

BULLETIN # 43 – JANUARY 30 2011
NO BRAINER BULLETIN #1
PORTFOLIO PURCHASES – LYNDEN VENTURES, IONA ENERGY

PORTFOLIO UPDATES

CONTACT EXPLORATION
CGX ENERGY
DONNYBROOK ENERGY

GASFRAC
WAVEFRONT TECHNOLOGY
WINSTAR RESOURCES

This is the first **NO BRAINER BULLETIN** of the year. Here are two investment ideas that I think will be higher over the course of 2011. these stocks have some value for the more conservative subscribers and growth prospects for the aggressive ones – and they have enough stock out to accommodate our fast-growing community ;0). I see strong potential for a double on both these stocks this year – *but only if you buy them at these prices – if you go chase the stock you likely won't. I don't see more than a double this year for these stocks.*

LYNDEN ENERGY – LVL – TSXv

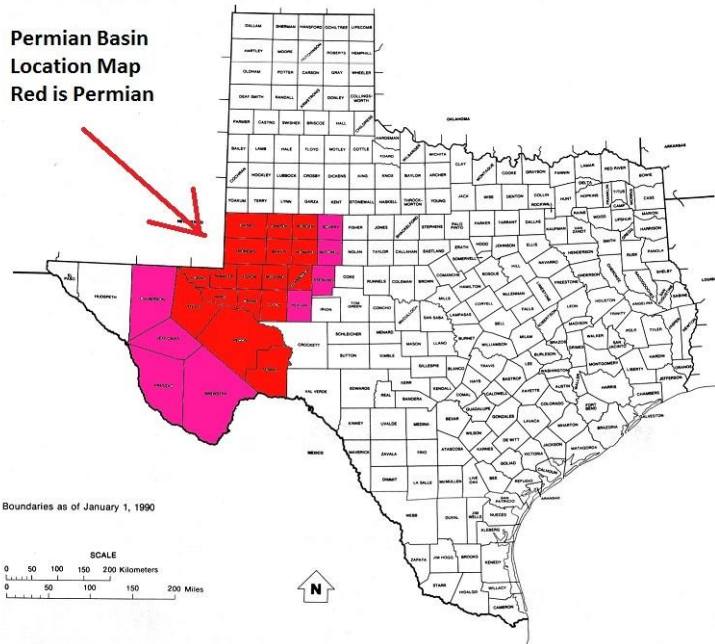
I have purchased 70,000 shares of Lynden Energy at 66 cents.

Trading Symbols:	LVL-TSXv
Share Price:	\$0.70
Current Production:	~100 boe/d, 75% oil
Basic Shares Outstanding:	93.5 million
Fully Diluted	153.7 million
Market Cap (Basic):	\$65 million
Net CASH:	\$6 million
Enterprise Value (EV)	\$59 million
EV per flowing boe	\$590,000 per flowing boe
EV per acre (more realistic)	\$1,053

<http://lyndenenergy.com>

Lynden has two projects/land packages – with some minor but growing production on one – in the prolific Permian Basin of west Texas. While they are a non-operator (which usually means a big discount in valuation) I believe their land packages are worth twice what the market cap of the company is now – and a year from now could be worth 3-4 times.

Permian Basin
Location Map
Red is Permian



They have a 43.75% working interest in ~14,000 gross acres (which means ~6,000 net acres) in the heart of a very hot play called the Wolfberry (WB) in the Permian Basin. The Permian is one of the oldest and largest oil producing basins in the continental US. Much of the Wolfberry/Spraberry area of the Permian is basically the world's largest "strat trap", covering seven counties.

(As oil migrates upward toward the surface, it will likely hit an impermeable layer of rock – a layer in the stratigraphy - that won't

allow it to go any farther, or move sideways – this is a strat trap).

Hydraulic fracturing, or fracking, is opening up SEVERAL oil charged, tight formations in this basin, sending land values sky high. It's a resource play that has been drilled since 2007 but just hit centre stage in the last year.

