

**THE COMPANY**

Daylight Resources Trust (TSX: DAY.UN) is a mid-cap conventional royalty trust that is anticipated to produce 38,000 boe/d of natural gas and oil for the balance of 2009. The Trust was formed as a result of the merger between Daylight Energy Trust and Sequoia Oil and Gas Trust on September 21, 2006. The recent acquisition of Highpine Oil and Gas Limited created a more balanced production mix by increasing the oil and liquids weighting from 28% to 42%. Daylight pays a distribution of \$0.08 per month, or \$0.96 per year, which yields approximately 11% at current price levels.

**FINANCIAL DATA**

|                             | 2008 | 2009  | 2010  |
|-----------------------------|------|-------|-------|
| Cash Flow Per Share (\$)    | 3.11 | 1.54  | 1.59  |
| Price to Cash Flow (times)* | 3.2  | 6.5   | 6.3   |
| Distribution (\$)           | 1.38 | 0.96  | 0.71  |
| Distribution Yield (%)*     | 13.7 | 9.5   | 7.0   |
| Net Asset Value (NAV) (\$)  | 9.78 | 10.43 | 10.79 |
| Price to NAV (times)*       | 1.0  | 1.0   | 1.0   |

\* Based on \$10.08/share acquisition price

**HISTORICAL SHARE PRICES**



**WHY ABC FUNDS BOUGHT DAYLIGHT**

The traditional link between natural gas and oil prices seems to have broken down. Historically, the ratio of oil price to natural gas price moved in a broad range of six to ten times. Today, the ratio is roughly twenty times and it probably peaked in 2009 with oil thirty times the price of natural gas. This relationship decoupled for two key reasons. First, there has been a tremendous amount of new supply of natural gas due to technological advances, such as multi-stage fracturing. Second, oil is a politically-sensitive, global commodity while natural gas is a localized, North American commodity. To put it simply, North American economies are still weaker than those in Asia. However, we believe that natural gas prices will recover from seasonal lows and strengthen as we get closer to winter.

From our perspective and despite today's weak natural gas price, Daylight's acquisition of Highpine Oil and Gas Limited gave us the confidence to build a meaningful position in the Trust. The \$530 million acquisition was accretive to cash flow, rebalanced the production mix from 28% to 42% oil and liquids, improved the debt to cash flow ratio to 0.9 times and created a much more substantial entity with an enterprise value of approximately \$1.8 billion.

Operationally, Daylight has conventional production and extensive land holdings in Alberta, including assets in the West Central, Pembina and Central regions of the province. However, the Trust's core Deep Basin properties could hold significant resource potential. Importantly, cash flow from Highpine's Pembina light oil and Daylight's conventional natural gas, with a significant amount hedged at an average price of \$8.00 per mcf AECO, will be used to develop this resource play.

A resource play has to have a large, repeatable drilling inventory, with low geological risk and very attractive economics. Development becomes almost "cookie-cutter" over several years, with hundreds of wells drilled if sufficient capital is available. Therefore, the importance of Daylight's cash flow from oil production and hedged natural gas production cannot be overstated. Essentially, the Trust's Deep Basin, Elmworth assets are prospective for the Cadomin, Nikanassin and Montney formations. The area contains 130 net sections of land with the potential for 4 wells per section, or 520 wells. Even with capital costs of \$7 million per well, and assuming a \$5 AECO per mcf gas price, each well has a net present value of \$5.1 million according to Daylight's internal estimates. If we consider the number of possible drilling locations, the appropriately risked upside is quite exciting to say the least.

Pro forma the Highpine acquisition, Daylight is still in excellent financial shape. With combined bank credit facilities of \$550 million and \$205 million drawn at the end of Q2/09 the Trust has ample flexibility to pay its distribution or even consider a smaller, tuck-in type acquisition. An acquisition larger than \$300 million would require converting back to a corporate structure, which we believe is likely to occur anyway some time in early 2010. Finally, under current assumptions, the Trust's payout ratio should remain around the 50% to 55% range, which is quite conservative.

Using the Trust's year end financial and reserve data, we believe that Daylight is still trading below its net asset value of \$9.78 per unit. Although adding Highpine increased proven and probable reserves from 76.9 million boe to 108.1 million boe, the

## WHY ABC FUNDS BOUGHT DAYLIGHT (cont'd)

asset value per share is unlikely to have changed materially. However, accelerating the development of the Trust's resource plays has the potential to significantly increase the NAV per share going forward.

