

## INTERIM BULLETIN # 95--SEPTEMBER 19 2011 PORTFOLIO PURCHASE – CGX ENERGY (OYL-TSX)

I bought back into CGX Energy today, in the financing they announced at 70 cents, for a total of 15,000 shares. This high risk drill punt will be a small position for me in this crazy market.

I thought that was a very small premium to pay over the 50 cents I sold out for two weeks ago, considering they now have enough money to drill 2 wells in the bank—with both getting spud before year end.

And of course, now the play has been de-risked greatly. After Murphy Oil (MUR-NYSE) missed their first two wells in the Guyana Basin, now Tullow (TLW-LN, or London Stock Exchange) has hit—so we know the basin is productive—highly productive in fact. Tullow is a partner in CGX's Jaguar prospect in the Guyana Basin that will get drilled sometime in either October or November. OK, it could be December—but that would only be because INPEX, the company using the rig, hit on their Guyana basin well. And that is the rumour.

Having a partner like Tullow—probably the most successful intermediate exploration company in the world right now—who has been successful on the play will be a huge benefit. This basin is ranked as the second most prospective, unexplored basin in the world right now.

This \$80 million financing will give the company \$114 million and 308 million shares out. Despite the size of the prize—about 300 million barrels net to CGX at their Jaguar prospect—a schizophrenic market and heavy dilution is causing me to just take a small punt on this high risk drill play. Actually, it's more like I get schizophrenic on these plays. But just so we're clear, \$10 a barrel valuation in the ground would equal a \$10 stock on CGX, should the Jaguar well hit expectations. These wells can get valued at \$20. You get the math. That's why I'm here.

The cost of these wells has doubled in the last year, and CGX Chairman Kerry Sulley says their net cost at Jaguar will now be \$40 million. But other drillers in the play have found uphole oil from the deep targets that everybody has initially been after, including Tullow's discovery.

So Sulley and his new team will be targeting the shallower, cheaper to drill formations at Eagle.

"Let's do the Eagle Shallow now," says Sulley. CGX owns 100% of the Eagle prospect in the Guyana Basin. "There are several prospects here. The Maastrichtian is 5000 metres deep here. We can see a 100 foot thick section right underneath the Eocene target in Eagle Shallow. The Maastrichtian is not as

large as other prospects, but it is repeatable. If I hit one I can find others."

Sulley expects the 100% Eagle well will be completed before Jaguar.

CGX's reserve report showed Eagle is estimated to contain about (P2, or P50) 1.25 billion barrels of recoverable resources in the Upper Turonian. This means the reserve engineer thinks there is a 50% chance he's close.

This also takes the pressure off to drill the Eagle deep play, which would be well over \$100 million for the well—Tullow's well cost \$200 million. They can sit back and learn the engineering and geology from the Jaguar prospect—whether it works or not.

Sulley says that if they are able to keep hitting wells, they could do 4-6 in the next two years:

PROSPECT	ZONE
Jaguar (25%)	Campanian and Turonian
Eagle Shallow	Eocene and Maastrichtian
Crabwood	Maastrichtian and Albian
Kubukalli	Albian
Eagle Deep	Campanian and Turonian
Wishbone	Eocene and Maastrichtian

Should this stock trade under 62 cents, I may decide to sell it. And as a high risk play, I would still sell it as one of my first trades if I needed cash. However, if it trades well and I smell a run, I may buy more for a trade. It has traded a lot of stock and cleaned out 20 million shares of selling. I have to say the strength of the stock surprised me—that does make me feel positive about the stock going forward.

History says if the share price can't stay above issue price this week, it's going lower for awhile.

### **DEETHREE EXPLORATION (DTX-TSX)**

This note is on Argosy (GSY-TSX), but it affects DTX. Argosy announced its first two Alberta Bakken wells, and one was good – 314 boe/d, which included some load fluid, or fracking fluid. Only 60% of the fluid was oil, but it was 38 API-very light oil.

The second well was 45-50 bopd—definitely below expectations. Investors should remember that it almost always takes several wells to determine the right fracking method to transform these prospective early stage shale plays into bona

fide Resource Plays, where you can drill dozens to hundreds of low risk, repeatable wells with roughly the same production profile.

So the Alberta Bakken is not yet a resource play, based on public data (and by the fact that neither DeeThree nor Argosy's stock took off).

DeeThree's partner in the northern part of the play has licensed their first well and that should spud by the end of the month. The big rumour on that company has them hitting a 1000+ bopd well in the last few weeks in the Big Valley formation—which appears to run throughout the Alberta Bakken.

DeeThree should be giving updated reports on its first two wells in the near future.

### MISCELLANEOUS MARKET COMMENTS

-very interesting to see several junior and intermediate companies raising money right now--CGX, Celtic, Crescent Point, Arcan...the financing window is open for these select juniors with good stories and growth...makes me think the market is not that worried about financial armageddon....

-thank you to all subscribers who came to SUBSCRIBER ONLY session at Toronto Resource Show--always enjoy meeting you and hearing your stories...though I was pretty tired by the end of that day.

-heading down to San Francisco on Wednesday to speak at an institutional conference Thursday morning

-last minute seats are still available for our Subscriber Summit next Monday, as there have been a few cancellations--and thank you for letting us know and not just not show up!

-valuations are very cheap for the leaders in the junior intermediate sector like Bankers, Gran Tierra and Legacy and many others...but until Europe and the US sort themselves out, they may stay cheap...

-the sweet spot for institutions right now is yield with no debt

-Golar looking like it's going to break Dony's resistance level of \$34 any day....

God Bless and see many of you on Monday!