investors will be looking for securities that provide substantial and growing dividends. Saxon Financial and Student Transportation are two examples of great small cap companies that are paying dividends greater than the 10-year Canada bond yields with excellent growth prospects.

In addition to our principal investment themes, we also have a clear style bias for the income component of the portfolio. We prefer small cap stocks and convertible debentures. Research over many decades has shown that the returns for small caps have beaten large caps over most time periods[1]. The market for small caps is less efficient and with patience and good research, portfolio's weighted toward small caps should outperform their large cap competition.

Notwithstanding these preferences, we still fervently believe in diversification, by and across asset classes. Over relatively short time horizons, we may underperform the large cap indices (eg. TSX and S&P500), especially during periods of crisis like the current credit crunch (in the third quarter of this year, large caps in Canada outperformed small caps by a whopping 8.3%). The Asset Backed Commercial Paper debacle in Canada reduces liquidity and is causing major disruptions in the small cap sector. For those of us with lots of cash, this is a golden opportunity.

Sincerely,

STEPHEN D. BARLOW

September 30, 2007

[1] Source: Expected Rates of Return, James P. O'Shaughnessy, CFA Institute, June 2007