We believe that Daylight's management, led by Anthony Lambert and Steve Nielson, are building a significant medium-sized Company. Through organic growth and perhaps additional acquisitions, we believe that Daylight could become a much larger entity. Conversion back to a corporation is inevitable and even if the distribution is reduced we believe that the market would positively focus on the growth opportunities that would become available. In the meantime, we are getting paid to wait for the natural gas price to recover and the development of Trust's key assets to play out.

ABC Funds  
September 25, 2009

## UPDATES

Daylight Resources Trust has just announced its 2010 guidance, Q1 distributions and provided a Q4 operational update. We are becoming more and more confident in our thesis that Daylight is undervalued given its extensive holdings in several key regions and formations. In particular, drill results from the Trust's Pembina Cardium holdings, highlighted by a recent brokerage report published over the holidays, could be a positive catalyst in 2010.

Since the publication of this report, the market has become enamored with companies that hold certain specific resource plays. Remember, a "resource play" is defined as a large, contiguous land base with a repeatable drilling inventory, low geologic risk and very attractive economics. Happily, Daylight has large sections of land in three key geographic areas that are garnering significant attention.

In the Pembina region, Daylight has exposure to Cardium oil, with over 100 net sections of land. We expect drill results from their latest horizontal well when the results for fiscal 2009 are released on March 2, 2010. The Trust also holds land in West Central Alberta that is prospective for the Bluesky, Cardium, Wilrich and Cretaceous formations. Finally, Daylight's Elmworth region covers over 200 net sections containing the Cadomin, Cretaceous, Montney and Nikanassin natural gas formations. We believe that the market is just beginning to recognize the potential of the Trust's inventory of projects.

According to the Trust's update on January 12, 2010, Daylight has increased its 2010 capital budget to \$300 million or \$275 million net of Alberta Crown drilling credits, an increase of over 70% from 2009. With the current asset base, Daylight expects to average 40,000 to 42,000 boe/d of production in 2010. Exit production levels are expected to be greater than 42,000 boe/d, an increase of over 10% from the average production levels achieved in the fourth quarter of 2009. Operating costs are expected to decline to a range of \$10.50 to \$11.00 per boe for 2010, compared to \$11.80 over the first nine months of fiscal 2009. With only \$100 million drawn on the Trust's \$500 million credit facility, strategic acquisitions could potentially boost the average and exit production rates.

With tax pools of over \$1.4 billion, we expect that Daylight will convert to a high-dividend paying corporation no later than the May 2010 Annual General Meeting. Although the Trust has set its Q1 distributions at \$0.08 per month, we expect that the distribution will be reduced eventually, but not by more than 50%. As long as Daylight's management can continue to articulate a clear growth strategy, we believe that the market will reward them.

ABC Funds  
January 15, 2010

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Daylight Resources Trust has just announced an arrangement agreement to acquire all of the outstanding shares of West Energy Limited. The transaction is consistent with our investment thesis that Daylight's management is building a much larger entity through a combination of organic growth and accretive acquisitions. Importantly, the purchase consolidates the Trust's existing position in the Pembina region of Central Alberta, adding over 100,000 net acres of undeveloped land and 40 net sections of Cardium oil rights.

The transaction is valued at approximately \$570 million, including the assumption of \$135 million of net debt. Consideration is comprised of \$115 million of cash, with the balance to be paid in Daylight units. On a per share basis, each West stakeholder will receive either \$5.50 in cash, 0.465 of a Daylight unit, or some combination thereof such that the total cash component does not exceed \$115 million. Currently, West Energy is trading at approximately \$5.00 per share, an 18% premium to the average trading price over the ten days prior to the offer being made public. Based on West's recently released year-end documents, Daylight purchased the Company below its net asset value of \$5.96 per share.

## UPDATES (cont'd)

Assuming estimated land value of approximately \$110 million, Daylight is paying \$79,300 per flowing barrel and \$23.84 per barrel of proven and probable reserves. Although at first glance these multiples are not cheap, the price is relatively easy to justify. West's light oil production of 5,800 barrels per day generates operating netbacks of \$38.26 per barrel at current commodity prices, which should deliver a 7% increase to Daylight. It is the high netback per barrel relative to the price per barrel of proven and probable reserves that should allow the Trust to generate a solid economic return over time. Additionally, the overlap of the land positions should allow a reduction in operating costs by sharing oil facilities and systems. Finally, the complementary land base creates a large inventory of repeatable drilling opportunities. Management now estimates an unrisks horizontal drilling inventory of 300 to 600 Cardium oil locations at Pembina.

We expect the transaction to close mid-to-late May, sometime after Daylight's conversion to a corporation. As we've discussed previously, investors should expect to receive a \$0.05 dividend per month. The combined entity will have over \$1.7 billion of tax pools, which should be available to defer taxation into the future. Eventually, Daylight could become one of the premier, mid-tier E&P companies in North America as they continue to grow production, reserves, cash flow and net asset value.