But here is how it is unlike any other resource play I have ever seen:

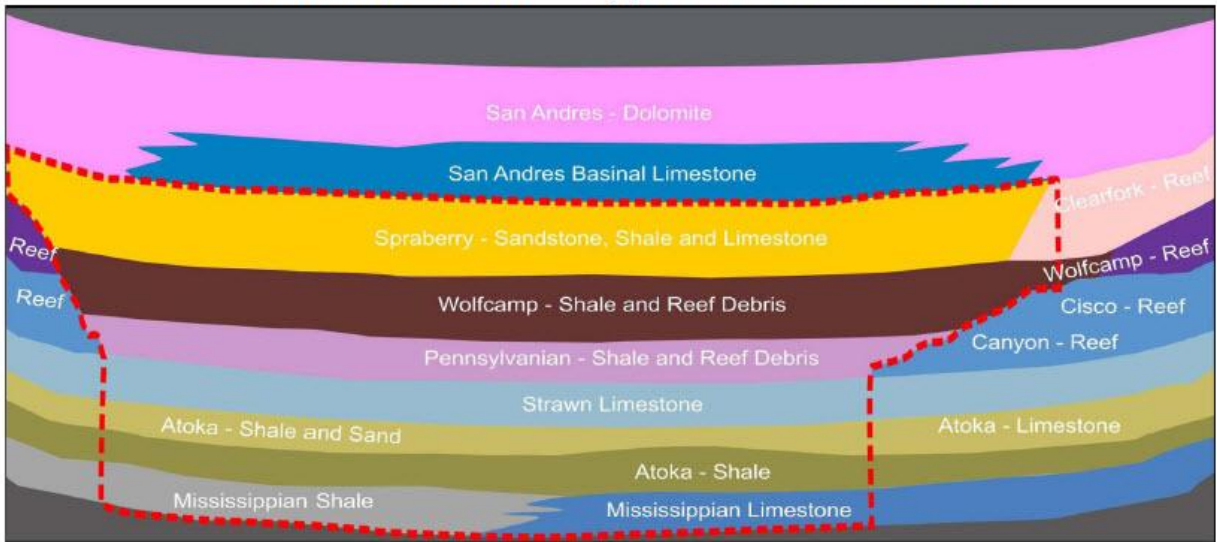
There is 2,500 feet (800 m) of vertical pay that they are fracing in 10-12 stages. The average Bakken interval is 20 feet, or six metres. Think of it as horizontal well that just keeps going vertical and costs 50% less – for almost the same amount of oil per well. And like all the other "resource plays" I invest in, new technologies are allowing these well known formations to be drilled economically in new areas for the first time ever.

And operators are drilling wells in the Permian on 40 acre spacing's – FOUR TIMES what the average Canadian resource play does - and getting 50% - 100% of the same amount of oil with a reserve life of 30-50 years. These are highly charged oil formations.

Wolfberry Project

Multi-zone Potential in the Midland basin

Midland Basin - Typical Cross Section



I have seen 10-12 wells per section sometimes in the heart of the Canadian Bakken at Viewfield (those sections cost \$10 million, or \$15,625 per acre), and some of the heavy oil plays in Canada can drill that tight, but that's not usual. The Wolfberry Permian wells are VERTICAL and only cost \$1.6 million, making for high IRRs, and 16 of them per section – every 40 acres.

Lynden has five producing wells in the Wolfberry, giving them some cash flow. Combine that with their \$6 million cash and anticipated production revenue, they have enough money to meet their 2011 program of 12-16 Wolfberry wells.. It wouldn't surprise me if this gets increased slightly.

