

BULLETIN # 47 – FEBRUARY 27 2010

WEEKLY WRAP – TORQUAY OIL, CANADIAN OVERSEAS PETROLEUM

MISCELLANEOUS PORTFOLIO RANKING CHANGES

TORQUAY OIL CORP. – TOC.A-TSX

A second brokerage firm – Jennings Capital - initiated coverage of Torquay Oil this week. I covered it first, then GMP Securities and now Jennings. We are all attracted to Torquay's 60% working interest (WI) in 91.75 sections of contiguous land (that means it's all in one connected parcel, as opposed to "checkerboard" land positions) along the Saskatchewan-North Dakota border, and the fact they only have 35 million shares out.

After reading Jennings' very brief 2-3 page summary of the company, I was also able to speak with CFO Darwin Little. He didn't want to say too much as they will be issuing an operational update in about two weeks. Between the report and my conversation, here is what I learned:

1. Five Bakken wells have been drilled so far at Alma Lake and two are on production, and total production between the two wells is about 60 bopd. They had IP (Initial Production) rates of 80-100 bopd (barrels of oil per day) and obviously declined quickly, though one well hit a fault. These wells had 11-16 fracks in them, and used 8-10 tonnes of sand per frack. The next two wells are using 20 tonnes per frack, which could (should?) increase the IP rate to as much as 200 bopd, the Jennings report suggested. This would be a positive catalyst for the stock. :0)

The success of these two wells will be released in the upcoming operational update.

The company's first well in the Bakken at Alma Lake hit a fault, and only the heel of the well (the closest part of the horizontal section) and the toe ended up producing – but they are still producing. And CFO Little said they did not encounter any faults in any of the other wells.

2. The Bakken is the first, large scale **source rocks oil play** to ever get developed anywhere in the world. I have written many times that the fact we can now get oil and gas out of rock is the most important development in the energy markets since oil was first used commercially 150 years ago. We fracture, or frack as we say now, the rock with high pressure water and sand to get the oil/gas to the well.

Prior to this development (in the late 1990s in the Barnett shale of Texas) all oil was found in relatively loose sand formations. Oil defies gravity and actually moves UPwards underground - towards the surface - and accumulates in those formations once they hit an impermeable “cap rock”, that capped its ability to move any farther (the industry term is “migrate”).

The Jennings report spoke to the likelihood of a new play on Torquay’s lands ABOVE the Bakken, called the “Ratcliffe” that is now being developed by neighbouring NAL Energy (NAE-TSX). This oil likely migrated up from the Bakken source rock. Little stressed this was not a resource play, meaning it wasn’t source rock nor was it necessarily over a large area - but the Jennings report intimated that the play was quite pervasive, meaning it covered most of Torquay’s land. Again, CFO Little downplayed that a lot and suggested it was way too early to think that there could be 230 net locations for the Ratcliffe on their lands.

But he was clearly excited about the play, and did say they would be drilling for it in Q2, next quarter. Their new 3D seismic covers over 211 km² which will de-risk a lot of that exploration.

The Ratcliffe has enough porosity and permeability that it doesn’t need fracking, which means the wells will be low cost as fracking can be 40-50% of the cost of a well. They will still be horizontal wells. Jennings was quoting NAL as saying their Ratcliffe wells cost \$1.8 million, but Torquay’s Little said their initial cost model was much lower (but wouldn’t say how much).

NAL’s Ratcliffe wells have IP rates of 75-200 boe/d and estimated reserves of 100-200 mboe (thousand barrels of oil) and have rates of return near 100%.

Bigger production rates out of the Bakken and NAL-style well profiles in the Ratcliffe make for two potentially powerful catalysts for Torquay’s stock. Investors should know the first one in 2-3 weeks and the other likely early-mid Q3 2011.

3. Jennings said that Torquay has also identified potential for Ordovician (Red River) Pools, which can produce hundreds of thousands to millions of barrels of oil. As I learn more about this I will update subscribers.