ABC Funds  
March 12, 2010

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On May 6, 2010 at Daylight's AGM, unitholders voted 99.7% in favour of the plan of arrangement to convert into a corporation. Unitholders will receive one common share of Daylight Energy Limited for each unit of Daylight Resources Trust. The Company's common shares began trading on the Toronto Stock Exchange under the new symbol "DAY" on May 12, 2010.

Concurrently, on May 12, 2010, the Company's purchase of West Energy Limited closed successfully. This acquisition increased Daylight's Cardium rights in Pembina to over 100 net sections and increased the Company's oil and liquids weighting to approximately 45%. Upon the closing, management updated guidance to include West's forecasted contribution. Although production currently totals 45,000 to 46,000 boe/d, official guidance calls for average annual production volumes of 43,000 to 44,000 boe/d. The decline is due to the timing of the acquisition and some deferral of natural gas production in anticipation of higher prices later in 2010. We are not concerned with the slight dip since we have seen Daylight's management take a conservative approach to production guidance subsequent to an acquisition on several occasions. In fact, the anticipated exit production rate is over 47,000 boe/d.

As part of the transition to a high yielding but growth-oriented corporation, Daylight's distribution of \$0.08 per unit per month was reduced to a monthly dividend of \$0.05 per share per month. Based on the Company's success with the Pembina Cardium, the majority of the 2010 \$300 million capital budget will be allocated to horizontal Cardium light oil wells. Further, with the closing of the West acquisition, the Company's credit facilities were expanded to \$650 million with approximately \$350 million drawn today. Given the Company's growth potential, we believe that Daylight is better off investing the funds in its own properties than continuing the prior level of distributions. Thankfully, management did an excellent job telegraphing the changes and we were pleased to see the market respond positively. We look forward to watching Daylight exploit its asset base and eventually become one of the premier intermediate oil and gas companies in Canada.

ABC Funds  
May 14, 2010

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Daylight Energy Limited has taken another step to concentrate its efforts on the development and exploitation of its repeatable, low risk and high netback resource plays. The Company's growth areas at Pembina, West Central Alberta and Elmworth in the Deep Basin remain at the core of the portfolio. However, after the two key acquisitions of Highpine Oil and Gas Limited and West Energy Limited, Daylight has now sold some non-core assets in Eastern Alberta.

On June 30, the Company announced an agreement with the privately-held Gear Energy Limited to sell certain properties for total consideration of \$125 million. Proceeds consisted of \$100 million in cash and \$25 million of equity in Gear. The asset package included areas known as Bonnyville, Halkirk, Lloydminster, Paradise, Sounding Lake, Vermillion and Wildmere.

In first quarter of 2010, these assets produced approximately 2,300 barrels of oil equivalent per day of mostly heavy oil. At a price of \$54,000 per flowing barrel, the transaction was in line with recent industry sales of conventional assets. Because Daylight is trading roughly at this valuation, the asset sale is neutral on a dollar per flowing barrel basis. However, because the proceeds will likely be redirected into higher netback opportunities, we believe that the transaction will be accretive to cash flow and net asset value over time.

## UPDATES (cont'd)

Once the transaction closes, likely by the middle of July, proceeds will be used to reduce outstanding indebtedness under Daylight's credit facilities. However, with the additional balance sheet flexibility and no change to Daylight's previously announced capital budget of \$300 million, we expect management to eventually execute on additional "strategic and capital investment opportunities" as they arise.

Although shares of Daylight Energy have weakened recently, along with the general market downturn, we remain convinced of our investment thesis. Daylight has an inventory of high quality assets, solid management and yields an attractive 7.0% at current price levels. Further, both Anthony Lambert and Steve Nielsen have been buying stock on the open market in July, at prices between \$8.58 and \$8.95 per share. In short, we continue to believe that the Company will soon be one of the premiere mid-tier exploration and production companies in Canada.

ABC Funds  
July 16, 2010

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After completing the sale of certain non-core heavy oil and natural gas properties in Eastern Alberta to Gear Energy in July, Daylight has continued with its strategic plan. In August, the Company announced that it was putting several non-core properties in British Columbia, Alberta and Saskatchewan up for sale. Non-binding proposals are due mid-October and deals are expected to close by year end. The assets have been grouped into eight separate packages with total production of approximately 5,300 boe per day and a 67% weighting to natural gas. The sale would reduce the number of Daylight's properties by 74% and gross well count by approximately 55% but production would only decline by 12%. We believe that this announcement demonstrates management's commitment to their core areas of Pembina, Elmworth and West Central.