Here is my thinking on valuation in basic terms:

Last summer, before the oil price ran up to \$90/bbl, transactions for producing land in the Permian basin were completed at \$21,250 per acre. After talking with the Permian Basin Petroleum Association, a producer in the area, reading the sell side (brokerage firm) research on the play, and looking at recent transactions, I am very comfortable saying Lynden would get \$25,000 per acre – even as a non-operating interest – for their Wolfberry ground. Of their four areas, two are in the middle of the play and two are just off centre, but still in the play. $6,000 \text{ acres} \times \$25,000 = \$150,500,000$. On 154 million fully diluted shares of Lynden, that equals \$0.97 per share.

I have no doubt that a land package that size would get that price today – if not 20% more. Because there is no land left to lease in the Wolfberry!

Lynden's partner, a local, Permian-based privateco called CrownQuest, is always steadily but slowly adding new 80 and 160 acre parcels (eighth and quarter sections) in a 300,000 acre AMI (Area of Mutual Interest), and acts as operator on all its joint ventures with Lynden – and even those are hard to come by. What this means is that there is no competition for land from big companies, who want large contiguous parcels.

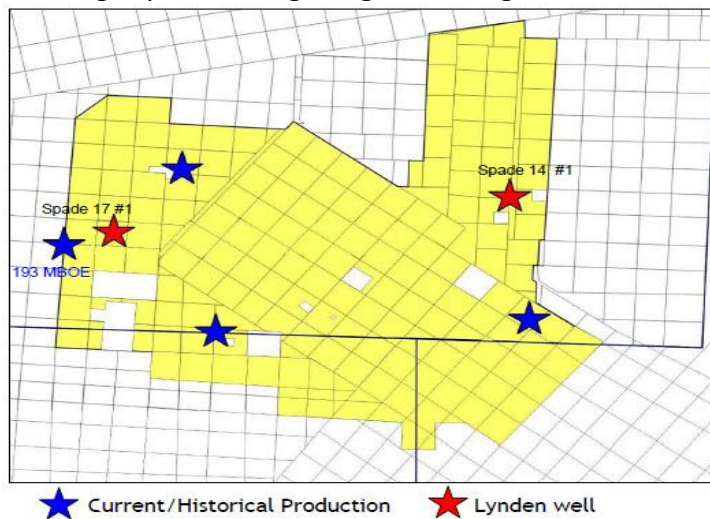
But let's be clear here – that's what it's worth on a takeout offer. It will never trade more than 75-80% of that – that's just the way the market trades these things. So the stock is fairly valued here IMHO. But to me, that \$0.97 per share is in the bag if oil stays here at \$90. Any transaction would likely have a small premium for the CrownQuest relationship as well.

So \$0.97 right now is my downside. But the real beauty here? Nobody knows this company – mostly because it's a non-operating interest. No Canadian analysts. No US analysts. **Nobody.**

MITCHELL RANCH

The Mitchell Ranch property is where the big upside is, though it may take 12-18 months to play out. This is a contiguous (all together) land package in the east side of the Permian (but not the Wolfberry) totalling 100,000 acres, or **50,000 net to Lynden – giving the stock big leverage, and value if the play works.**

It's a slightly different geological setting from Wolfberry, and the producers – and the market – haven't figured it out yet. Lynden has drilled two test wells here, one at each end of the property, with both results pending.



But there is one offsetting well just outside the western boundary of Mitchell Ranch that produced 193,000 barrels of oil. The Jameson oil field is just to the southeast of Mitchell Ranch, which has produced more than 42 million barrels of oil. Mitchell Ranch obviously didn't have the same permeability & porosity as

Jameson or it would have been developed.

