SeaBridge Core Global Strategy

December 2014 Commentary

As of the end of November, West Texas Intermediate (WTI) crude oil was down 35% year to date and 40% below its June 2014 highs. In a stable pricing environment, our E&P holdings should unlock value over time as their all-in costs of production remain below the current oil price. All-in costs of production account for both the cash costs as well as the non-cash resource depletion expense as production is extracted from the asset base. The table below shows the respective cost profiles of our four E&P portfolio companies in the third quarter of 2014. Please note, in addition to having all-in costs below the current price of oil, the cash costs of production for our portfolio companies is considerably lower than the current price of oil.

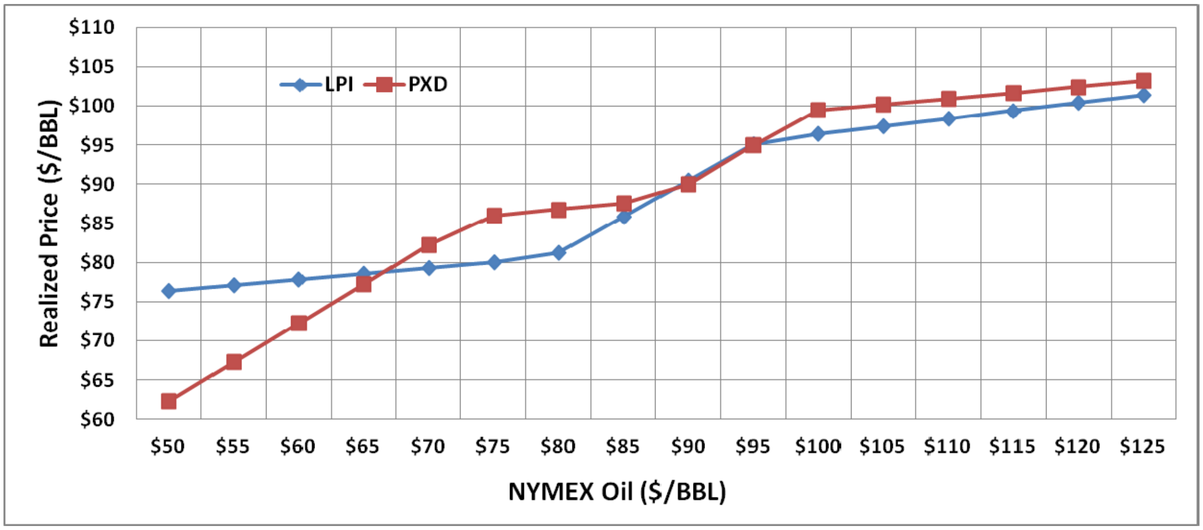
Company	Cash Costs per BOE*	All-In Costs per BOE*	Realized Price per BOE*	Cash Margin	All-In Cost Pre-Tax Margin
Whiting Petroleum	$ 27.93	$ 54.55	$ 74.88	63%	27%
Pioneer Natural Resources	$ 22.39	$ 38.75	$ 56.51	60%	31%
WPX Energy	$ 19.96	$ 33.02	$ 39.07	49%	15%
Laredo Petroleum	$ 29.80	$ 52.92	$ 66.66	55%	21%

Source: SEC 10-Q Filings and SeaBridge Investment Advisors

* BOE = Barrel of Equivalent Production, which standardizes production metrics by adjusting natural gas production on a heating equivalent basis with crude oil.

