

## **M&A activity decimates size – but not strength – of oil and gas sector**

CALGARY, ALBERTA – Mergers and acquisitions and a challenging operating environment have led to a dramatic decrease in the number of public junior and intermediate oil and natural gas companies operating in Western Canada, a survey released Monday shows.

The number of conventional junior and intermediate oil and gas players has fallen 36 percent over the past four years to 77 in the third quarter of 2009. This compares with 121 in the third quarter of 2005, 111 in 2006 and 99 in 2007.

This 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 54 juniors and 23 intermediates for the third quarter of 2009. Select information is also provided on oil sands players, international operators and emerging producers.

Peter Knapp, editor of the iQ Report and president of Bryan Mills Iradesso, said the junior and intermediate oil and gas sector is shrinking rapidly as companies continue to exit the industry through mergers and acquisitions while new entrants have been few and far between because of the challenging economic environment.

"The junior and intermediate companies that are continuing into 2010 may be fewer in number, but they are durable and dynamic," said Knapp. "What doesn't kill you can make you stronger."

Knapp said the quality of the remaining players is rising thanks to strong crude oil prices, improving natural gas prices and a round of recent equity financings that put balance sheets on firmer ground.

In addition to tracking the number of oil and natural gas producers, the latest iQ Report reveals the following about the recent performance of the junior and intermediate energy sector:

- The intermediate grouping showed median cash flow netbacks of \$20.31 per barrel of oil equivalent (boe) for the third quarter of 2009. This is almost double the median junior cash flow netback of \$10.29 per boe. This is indicative of a higher crude oil weighting for the intermediates, stronger hedging programs and lower costs on a per boe basis due to economies of scale. The higher cash flow netbacks also translate into lower debt to cash flow ratios and lower share price to cash flow ratios.
- One method of valuing oil and gas companies is a comparison of enterprise value (the sum of market capitalization plus net debt) versus average production rates. This number varies greatly from \$14,000 to \$645,000 per flowing boe/d for juniors, and from \$29,000 to \$153,000 for intermediates. The markets are expecting great things from the

companies with higher valuations, while expectations are low for companies at the bottom.

- Nine junior companies in the iQ Report had negative or negligible cash flow. All of these companies had less than 1,500 boe/d of production for the quarter, showing that the smallest companies got hit hardest by low commodity prices this year.
- Only four of 54 junior oil and gas companies and only 10 of 23 intermediate companies reported positive earnings in the third quarter of 2009. The median junior lost \$2.2 million during the third quarter while the median intermediate lost \$1.8 million.
- Perhaps a leading indicator of the sector's profit potential, most investors in the sector would have been pleased with the performance of their portfolio in the third quarter of 2009. The median total return including dividends and distributions for both the juniors and intermediates was positive during the quarter and the subsequent two months of October and November. In fact, from July 1 to November 30, 2009 a median return of 22 percent was achieved for the intermediates and 34 percent for the juniors.

The following list shows the production levels of all the junior and intermediate companies that met the criteria for inclusion in the Q3 iQ Report. Companies excluded from the list include those whose primary business was not oil and gas exploration, development and production and those whose production was not primarily from Western Canada.

<b>JUNIOR OIL AND NATURAL GAS COMPANIES PRODUCTION IN THE THIRD QUARTER OF 2009</b>				
<b>Company</b>	<b>Stock symbol (T=TSX, V=Venture)</b>	<b>Oil &amp; liquids production (bbls/d)</b>	<b>Natural gas production (mmcf/d)</b>	<b>Average daily production (boe/d)</b>
Anderson Energy Ltd.	AXL-T	1,013	36.282	7,060
Angle Energy Inc.	NGL-T	3,100	26.710	7,552
Arcan Resources Ltd.	ARN-V	913	2.166	1,274
Argosy Energy Inc.	GSY-T	104	4.316	823
Arsenal Energy Inc.	AEI-T	1,526	3.327	2,081
Bellamont Exploration Ltd.	BMX.A-V	194	3.768	822
Bellatrix Exploration Ltd.	BXE-T	2,253	31.075	7,432
Berens Energy Ltd.	BEN-T	875	18.450	3,950
BlackPearl Resources Inc.	PXX-T	4,247	5.065	5,091
Bonterra Oil & Gas Ltd.	BNE-T	3,084	10.881	4,898
Canadian Phoenix Resources Corp.	CXP-V	894	0.220	931
Canext Energy Ltd.	CXZ-V	228	4.089	910
Cequence Energy Ltd.	CQE-T	195	6.734	1,317
Cinch Energy Corp.	CNH-T	207	13.044	2,381
Crocotta Energy Inc.	CTA-T	1,000	10.005	2,668
Culane Energy Corp.	CLN-V	872	2.136	1,229
Delphi Energy Corp.	DEE-T	1,168	33.628	6,773
Diaz Resources Ltd.	DZR-T	84	2.966	578
Enterra Energy Trust	ENT.UN-T	5,411	26.977	9,907
FairWest Energy Corp.	FEC-T	77	2.927	565
Fortress Energy Inc.	FEI-T	13	6.741	1,137
Freehold Royalty Trust	FRU.UN-T	4,441	15.315	6,994