The play here also has multi-zone potential, and horizontal drilling potential in different zones. But the big zone here is the Wolfcamp zone – if the industry can figure out how to produce economically from this zone, then this property is worth \$20,000 per acre. **That is the crux of this investment – can they figure out the Wolfcamp here and turn it into a big resource play. And there is a well RIGHT BESIDE the western edge of Mitchell Ranch that has produced 193,000 barrels of Wolfcamp oil – a good sign.**

Again, the Wolfcamp was thought to be too tight in the area to produce from using conventional thinking. That's why production from the nearby Jameson field never had any spill over into Mitchell Ranch. But now, with new thinking and new technology, people are spending big money and time on making this previously uneconomic zone work in new areas all over the Permian Basin

This is TEXTBOOK OGIB philosophy – find a new resource play early that has a great shot (but no guarantee) at creating a valuation that is a multiple of the current stock price. When you subscribe to my service, those are the companies I spend all day searching for and this is “textbook”.

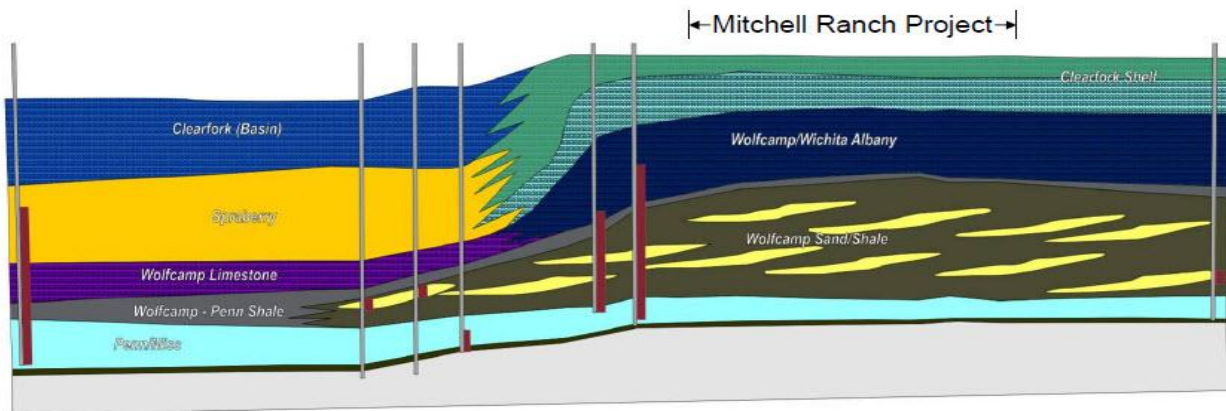
It may take 12-18 months, but there is a lot of money and energy being put into this by Lynden/CrownQuest and other operators in the region.

So, \$20,000 x 50,000 acres = potential value of \$1 billion – if they can make the play work. Divide that by 154 million shares and I get \$6.49 per share, then add in the \$0.97 for Wolfberry and I get a possible valuation of \$7.46.

I'll be very happy with just half that, thank you very much.

Mitchell Ranch Opportunity Tremendous Geological Potential

- Eastern Shelf - Typical Cross Section



Even right now, today, I believe the company could get at least \$1,000 per acre and quite likely 2-3 times that – because of that offsetting Wolfcamp well. El Paso just paid \$1,000 per acre roughly 20 miles away for some land – focusing on the Wolfcamp - that has no offsetting production.

\$1,000 per acre x 50,000 acres = \$50 million or 32 cents a share value to Lynden – add that to the \$0.96 land value of Wolfberry **and I get \$1.29 + cash on hand as a rock bottom value on a takeout with \$90 oil.** Lynden will be drilling anywhere from 1-5 wells at Mitchell Ranch this year, and if they prove up results that support 40 acre spacing, the land COULD immediately be upwardly valued to \$5,000 per acre, adding \$2 to the theoretical value I have for Lynden.

I would add that the gas-weighted majors such as Chesapeake, EOG, El Paso and several others are showing they have NO problem paying for good oily land that will get them back in the good books of their shareholders. So none of these valuations are pie-in-the-sky, IMHO.

So what could go wrong? Obviously oil price could go down. And Wolfcamp could be a much more patchy play than I hope.

