

October 31, 2014

Dear clients and colleagues,

After reaching a high in June at \$107 for WTI, the price of oil has since declined to around \$80. Many analysts have lowered their oil price forecast with Goldman Sachs being the latest and forecasting oil at \$75. Natural gas prices have followed a similar trend and are now at \$3.50 per mcf, and with no cold weather in sight, they may yet go lower.

For companies in the sector, it has been a scary ride. From January to the end of June, Energy was the top performing sector of equity benchmarks up 14% in the US and up 23% in Canada. YTD it is down 2.6% in the US and down 4.6% in Canada.

The picture for smaller cap companies is even scarier. Names in our portfolios have been liquidated as if they were on the verge of bankruptcy. Comstock Resources (CRK US), a US shale oil and gas producer was up 59.4% YTD at the end of June. It has since dropped 61% and is down 37% for the year. Schoeller-Bleckmann (SBO AV), an Austrian producer of drilling equipment in our International small cap portfolio was up 18% YTD at the end of June. It is now down 14% for the year. These are not unique, but representative of the whole sector.

Overdone? We think so.

In its latest quarter, Comstock Resources, <http://crkfrisco.com/>, reported that its oil production had increased 103% yoy to 12.2 MBbls/d. Its all-in cost was around \$45 per Bbl, one of the lowest in the industry. The company has a solid balance sheet, prime acreage, important reserves and is a dividend payer with a yield above 4% at the current stock price. The company stock price is at a 10-year low, actually lower than in 2012, when gas prices were at \$1.90 per mcf and oil prices were around \$80. Back then, the company also had a much weaker balance sheet.

So what is next?

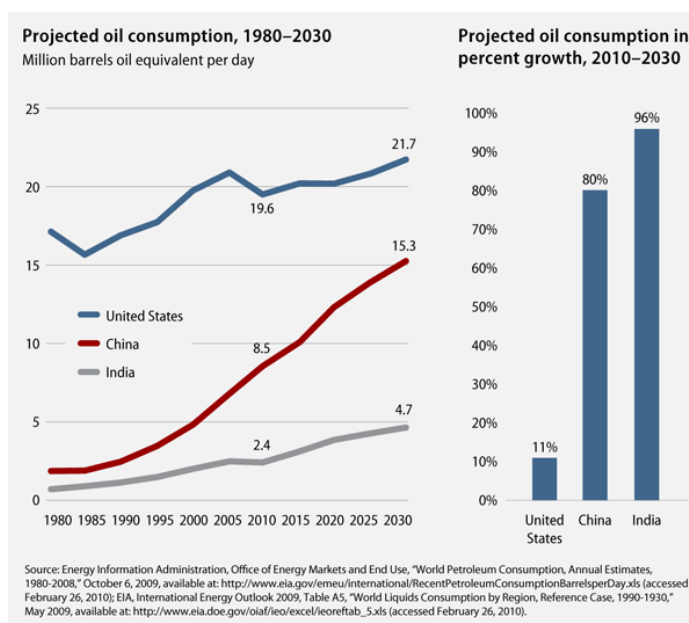
It is difficult to forecast commodity prices and oil in particular due to the geopolitical nature of the oil market. However, we believe that \$80 is the price needed to ensure supply growth. Commodity prices are driven by demand, not supply. We see continued growth in oil demand. China released its oil consumption statistics this week. It was a new record for the month of September and up over 7% from the year before, the fastest growth level in 15 months. And it was not stockpiling; gasoline demand was up 18% year over year, and China imported gasoline for the first time since 2011. China will continue to grow and countries like India, Vietnam and Indonesia are large future users.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

We are particularly optimistic about US natural gas prices. Starting in 2015, the first US LNG export facility will open at Sabine Pass. It will export the equivalent of 2Bcf of gas daily. So far, four such facilities have been approved and are being built for a total export capacity of 6 Bcf/d, which is the equivalent of 8% of US daily production. There are currently numerous other applications for export totaling 40 bcf/d, over 50% of current production.

Not all will go forward, but we believe that natural gas will become a global commodity. Today, it sells at \$3.50 per mcf in the US, over \$14 in Europe and \$17 in Japan. We forecast the price in the US will slowly rise to \$6-\$6.50 per mcf in the next 24 months. A level not reflected in the stock price of our companies.



Have a good Halloween.

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.