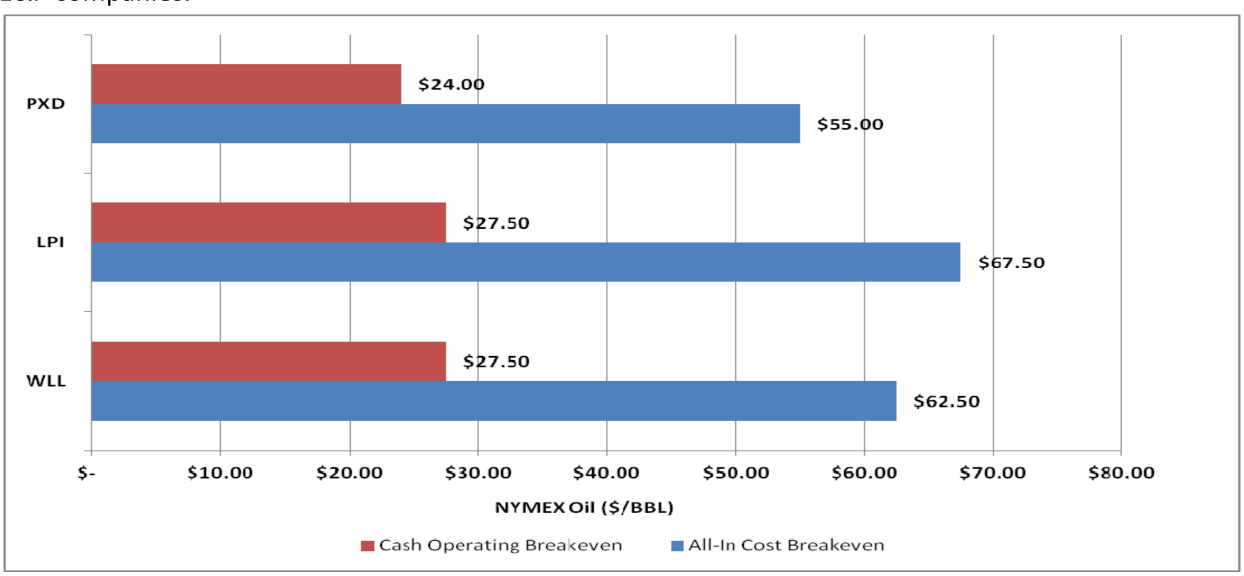
It is also important to highlight that three of our four E&P holdings are significantly hedged against near term oil price volatility. For example, LPI and PXD estimate that they have, respectively, hedged 90% and 85% of their planned 2015 oil production volumes thus providing both companies with good visibility into next year's financial performance. WPX Energy (WPX) has announced that approximately 50% of its expected 2015 oil production is hedged at $95 per barrel. These hedging programs, while limiting upside, allow management to focus on operational efficiency and booking proved reserves rather than being subject to the vagaries resulting from commodity price volatility. Laredo employs a hedging strategy using Put options, Swaps, and option "Collars", but essentially it has locked in a crude oil floor price of $80.99 per barrel for 90% of its estimated 2015 crude oil production. Pioneer employs a more complex option hedging strategy using "Three Way Collars", but essentially it has locked in a crude oil floor price of $87.98 per barrel all the way down to $73.54 per barrel WTI spot prices for 85% of estimated 2015 crude oil production. If the WTI spot price were to fall below $73.54, then PXD would receive WTI spot price plus $14.44 per barrel. In other words, if oil were to fall to $55 per barrel, PXD would still receive $69.44 per barrel on 85% of its crude oil production due to the current hedges in place. The table below illustrates the hedging programs impact in 2015 given a level of oil prices for LPI and PXD.

2015 Forecasted Realized Oil Prices based on Estimated Production & Hedging Program – LPI & PXD



Source: SEC 10-Q Filings and SeaBridge Investment Advisors

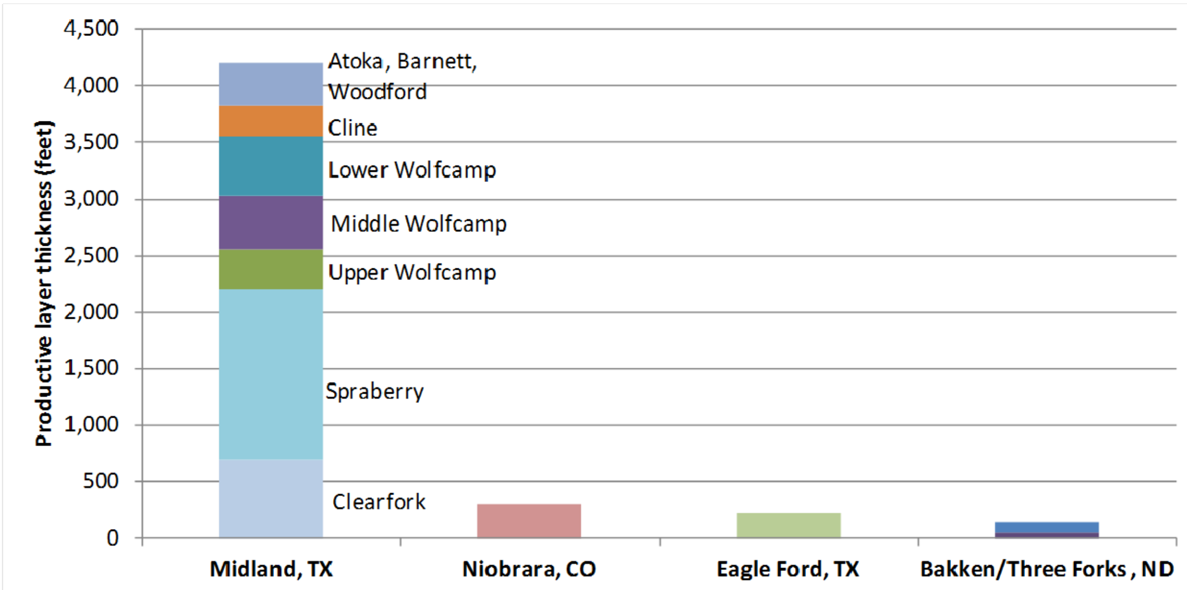
We have performed a sensitivity analysis on three of our four E&P investments attempting to determine the all-in and cash breakeven costs assuming no hedges were in place. We have not included WPX Energy in our analysis, as it is undergoing a significant restructuring of its asset position and currently the majority of its production volume is natural gas. The only variable that changes in our analysis is the realized price of oil. In other words, we assume production volumes, mix, natural gas/natural gas liquid (NGL) prices, and unit costs remain constant from the third quarter of 2014. To be conservative, this analysis ignores any further productivity gains which are driving unit costs lower over time in all of our E&P companies.