Management has done a great job turning this company from a dead gas junior into a highly prospective oil play. They have brought in some key institutional investors, but they need to broaden their board of directors, get more mainstream investors and analyst coverage and profile. If management can't do that I may be stuck in this value trap for awhile.

If gas prices move up, then the gas-weighted majors may not be as willing to pay big money for entrance into these hot prospective plays.

They could end up doing a bad deal on a JV or drill too slowly to keep the market's attention. But Chairman Richard Andrews has shown so far he can create good relationships – the CrownQuest one is a GEM – and he knows what to do to set up this company to get bought out, so I see that as remote.

Share structure is a small issue – not just a lot of stock out at 93 million shares but a lot of warrants – and I mean A LOT. Warrants create such a drag on stock price performance and create no shareholder loyalty – they sell the stock and keep the warrant. So the stock may trade below expectations if a lot of warrants get exercised. (This is happening with Donnybrook DEI-TSXv right now – you need to achieve a big milestone corporately to get past warrants – fortunately that is happening with DEI ;o)). There are 15 million warrants priced lower than the current share price; most are at 70 cents.

The stock is actually more tightly held than the structure might suggest. And nowadays companies that don't have the share float size to accommodate the institutional investors get a discount in valuation.

Here is the share structure:

	Number	Exercise Price	Expiry Date
Common shares	93,694,854	n/a	n/a
Warrants	354,000	\$0.30	February 10, 2011
Warrants	6,237,500	\$1.25	July 9, 2011
Warrants ¹	3,260,976	\$1.25	July 12, 2011
Warrants	2,048,700	\$1.50	September 21, 2011
Warrants	224,050	\$1.50	October 12, 2011
Warrants	9,350,000	\$0.50	February 10, 2012
Warrants	6,004,000	\$0.50	February 16, 2012
Warrants	2,500,000	\$1.25	April 15, 2012
Warrants	2,775,000	\$2.00	June 11, 2012
Warrants	14,214,000	\$0.70	October 27, 2013
Warrants	5,906,000	\$0.70	November 12, 2013
Warrants	295,760	\$0.70	November 19, 2013
Stock options	1,532,500	\$1.00	June 5, 2012
Stock options	790,000	\$1.30	July 22, 2012
Stock options	640,000	\$1.30	October 14, 2012
Stock options	865,000	\$1.40	April 27, 2013
Stock options	200,000	\$0.70	July 20, 2013
Stock options	1,076,666	\$0.30	October 7, 2014
Stock options	1,500,000	\$0.55	March 16, 2015
Stock options	260,000	\$0.60	July 20, 2015
Fully Diluted	153,729,006		

There's more on the next page....

STOCK CHART



CONCLUSION

There are several catalysts for the share price – the most obvious being positive results in the Wolfcamp formation at Mitchell Ranch. More land, and more results from Wolfberry are also material events for Lynden. But just broader exposure would take this stock higher – an effective investor relations campaign into the US would be worthwhile.

Lastly, I came across an EXCELLENT article on the background and development of the Wolfberry play, and how the new fracing technologies changed thinking and opened up this area – once thought to be mature and old and almost done. It is a well written story that takes you through how the thinking developed to open this huge new play – much like my story on Toreador Resources. I just don't have the time to synthesize it so I am copying and pasting it all here – I found it fascinating – and not just in a geek technology way. For new subscribers who

want to understand the potential of the new fracing technologies are having on investors' wallets, this is a great microcosm of what is happening worldwide. *Entertaining but not essential reading – you can skip a few pages.*

THE SECOND NO-BRAINER OGIB PORTFOLIO ADDITION IS AFTER THIS STORY

<http://www.pbog.com/index.php?page=article&article=165>

Now and Then: The Wolfberry Play

Dave Five claims he can't take credit for the Wolfberry play in the Permian Basin, but he does acknowledge he recognized the significance of what he saw when the Wolfberry was first "discovered" in the heart of the Permian Basin.

