

INTERIM BULLETIN #70 – MARCH 16 2011

PORTFOLIO PURCHASE – PETROFRONTIER CORP (PFC-TSX)

I have purchased 3000 shares of PetroFrontier (PFC-TSXv) at \$3.16 a share. PetroFrontier is chasing a large shale oil play in Australia – in the same vein as previous OGIB portfolio picks TAG Oil in New Zealand and Treador Resources in France.

I'll be doing a more complete report on the company when I return from the slopes next week, but here are some quick facts:

1. Shares Issued: 47.7 million
2. Fully Diluted: 51.7 million
3. Cash: \$57 million
4. Production: ZERO
5. Analyst report by FirstEnergy has a \$10 target (in which they said PetroFrontier could have an Unrisked Net Asset Value (UNAV) of more than \$160/share. What this UNAV really means is that if everything that FirstEnergy thinks about the potential of this company turns out to be true (and they don't expect that, so you shouldn't) then that's what this asset could be worth under the current share structure. FirstEnergy knows that success will bring more financings, and therefore more shares out, and a lower UNAV, but they want to tell the world that this is a BIG play.
6. Drilling should start in April after a two month rain delay.

The company has only been public since January 2010. Macquarie Capital was the lead brokerage firm in raising \$53 million at \$2/share in what in Canada is called a Reverse TakeOver (RTO) of a Capital Pool Company (CPC).

The asset is a 64% Working Interest (WI) in 13.6 million acres in the South Georgina Basin in the Northern Territory of Australia, right on its eastern border with Queensland.

The play is typical of both TAG and Treador:

1. It's an unconventional shale target, geologically similar to the Bakken – called the Arthur Creek Shale
2. Previous drilling (13 holes) show shale oil present
3. They have core sent to a lab and it came back with a TOC (Total Organic Content) of 5%, which is very good. Thickness is only 26 metres. It's quite shallow, only 600-1200 metres
4. They had an independent geological report done - this one by Ryder Scott - that says there could be a prospective resource of 26.4 billion barrels in the Arthur Creek shales, and 1.1 billion barrels in the conventional targets. (they use the words "recoverable resources" which I would not do in this case, then qualified it with an asterik saying its prospective - unrisked and undiscovered - that's a LONG way from recoverable)

Subscribers should not put a lot of faith in those numbers – and that's no detriment to Ryder Scott or the company. It's just that the reality is that at this early stage of the game – no modern exploration targeting the shale – it's very tough to put any realistic resource number on this asset. It really is a guessing game this early.

Yes they look at length width and thickness and TOC and porosity to come up with this number – but all it really says is – it's BIG. I'm not going to hold anybody to that multi-billion number.

And when I'm buying a junior oil stock, I understand that I take on a higher risk for a higher reward. This stock has a high reward.

Jim Buckee, the ex-CEO of Talisman (TLM-NYSE, TLM-TSX) sits on the board. Management (not Buckee) have created, built and sold a small junior, called Win Energy, to Compton Petroleum in 2007 – but it was done at 45 cents a share – not a huge shareholder win.

But they do have a highly prospective land position here, and just over \$1/share cash, and a drill program coming up very soon – next month. The heavy rains in this area of Australia have delayed the drilling that was supposed to start in early February.

I've only bought \$10,000 worth of stock because this is not a market in which to be brave. If the Japanese nuclear situation doesn't improve I may be able to buy this and many other stocks a lot cheaper in the coming days or weeks.

But the stock is a great trader, trading 15 million shares since it first came to the board. I've watched it trade everyday and it clearly has a lot of support – though 9 million shares with a \$2 cost are still in a good profit position should they decide to sell. The stock opened at \$3 and moved up to \$3.80 on good volume and this Japanese induced market meltdown (pardon the pun) could be a good place to get some small exposure to the stock – so I bought a small starter position.

I expect both Macquarie and Haywood, the companies who did the \$2 financing, to issue research on the company at some point. Another catalyst for the shares would be a firm spud date on their first well.

More to come next week on PetroFrontier – www.petrofrontier.com

GOLAR – GLNG-NASD – this stock is running up on the emotion of the Japanese nuclear plant situation. The market believes that LNG will fill the gap/shortfall on any nuclear shutdowns. With the LNG market already (very) tight, the market is saying that day rates on shipping LNG are going higher.

Should the Japanese nuclear situation be resolved quickly or without much fuss then this stock would take a hit.

But it is up 50% now in just 3 months. ;0)