WEEKLY WRAP APRIL 7 2011

PORTFOLIO UPDATES

TORQUAY OIL	ALBERTA BAKKEN
3P INTERNATIONAL	ITHACA ENERGY

TORQUAY OIL

I was able to connect with Torquay management, and I now have a better background on how much work it can be to determine the correct fracking method into resource plays like the Bakken.

At the main Canadian Bakken field at Viewfield for example it was more than 100 wells by the industry as a whole until the optimum frack method was found. The industry's learning curve is much less now with each new play, but that definitely put the small amount of holes at Alma Lake into perspective.

And this is what I expected to hear, so no surprise.

There are three wells producing at Alma Lake, each about six miles apart, so there is definitely a large area of oil charged Bakken formation – the reason I own the stock.

I'm going to get technical here for those of you who want to learn about this stuff – they swabbed or stimulated each section or frack stage in one of the wells to see how each one would respond. They were getting high water cuts (a high amount of water to oil) so they knew something was wrong. And they had "fracked out" of the Bakken into the Lodgepole formation just above it which has water. (This happened a lot in the early days in the main Bakken field). So they need to lower the strength of the frack so that doesn't happen.

And at the end, or the toe of the well where they thought it looked the best, they were getting no contribution from four stages – the "gel" breakdown didn't work as well it could. The gel is what contains the frack sand or proppant. After it gets blown out into the rock it is supposed to break down and flow back up the well – if it doesn't do that it can cause blockages right near the well bore, affecting "near well bore conductivity".

Now they will try smaller fracks, with more stages.

So while they are figuring out the Bakken, they have, as I said last week, acquired several small light oil prospects and assets around southeast Saskatchewan targeting the Alida formation. They total 28 drill locations and 12 contingent locations – i.e. if some of the other 28 hit then they do another 12. These are lower risk assets that will hopefully build up cash flow to allow them to keep tackling Lake Alma until they successfully produce regular Bakken production profile wells.

There are now eight producing wells at Viewfield totalling ~425 bopd – 4 Bakken and 4 Frobisher, and Torquay expects to be able to hold that base production. There are 10 remaining locations to go into the Frobisher formation and one more into the Bakken.

I am keen to see the Ratcliffe get drilled, as they have (much) better recycle ratios than the Bakken due to their significantly lower cost. They are just smaller plays, about 1-3 sections in size; they are not a big resource play. However, 3D seismic shows these targets very well. Torquay has 3D for the eastern half of Alma Lake and is now flying the western half of the property this spring/summer.

Jennings Capital just issued a 24 page report on Torquay with a $3.50 target – which obviously assumes that Torquay management figure out the Bakken Alma Lake. Jennings said that a stratigraphic trap in the Ratcliffe can support 6-15 wells usually, but sometimes more if it's bigger.

Lastly, beneath the Bakken is Red River geological formation near the Minton area of Saskatchewan, just west of Alma Lake, which have produced 1000 bopd, and there is a trend of these reefs that could be coming into the western half of the property – and they also show up on 3D quite well. But that's in the future.

So as I said last week, more patience required, but the prize is still there – and even a bit bigger.

Torquay has more leverage now, as they have bought out their 40% partner, Chinook Energy, on the Alma Lake play for $3.8 million. This is good news, great news really, but more for down the road. The expensive Bakken wells must now be paid for 96%-100%, and there is clearly some testing to still be done there – they could get it right right away or it could take $10 million over 3-4 more wells and several months. That's why I expect all the other properties and the Ratcliffe to dominate activity for the next year.

If Alma Lake is producing 75 bopd, then they paid Chinook $3.8 M/75=$50,666 per flowing barrel with no value for the land – truly a great deal for Torquay. They will be able to farm that interest out to someone else at much better terms.

But being as production could double by year end to 1000 bopd on all the work being done on other properties, I would like to see them keep it 100% and give us investors more leverage.

Any success at Ratcliffe and Torquay moves back to a 2 or possibly even a 1 if they can outline a large number of drill locations.

3P International – DOH-TSXv

I had a brief chat with Chairman Greg Cameron this week. When I last spoke with management I was told (and had it confirmed in an email) that Q1 should see 8 wells drilled into the eastern coalbed methane project in eastern Ukraine.

However none have been drilled to date and nothing will start for another couple of weeks at least. The issue said Cameron was that they wanted to do more geological sleuthing and testing before hitting the property with the drills.

I guess the good news is that this hasn't affected the stock, but certainly I was looking at pending drill results as a catalyst for the stock, and now that won't happen for at least 2-3 months.

Management has done a commendable job in bringing on some quality people – Mr. Van Sickle from Fairborne (FEL-TSX) and Mykhailo B. Reznik, Ukrainian Ambassador to (Canada? I assume). Cameron says he will continue to beef up management and the board of directors.

However, with no fundamental news – drilling results – as a catalyst it's likely the stock will stay in its current trading range or drift.

Disappointing. *I am moving 3P to a 3 in the ranking both short and long term.* I am hoping to meet with Cameron to get better understanding of the year's coming activities in the next few weeks.