"I've been credited with opening it up," he said. "That's not true, but I was in the room when the lights came on."

Feavel, now a partner in ExL Petroleum and working out of Houston for the Midland-based company, was exploration manager for Henry Petroleum at the time the foundation was laid for the development of the Wolfberry. He received the Hearst Energy Award for Technology last year for his role in the development of the play.

The Wolfberry, a commingling of the Spraberry Trend and Wolfcamp zones – and everything in between, including the Dean formation – has become one of the most important developments in the long and storied history of oil and gas production in the Permian Basin. It is the only oil resource play in the country other than the Bakken Shale in North Dakota and Montana, according to Feavel.

Jim Henry, now the president of Henry Resources, and Dennis Johnson, now president of Summit Petroleum, were Feavel's bosses at Henry Petroleum when that company quietly first began production in the Wolfberry. Henry has since predicted that the Wolfberry will ultimately recover more than a billion barrels of oil. Feavel agrees with his former boss, contending that it could easily yield a couple billion barrels of oil, depending on the economics and spacing of the wells.

Although Henry Petroleum flew under the radar as it first began developing the Wolfberry, there is nothing low profile about the Wolfberry these days. Perhaps as many as half of the rigs operating in the Permian Basin are targeting the Wolfberry, Feavel contended. Eighty-three of the 208 rigs listed in operation in the Permian Basin in March by Wellreports.com were in Andrews, Ector, Midland, Reagan and Upton counties alone in the heart of the Wolfberry play. The 208 active rigs are the most since November 2008, further evidence of what improved oil prices and the Wolfberry play are having on drilling activity in the Permian Basin. There were 680 permits filed in March in the Permian, 332 of which were filed in Andrews, Ector, Midland, Reagan and Upton counties.

Midland-based Concho Resources Inc., which acquired Henry Petroleum's Wolfberry's holdings of 163 billion cubic feet equivalent of proved reserves (70 percent oil, 62 percent proved developed) as well as current production of approximately 33 MMcfe/day and 282 Bcfe of identified unproved reserves, for \$565 million in cash in 2008, recently announced it was spending \$260 million more to buy drilling sites in the Wolfberry play.

Berry Petroleum of Denver also announced recently that it planned to spend \$126 million on West Texas drilling sites. And Midland-based Clayton Williams Energy has a large acreage block in Andrews County on which the company has identified more than 200 potential locations for Wolfberry wells.

Patti Hollums, director of investor relations for Clayton Williams, said the company reported in its fourth quarter conference call that it had resumed continuous drilling operations in this area in June 2009 with a single drilling rig. It added a second rig in July and third rig in October. Clayton Williams Energy drilled and completed 13 gross wells in its Andrews Country acreage block in 2009 at an average gross cost of approximately \$1.8 million, according to Hollums. An additional six gross wells were in progress at the end of 2009.

Hollums said Clayton Williams Energy plans to use up to six of Desta Drilling's rigs to drill and complete approximately 104 additional wells in 2010 at an estimated cost of \$173.9 million, net to the company's working interest.

How it All Began

So how did the Wolfberry play come about? It was a combination of 30 years of working in the oil fields of the Permian Basin, according to Feavel, and an understanding of what the logs were showing, as well as development of new technology and hydraulic fracturing techniques, and an existing Texas Railroad Commission regulation to unlock the Wolfberry potential.

"It was in the mid-1990s that Arco Permian got a big chunk of money (\$100 million) from Mother Arco (Atlantic Richfield) and took a big lease of acreage to the east of the Pegasus Field," Feavel recalled. "Arco Permian developed a 300-well drilling program to establish a production base."

Tony Best, the president of Arco Permian at the time, developed a wedge of long-lived reserves, Feavel stated, drilling 300 wells to approximately 10,000 feet and reaching the top 300 feet to 400 feet of the Wolfcamp. Among the acquisition was what Feavel called the Boultinghouse leases.