Great Plains Exploration Inc.	GPX-T	477	4.271	1,189
Insignia Energy Ltd.	ISN-T	411	10.315	2,130
International Sovereign Energy Corp.	ISR-T	84	4.577	847
Ironhorse Oil & Gas Inc.	IOG-V	9	6.252	1,051
Legacy Oil & Gas Inc.	LEG-T	1,801	0.280	1,847
Midnight Oil Exploration Ltd.	MOX-T	635	7.064	1,812
Midway Energy Ltd.	MEL-T	154	4.401	887
Monterey Exploration Ltd.	MXL-T	436	9.918	2,089
NuLoch Resources Inc.	NLR.A-V	242	1.968	570
One Exploration Inc.	OE.A-V	177	2.036	517
Open Range Energy Corp.	ONR-T	201	12.612	2,303
Orleans Energy Ltd.	OEX-T	639	19.254	3,848
Painted Pony Petroleum Ltd.	PPY.A-V	1,052	3.617	1,655
Petro-Reef Resources Ltd.	PER-V	131	4.288	845
ProspEx Resources Ltd.	PSX-T	493	8.906	1,978
Questerre Energy Corp.	QEC-T	352	1.680	632
Redcliffe Exploration Inc.	RXP.A-V	263	3.605	864
Rock Energy Inc.	RE-T	1,763	8.775	3,225
Seaview Energy Inc.	CVU.A-V	432	12.486	2,513
Second Wave Petroleum Ltd.	SCS-V	553	2.624	990
Stonefire Energy Corp.	SFE.A-V	360	5.325	1,247
Storm Exploration Inc.	SEO-T	1,130	41.399	8,030
Sure Energy Inc.	SHR-T	81	3.453	657
Terra Energy Corp.	TT-T	1,309	28.845	6,117
Triton Energy Corp	TEZ-V	39	4.658	816
Twin Butte Energy Ltd.	TBE-T	849	12.269	2,894
Twoco Petroleums Ltd.	TWO-V	0	6.068	1,011
Vero Energy Inc.	VRO-T	1,302	31.850	6,610
West Energy Ltd.	WTL-T	3,029	4.438	3,769
Wrangler West Energy Corp.	WX-V	288	4.888	1,103
Yoho Resources Inc.	YO-V	369	11.811	2,337
Zapata Energy Corporation	ZCO-V	1,428	6.295	2,478

**INTERMEDIATE OIL AND NATURAL GAS COMPANIES  
PRODUCTION IN THE THIRD QUARTER OF 2009**

<b>Company</b>	<b>Stock symbol (T=TSX)</b>	<b>Oil &amp; liquids production (bbls/d)</b>	<b>Natural gas production (mmcf/d)</b>	<b>Average daily production (boe/d)</b>
Advantage Oil and Gas	AAV-T	8,431	91.200	23,631
ARC Energy Trust	AET.UN-T	30,638	193.117	62,824
Baytex Energy Trust	BTE.UN-T	32,553	60.420	42,623
Birchcliff Energy Ltd.	BIR-T	3,017	45.210	10,552
Bonavista Energy Trust	BNP.UN-T	23,924	193.205	56,125
Celtic Exploration Ltd	CLT-T	3,813	68.964	15,307
Compton Petroleum Corporation	CMT-T	3,208	99.310	19,760
Crescent Point Energy Corp.	CPG-T	40,854	32.806	46,322

Crew Energy Inc.	CR-T	4,819	49.478	13,065
Daylight Resources Trust	DAY.UN-T	6,794	100.250	23,502
Enerplus Resources Fund	ERF.UN-T	36,130	323.884	90,111
Fairborne Energy Ltd.	FEL-T	3,855	56.797	13,321
Galleon Energy Inc	GO-T	5,714	57.012	15,216
Iteration Energy Ltd.	ITX-T	4,523	64.176	15,219
NAL Oil & Gas Trust	NAE.UN-T	11,801	69.700	23,418
NuVista Energy Ltd	NVA-T	7,334	121.028	27,505
Paramount Energy Trust	PMT.UN-T	0	152.400	25,400
Paramount Resources Ltd.	POU-T	3,733	49.880	12,046
Pengrowth Energy Trust	PGF.UN-T	39,394	232.444	78,135
Peyto Energy Trust	PEY.UN-T	2,916	89.257	17,792
Progress Energy Resources	PRQ-T	3,869	157.520	30,122
Trilogy Energy Trust	TET.UN-T	3,740	91.759	19,033
Zargon Energy Trust	ZAR.UN-T	5,382	28.234	10,088

Note: Barrels of oil equivalent are based on an energy equivalency of six thousand cubic feet of natural gas to one barrel of oil.

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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