In Daylight's second quarter report, the Company disclosed that they had drilled 3 gross (2.8 net) horizontal wells, two in the Pembina Cardium in Brazeau and one targeting the Doe Creek formation in Sinclair. The two Cardium wells have been cased, with preliminary testing indicating that production should be similar to Daylight's top performing wells. In this area, initial production rates are generally between 150 boe/d and 200 boe/d and we hope that these wells come in at the upper end of this range.

Subsequent to the quarter, Daylight began drilling 6 gross (5.5 net) wells to complete the balance of the 2010 drilling program. The Company has 2 gross (2.0 net) wells in Brazeau and 2 gross (2.0 net) wells in Tomahawk that are targeting Cardium light oil. The Tomahawk region is particularly interesting since it is the location of the Company's best Cardium well ever, which came on-stream at 2,100 boe/d and produced over 31,000 barrels of oil during its first month of production. Other Tomahawk initial production rates have varied between 160 boe/d and 460 boe/d and we believe that anything above this range would represent good success.

We look for continued progress at the Company and several catalysts over the remainder of the year. Asset sales and drill results should be particularly meaningful in the coming months as Daylight establishes itself as one of the premier E&P companies in Canada. Impatient investors should be reminded that the \$0.60 annualized dividend payment yields over 6% at current price levels.

ABC Funds  
September 17, 2010

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Recent news releases from Daylight Energy Limited allow us to provide an update on two key aspects of the story; drilling results at Tomahawk and progress on non-core asset sales.

Details on the Company's second well in the Tomahawk region were particularly interesting since it is the location of the Company's best Cardium well ever, which came on-stream at 2,100 boe/d and produced over 31,000 barrels of oil during its first month of production. Recall that other Tomahawk well initial production rates have varied between 160 boe/d and 460 boe/d. We believe that the market was looking for Daylight to report an initial production rate well above this range.

On October 18, the Company released an operational update on its 2010 Cardium drill program. Daylight spud 11 (10.5 net) Cardium wells since spring break-up, with 20 (18.9 net) wells completed and on production year to date with an additional 2 (2.0 net) wells scheduled for completion during the fourth quarter of 2010. The wells produced an average of 417 boe/d over the first seven days of production and 247 boe/d over the first thirty days of production. Importantly, the anticipated Tomahawk offset well produced 976 boe/d over the first seven days, approximately half the rate of Daylight's best well, but more than double the top of the range of previous Tomahawk wells. After examining the data, we believe that Daylight is continuing to make excellent progress with its Pembina Cardium drill program.

## UPDATES (cont'd)

December 1, the Company released an update on its previously-announced non-core asset sale. Daylight executed purchase and sale agreements for gross cash proceeds of approximately \$70 million. Eight separate transactions included 1,500 boe/d, weighted 50/50 oil to gas, which generated a transaction metric of approximately \$46,000 per boe/d. Four of the transactions have closed, with the other four expected to close in December 2010 with effective dates of October 1, 2010. In addition, Daylight has letters of intent with several other parties to dispose an additional 1,500 boe/d. We believe that the price for the first 1,500 boe/d was quite good given the gas/oil weighting and hope that the subsequent 1,500 boe/d is sold at a similar transaction metric. As a sizeable investor in the Company, we are in favour of management's focus on its core areas of Pembina, Elmworth and West Central Alberta.

ABC Funds

December 10, 2010

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On October 8th, Daylight Energy announced that it had agreed to be acquired by Sinopec International Petroleum – a major petroleum company in China – for \$10.08 per share in cash. The take-over values Daylight at approximately \$2.9 billion and represents a 120% premium to DAY's previous closing price, and a 44% premium over the 60-day weighted average price. Shareholders are scheduled to vote on the transaction in December 2011, and closing is expected about year-end.

The Daylight transaction is quite intriguing for Canada's oil & gas sector. While Chinese companies had previously focused primarily on oil sands investments, the acquisition of Daylight extends their interest to shale gas reserves. In addition, the acquisition highlights the level of foreign interest in Canada's energy sector, and the potential for increased merger and acquisition activity in light of current discounted valuations for oil and gas companies.

At the time of the announcement, our ABC Funds held a total of 4.4 million common shares of Daylight. In light of the recent stock market pullback, this acquisition raises us a substantial amount of cash that we can use to purchase other undervalued common stocks. Moreover, we believe the premium paid by Sinopec emphasizes how important it is for ABC Funds to "stick to our style", despite the overwhelming pessimism that has plagued the market over the past six months.

ABC Funds

October 14, 2011