The engineer in charge of the project was Dennis Phelps. Arco Permian drilled successful wells, but they weren't exceptional, Feavel claimed, because they relied more on the Spraberry than the Wolfcamp. But still, Arco Permian experienced success.

Arco then sold out to BP, according to Feavel, and lost most of its technical people, including Phelps, who retired and left Midland.

"Henry Petroleum at that time had taken over operation of the Pegasus and Parks leases in all producing zones above Woodford (to the top of the Devonian) with Mobil," he added, "and we were always looking to enhance the zones above the Woodford."

About that same time, CMS Energy had bought leases around Arco and drilled several horizontal Devonian wells under the city of Midland as well as a number of Spraberry wells in and around the ARCO wells. CMS Energy, however, ran into financial troubles and approached Henry Petroleum to take over some of its locations in an effort to maintain its leases despite its financial woes, according to Feavel. So it made a deal with Henry, who chose 14 of CMS's 25 160-acre tracts. And Phelps came back to work as a consultant with Henry to help with the project. Henry began drilling the locations acquired from CMS in late 2001 and early 2002. About that same time, the logs for the Boultinghouse leases were released.

During this same period BP had purchased 10 sections to the south and west of the Pegasus field, based on the performance of the Boultinghouse lease. BP drilled five wells with “underwhelming results.”

“I went into the log files,” Feavel remembered, “and Dennis Phelps went into the completion files. We found BP had massively understimulated the wells on those 10 sections. We created a rating of how ineffectively the wells were stimulated. Henry made a deal with BP and got those 10 sections. They had drilled five wells that made a total of 150 barrels of oil per day at their peak and then fell off. Our first offset well produced 150 barrels a day.”

“When I saw the Boultinghouse logs, I knew what I was looking at and where they were situated related to the shelf edge,” Feavel said. “I told the geologists, ‘I know it’s here; we just have to put it on the map.’ So we laid out a trend that ran from the South Basin fault around Rankin over to Castle Cap and then up to Odessa. Once the light came on, I knew what we were looking at because I had been working in the basin so long.”

The heart of the Wolfberry play is about 100 miles long and 15 miles wide, extending all the way east of Andrews.

Understanding the Puzzle

Feavel said EOG and some other operators had used 3-D seismic to determine its Wolfcamp drilling sites in Upton County during the 1990s. The seismic anomalies, that were very small in area size, are widely scattered among the Wolfberry-type wells. He said there would be an obvious pay zone for a well that could produce 100,000 barrels to a million barrels.

“But you could offset in four directions and never see any oil,” he added. “We knew the Wolfcamp would tease you. Some wells would make 100,000 barrels, and others would make only 1,000 barrels. The pay zones in the (Wolfcamp) formation aren’t well connected.”

The Wolfberry play includes a 2,000-foot to 3,000-foot section from the top of the Spraberry zone to the bottom of the Wolfcamp. The Wolfcamp itself, which Feavel calls the key to the Wolfberry, is about 1,500 feet thick.

“Back in the 1960s, the old-time drillers in the Spraberry Trend liked to drill a few hundred feet into the Upper Wolfcamp,” he said. “They called it the Wolfcamp Sands and added that to their Spraberry completions.”

Because of that, under existing Texas Railroad Commission rules, operators are allowed to drill into the Wolfcamp and commingle all three zones (Spraberry, Dean and Wolfcamp).

“There was another 1,500 feet of Wolfcamp, but the rules didn’t say anything about that,” he explained. “As a result, no one paid attention to us since we were a well-known Spraberry Trend driller.”

That allowed Henry Petroleum to drill and acquire additional acreage without drawing any attention. Henry Petroleum amassed 75,000 acres that first year. With joint venture partner Pure Resources – a subsidiary of Unocal, now part of Chevron and at the time headed by Tony Best – Henry Petroleum ran a \$200 million drilling budget and seven or eight rigs nonstop.