ALBERTA BAKKEN plays – Primary Petroleum, DeeThree and Bowood

This play needs a good well – or at least, a good well to be made public for all investors to see.

Both Primary and DeeThree are trading below their recent issue prices, and trading with little volume (which is much better than trading below issue on heavy volume!).

There was a land sale in Alberta yesterday, April 6, and one analyst estimated that some 19,000 acres sold for just over $15.5 million, or over $800 per acre. I mentioned before how Argosy (GSY-TSX) is expected to be the first company to report a well in the Alberta Bakken, and they bought 1300 acres for $3 million, or $2300 an acre – why would they do that if that well was a dud? Nexen (NXY-TSX, NYSE) has just licensed a couple wells offsetting Argosy.

Bowood's first well, the 15-25 well spuds on March 22 and will likely take 4 weeks to drill. Results are expected early June.

BMO Nesbitt Burns, Canada's second largest brokerage firm, is clearly as impatient as me when it comes to wanting to get some press released data on wells in this play. So they did something about it – they hired professional scouts to go out to locations near Shell, Argosy and Crescent Point and count strokes on the pump jack and look at infrastructure on site. And this is what they found (the sneaky....)

"The CPA 15-01 well, based on estimated stroke length, stroke rate and tubing diameter had a calculated fluid rate of about 194 bbl/d. The Crescent Point 14-07 well also had an estimated fluid rate of 194 bbl/d. The Argosy 03-31 well had an estimated fluid rate of 466 bbl/d, possibly indicative of higher reservoir pressure.

"The best indication of well deliverability was from the Shell 10-20-001-22W4 well (Figures 1b and 5). This well was flowing fluid (although a pumpjack was on site but not attached to the wellhead) into eight (8) 400 bbl tanks on location. Tanker trucks were observed hauling fluid off lease; rates and cut are not known (Figure 6). The free flowing fluid production is interpreted to indicate overpressure in the systems, similar to that in the 10-30 well which was also overpressured."

(BTW, the entire BMO report can be viewed at http://www.primarypetroleum.com/pdf/PIE_Industry_News_2011-04-06.pdf and is a great little insight into the scouting game – and there's a ton of geology at the back).

So BMO estimates the Argosy well at 466 bopd. That's exciting but you would never know it looking at Argosy's stock, or any of the other juniors in the play.

Right now the fundamentals of the play look like they are shaping up nicely, but the stocks aren't responding – though they have had a great run since last October.

BMO adds that 32 wells have been licensed, drilled or are producing from the Alberta Bakken in Canada, and 27 in the US which, at $4 million rough cost per well, is a $245 million spend on this play so far just in drilling costs.

Geologically, I would note is that the Alberta Bakken fairway has the western side being overpressured and the east side having normal pressure. Generally the more pressure the higher the flow rate. DeeThree and Crescent Point have most of their land on the normal pressure side. It's too early to say about Primary. Argosy lands are just on either side of the line and Bowood's lands are in the overpressured area. As yet there is no firm idea on what that means in terms of flow rates, but something to have in the back of my mind as this play develops.

ITHACA ENERGY – IAE-TSX

Ithaca announced they spent $74.5 million to buy 2260 boed of mainly oil production, which works out to $33,000 per flowing barrel – cheap – though we don't know exactly how much oil (the price would intimate not very much, but they said it's "mainly oil").

The production comes from a 28.46-per-cent non-operated interest in the Cook oil field. The purchase price also included a 7.41-per-cent non-operated interest in the Maclure oil field and a 10-per-cent interest in each of exploration blocks 42/25b, 43/16a and 43/21c in the southern North Sea – all from Hess Corp.

The acquisition should support a $45 million increase in Ithaca's debt capacity, which will take it to US $185-million. They have net cash of $120 million – so $300 million in working capital roughly.

Only one analyst upped his target on Ithaca on the back of this deal. I would re-iterate to subscribers that this company will almost quadruple production in the next two years and has raised all the capital it needs to get there.

Its next big production gain comes from Athena, which is oil, in late 2011 or early 2012. Then the Stella gas field comes on a year after that.

I consider this is one of the surest investments I have in my portfolio. The stock could languish through the summer as junior oil stocks do, but if that happens I will be picking up more stock.

MARKET COMMENTS

Canadian energy listings are seeing a large influx of foreign money, and bidding up senior and large intermediate oil and gas stocks so they are now priced to perfection.   Several are trading higher than their PAVs, or potential asset values, meaning is all their currently planned drill locations hit, this is what the stock is worth.

Peace could mean prosperity to everyone but energy (and gold) investors. ***;0)***

These types of situations usually end badly, but not until they actually do end. Value is getting harder and harder to find.

Two mergers have been announced recently in the oil services space – Essential has taken over coil tubing company Technicoil, and Western Energy Services has just announced it is taking over Stoneham Drilling. After the Calgary conference I will review what the analysts are saying about valuations, and try to determine how relevant those cash flow multiples are to my oil services stocks.

I am grateful for the feedback and ideas you give me! I hope to see several of you this weekend in Calgary!