

## **Canadian energy producers can't kick the natural gas habit despite oil price rally**

CALGARY, ALBERTA – While oil prices rally to seven-month highs, a survey released Thursday shows that Western Canada's conventional energy producers have actually been increasing their weighting towards natural gas.

In the first quarter of 2009, the median junior oil and gas company's production was weighted 76 percent to natural gas, an increase of five percent compared with the same quarter of 2008. The median intermediate's first quarter natural gas weighting also increased year over year from 63 percent in 2008 to 67 percent in 2009. This relative weighting is based on an energy equivalency of six thousand cubic feet of natural gas to one barrel of oil.

The conventional energy sector's increasing weighting towards natural gas is just one of the findings in the latest iQ Report by Bryan Mills Iradesso, a national communications and research firm. The quarterly iQ Report tracks the performance of all junior and intermediate oil and gas companies and trusts that operate primarily in Western Canada and trade on the TSX and TSX Venture Exchange. The comparison, available free to investors at <http://iq.bmir.com>, defines juniors as companies that produce between 500 and 10,000 barrels of oil equivalent per day (boe/d) and intermediates as companies that produce between 10,000 and 100,000 boe/d. Bryan Mills Iradesso's latest report compares the results of 63 juniors and 23 intermediates for the first quarter of 2009. Select information is also provided on oil sands players and emerging producers.

"Given that oil sells for much higher prices in the current market, this weighting is a challenge to the industry," said Peter Knapp, editor of the iQ Report and president of Bryan Mills Iradesso. "The fact that oil prices have recovered nicely in recent months while natural gas prices continue to languish means any company leveraged to oil production should be experiencing a comeback."

Knapp said some conventional oil and gas producers are finding their operations to be economically challenged while they're awaiting a recovery in natural gas prices.

"Markets have reached the point where the price of oil is about three times that of natural gas based on the standard energy equivalency," Knapp said. "With many of the costs still high in the sector after the run-up of recent years, this has not been an easy time to make money on natural gas."

In addition to outlining Western Canada's preference for natural gas production, the latest iQ Report reveals the following:

- Of the 63 public junior oil and natural companies operating in Western Canada, only six reported profits for the first quarter of 2009. Meanwhile, 10 of the 23 intermediates in the sector reported profits. This is a sign that the costs of Canadian oil and gas production – including finding, development and acquisition costs that are written down over time – are currently too high for the revenue being brought in.

- Seven junior companies reported negative cash flow for the first quarter of 2009. This is the highest number of companies that have reported negative cash flow since Bryan Mills Iradesso started publishing the iQ Report in 2003. Median cash flow netbacks for the first quarter of 2009 were \$11.85 per boe for juniors and \$20.43 per boe for intermediates. This compares with a cash flow netback of \$28.33 per boe for the juniors and \$30.06 for the intermediates for the same quarter of 2008. Cash flow netbacks in the oil and gas industry, determined by dividing the cash flow from operations by the total production for the period, are similar to cash flow margins in other industries. The discrepancy between the juniors and intermediates is related to hedging programs in place for most of the intermediates.
- With low cash flow netbacks, the median junior is trading at a reasonable enterprise value (market capitalization plus net debt) of 8.3 times cash flow in the first quarter of 2009. This doesn't include the seven juniors that had negative cash flow where such a multiple is meaningless. Meanwhile, the median intermediate is trading at an enterprise value of 7.3 times cash flow. Share prices used for these multiples are from May 29, 2009.
- Using May 29, 2009 share prices and a year-end 2008 calculation of net asset value, the median junior is trading at a 62 percent discount to net asset value while the median intermediate is trading at a 26 percent discount.

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The following tables show the percentage of each company's production that is natural gas. Companies closer to the top of each chart are weighted more towards oil and are likely to be experiencing the financing benefits of producing a higher priced commodity.

#### **JUNIORS NATURAL GAS WEIGHTING**

**Median = 76%**

Glamis Resources Ltd.	0
Canadian Phoenix Resources Corp.	10
Eagle Rock Exploration Ltd.	12
West Energy Ltd.	15
Arcan Resources Ltd.	18
BlackPearl Resources Inc.	20
Arsenal Energy Inc.	25
Culane Energy Corp.	27
Freehold Royalty Trust	36
Bonterra Oil and Gas Ltd.	38
Second Wave Petroleum Ltd.	44
Zapata Energy Corporation	45
Painted Pony Petroleum	49
Rock Energy	50
Zargon Energy Trust	51
Action Energy Inc.	51
Buffalo Resources Corp.	51
Midnight Oil Exploration Ltd.	53
Breaker Energy	54
Questerre Energy Corporation	56
Angle Energy	58

Enterra Energy Trust	58
True Energy Trust	62
Crocotta Energy Ltd.	63
Stonefire Energy Corp.	64
Great Plains Exploration Inc.	66
Redcliffe Exploration Inc.	69
NuLoch Resources Inc.	69
Bellamont Exploration Ltd.	71
Twin Butte Energy Ltd.	72
Profound Energy Inc.	75
Wrangler West Energy Corp	76
ProspEx Resources Ltd.	77
Terra Energy Corp	79
Canext Energy Ltd.	79
Berens Energy Ltd	80
Insignia Energy Ltd.	80
Orleans Energy Ltd.	80
Seaview Energy Inc.	80
One Exploration Inc.	80
Vero Energy Inc.	80
Monterey Exploration Ltd.	81
Trafalgar Energy Ltd.	82
FairWest Energy Corp.	82
Petro-Reef Resources Ltd.	82
Pegasus Oil & Gas Inc.	83
Anderson Energy Ltd.	83
Sabretooth Energy Ltd.	85
Grey Wolf Exploration Inc.	86
Delphi Energy Corp.	86
Storm Exploration Inc.	86
Yoho Resources Inc.	86
Diaz Resources Ltd.	86
International Sovereign Energy Corp.	86
Argosy Energy Inc.	87
Open Range Energy Corp	89
Cinch Energy Corp.	91
Sure Energy Inc.	91
Triton Energy Corp	93
Result Energy Inc.	95
Fortress Energy Inc.	99
Ironhorse Oil & Gas Inc.	99
Twoco Petroleums	100

## INTERMEDIATES NATURAL GAS WEIGHTING

Median = 67%

Crescent Point Energy Trust	11
TriStar Oil & Gas Ltd.	20
Baytex Energy Trust	23
Highpine Oil & Gas Ltd.	37
NAL Oil & Gas Trust	48
Pengrowth Energy Trust	49
ARC Energy Trust	50
Bonavista Energy Trust	56
Enerplus Resources Fund	59
Advantage Energy Income Fund	64
Galleon Energy Inc	65
Crew Energy Inc.	66
Daylight Resources Trust	67
NuVista Energy Ltd	71
Paramount Resources Ltd.	71
Birchcliff Energy Ltd.	72
Iteration Energy Ltd.	72
Celtic Exploration Ltd	73
Fairborne Energy Ltd.	73
Trilogy Energy Trust	78
Peyto Energy Trust	84
Compton Petroleum Corporation	84
Progress Energy Resources	88
Paramount Energy Trust	100

Bryan Mills Iradesso's complete iQ Report is available free to media and investors who fill out an online form on the following website: <http://iq.bmir.com>.

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