Lastly, drilling at their 1.25 sections in Viewfield continues, in multiple formations. One is the Frobisher, which doesn’t give huge production (EUR of 85,000 barrels) but it does give high netback cash flow for Torquay to keep developing Alma Lake without having to dilute their stock any more than necessary. (Netback=profit per barrel).

CANADIAN OVERSEAS PETROLEUM (XOP-TSX)

The symbol XOP.R-TSX has now been de-listed, and the original XOP-TSX symbol is all that remains. The XOP.R that I bought was a “subscription receipt” that included a share and a half warrant, that was/is exercisable at 65 cents and callable (meaning I would be forced to exercise that warrant) if the stock trades above \$1.25 for 20 days.

When the new 50 cent issue that was done in the fall of 2010 was completed, some of the stock was escrowed pending the company had to complete/close three property farm-in agreements for assets in the North Sea.

On February 22nd they said they had completed the last farm-in deal – one with BG International Limited for the Upper Toad discovery and the Lower Toad, Newt and West Columbus exploration prospects. XOP will acquire a 41.67 % equity interest in each of the prospects by paying 83.33% of the costs for a test well in each of the Lower Toad and Newt prospects.

So the receipts are no longer escrowed and the receipt has been separated into the share and the warrant into shareholders’ accounts.

There is no corporate presentation and no drilling timeline on the XOP website (www.canoverseas.com) but now that all the deals are done a timeline should be able to be outlined. *One of my priorities in the coming week is to speak with management, and get more details.*

Management also set stock options for themselves this week, which is often a presage of stock movement in the junior markets - ;0) – though that’s not something that’s going to make me run out and buy any stock.

MISCELLANEOUS - Portfolio Spreadsheet Changes

I’ve made a few changes to the Rankings on the right hand side of the Portfolio Excel sheet, which is always at the top of the Members Centre.

I have moved Torquay Oil (TOC.A-TSX) from a 3 (lowest rank) to a 1 (highest rank) in both short term and long term gains potential, based on the write-up above.

I have moved Donnybrook (DEI-TSXv) from a 2 to a 1 on short term gain potential due to recent share price weakness, and the fact their warrants have now either expired or had their strike price increase, and that the market should know their first Resthaven well results within a month.

I have moved Wavefront (WEE-TSXv) from a 1 to a 2 on long term gain potential until I see some momentum on new sales orders.

Subscribers should also be aware that while my enthusiasm for the Alberta Bakken play is still strong, no results have been made public, and each week I hear rumours (some from subscribers) that about excellent wells and bad wells. All this says is that this is STILL an exploration play, and is NOT a no-brainer yet.

Sterling Resources (SLG-TSX) is spudding their Cladhan oil play in the North Sea and any success there and the stock will be quickly and amply rewarded. I haven't changed the numbers on this play as it is drill dependent.

Subscribers should also be aware that the volume of trading in the junior resource space is going down – from 550 million shares a day a few weeks ago to under 400 million a day now. Now that includes both mining and energy shares – I'm really speaking to the Toronto Stock Exchange Venture (TSXV) index.

My opinion is that the juniors have raised so much equity and issued so many shares over the last year that up here in Canada in the junior market, the TSX Venture exchange needs to trade 250-300 million shares a day just to sustain stock prices. Seasonal trading volume usually starts to drop off in April, sometimes as late as May, and that's when you really want to believe in the stocks you own. As much as I try to pick the fastest growing oil companies to take the market and the commodity price, the reality is that 75% of all stocks move up and down with the market – and the market usually goes down through late spring and summer.

Lastly, the stock of GasFrac (GFS-TSX) has gone from \$9.75 - \$12.75 in the last couple weeks, dramatically outperforming the Oil Services Index in both the US and Canada. And I have no idea why. But I'm happy ;o) about it.

My report on Bengal Energy (BNG-TSX) will be out in a couple days if not tomorrow.