Source: SEC 10-Q Filings and SeaBridge Investment Advisors

Taking a closer look at our holdings, LPI and PXD have a focused asset base in the emerging Spraberry/Wolfcamp formation located in the state of Texas. We believe both companies deserve a premium valuation given the multi-layer potential of its acreage footprint. The table below shows the relative thickness of the Spraberry/Wolfcamp formation in Midland, TX compared to other U.S. shale formations.

U.S. Shale Formation Thickness



Source: SeaBridge Investment Advisors, adapted from Pioneer Natural Resources and Noble Energy

Once adjusted for the multiple layers that can be developed in a given section of acreage, it is easier to see how the valuation per acre should command a premium to peers in other shale formations. The table below highlights this point by showing LPI's "equivalent" acreage footprint once adjusted for the multiple layers that can be developed at a single development site.

Laredo Petroleum Asset Position

Zone	Prospective Acres
Lower Spraberry	~71,000
Upper Wolfcamp	~154,000
Middle Wolfcamp	~154,000
Lower Wolfcamp	~154,000
Canyon	~30,000
Cline	~154,000
A/B/W	~60,000
Net Effective Acreage	**~777,000**

Source: Laredo Petroleum

We believe that LPI and PXD represent interesting opportunities as they are currently trading at attractive discounts to our assessment of the value of their assets. For example, based on LPI's current enterprise value of approximately $3.0 billion, the company's 155,000 net acres are valued at just over $19,350 per acre. A recent transaction involving Encana (ECA) and Athlon Energy valued the acreage adjacent to LPI's assets at $50,700 per acre. This transaction demonstrates the value of Laredo's asset and the considerable opportunity available for investors given the current valuation.

WPX Energy (WPX) is another position that we believe has world class assets that are finally set to be optimized under the leadership of the new CEO, Richard Muncrief. WPX was spun out of Williams Companies in 2012 and subsequently suffered from a lack of focus in developing its widespread portfolio of assets. The company has demonstrated a renewed commitment to streamlining its asset base while changing the profile of the company from a primarily conventional natural gas well operator to a focused E&P shale company.

Since May 2014, WPX has announced approximately $1 billion of asset sales and/or joint ventures, out of its current enterprise value of approximately $4.7 billion, in order to redeploy capital into its higher returning assets. The company's new strategy is focused on balancing its production volumes more evenly between natural gas and oil, improving profitability in margin terms, and increasing the risk tolerance in order to capture more opportunities in the emerging shale formations. Furthermore, WPX provides us with a low cost option on the Niobrara shale formation. This formation sits below the company's currently proved resources in the Piceance Basin that is in development and considered a key asset for the company. The company's early exploration efforts in the Niobrara formation have proved promising due to production figures from a few wells. Management believes this single resource may potentially double the current oil & gas reserves of the company which presents a significant opportunity for investors at an attractive valuation.

Lastly, Whiting Petroleum (WLL) is set to become the largest oil producer in the Bakken shale formation with its pending acquisition of Kodiak Oil & Gas (KOG). Additionally, WLL has an emerging position in the liquids rich section of the Niobrara shale formation which gives us an additional low cost option on this important shale formation. The KOG transaction is set to accelerate WLL's scale advantage in the Bakken, which should continue to drive unit costs lower contributing to an improvement in overall profitability.

In summary, we believe even at the current oil price level, assuming constant unit costs and production volume going forward, our E&P holdings should earn positive returns on invested capital given their current cost of production. However, our companies should continue to reduce their unit costs as the productivity of new wells continues to improve and operational efficiencies strengthen. This gives us confidence that in a $70 oil world our E&P companies should be able to build reserves through their development programs and accrete value for investors. We further expect that, if the price of oil were to remain low, the pace of acquisition activity would accelerate. The smaller E&P companies with attractive properties such as Laredo Petroleum and WPX Energy would be attractive to the larger E&P companies. The larger E&P companies such as Whiting Petroleum and Pioneer Natural Resources should be attractive to the major integrated oil companies, which are likely to defer higher cost, higher risk deep water exploration prospects in favor of lower risk shale exploitation.

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Adrian Morffi
Angell Xia
John Conti

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There are differences among portfolios managed by SeaBridge in the Core Global Equity strategy based on client-specific factors. Not all portfolios hold the same securities. Not all stocks held in the portfolio perform similarly. Some stocks held in the portfolio historically performed much worse than the examples presented. Performance differs among accounts. SeaBridge also manages portfolios in other styles. These portfolios differ from the Core Global Equity strategy portfolios.

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