Feavel said Henry had drilled 200 wells in the Wolfberry play by the time he left Henry in August 2005 to help found ExL.

Developing Fracturing Techniques

Another key element to the successful development of the Wolfberry was learning the proper stimulation.

“In the 1980s one of the service companies came up with a stimulation idea to put all the force into one spot and create a single fracture,” Feavel explained. “Their idea was to concentrate all the energy in one spot as opposed the existing practice of limited entry.”

He said this was one other piece of the puzzle.

“In the 1980s, people started putting on unbelievably massive frac jobs in the Spraberry that required five or six times as much space on the surface just to hold the equipment,” Feavel continued. “It became apparent that the desire was to treat wells this way. So pump companies responded with new technology. They developed what they call the gorilla pump that fit everything needed in a standard location at a lower cost. You went from \$2 million, inflation adjusted, to less than a \$0.5 million today. That is a huge benefit. We can do a 10-stage frac now for approximately \$50,000 per stage or a total of a half-million dollars.”

He added that the treatment companies can now create 12 different frac planes to cover the entire 2,000-foot section.

“Engineering is always tinkering with ways to cut costs,” he noted.

Feavel said it is important to realize that the Wolfberry declines quickly after being fraced, but it then levels off and offers long-lived production.

“After the initial potential, the Wolfberry wells make a small amount of oil and a lot of water,” he explained. “A month later, it will flip flop and make 90 percent oil and 10 percent water.”

Feavel stated that Phelps and the Henry engineers devised a plan to frac the zone, and Henry’s engineering group worked to enhance the technology.

“Part of that was actually training the frac crews,” he added. “This play is very interactive, and changes have to be made on the fly. The engineer has to know what he is doing, and the stimulation company has to know what it is doing.”

Moving Forward

Feavel said companies are now skirting the edges of the core area of the Wolfberry play, opening up new areas that are “very valid.”

“The production curves are slightly different,” he added. “But they are making good wells with improved modern stimulation technologies. I would say there are 2,500 total locations in the Wolfberry staked by people who know what they are doing. You can still make a good well look bad, however, if you don’t know what you are doing.”

He acknowledged that there are vast studies being done by a variety of companies to provide a better understanding of the Wolfberry. He listed Concho Resources, Henry Resources (Jim Henry’s new company after he sold Henry Petroleum to Concho), EGL, Windsor, Pioneer Natural Resources, and Fasken, which is “doing some fascinating work,” according to Feavel, on the huge Fasken Ranch that runs from Midland to Andrews.

“A lot of people are investing a lot in understanding the play, from fracturing to drainage patterns,” he explained. “I understand Fasken is going to take a section of land and drill initially with a 20-acre spacing using microseismic mapping. We hear they are setting up permanent seismic receivers to determine how wells are interconnected. They have a huge asset to develop.”

Feavel added that, early in the play Henry used a core barrel to take core samples in all 1,500 feet of the Wolfcamp. He called it a “multi-million dollar science project.”

“ExL is one of the leaders in the play,” he said of his current company. “We build up a lease and then market it. We have marketed four packages. We have drilled 120 wells over the last four-and-a-half years. We drill enough to prove it is there, and then we sell it.”

For example, Windsor is currently drilling in Upton and Ector counties on acreage first proven by ExL.

Feavel said Wolfberry operators are drilling between 10,000 feet and 11,000 feet total depth. The Wolfberry is 2,000 feet to 3,000 feet thick if you plan to complete the entire interval, with about 1,500 feet of that being the Wolfcamp.

He said Jim Henry and Dennis Johnson deserve much of the credit for the Wolfberry “discovery.”

“Jim and Dennis agreed to the company taking the risk to chase the play,” Feavel pointed out. “We figured out its potential.” And the Wolfberry will continue to sustain the Midland/Odessa area for years to come. – *By Al Pickett, Special Correspondent*

NO BRAINER STOCK PICK #2 – NORTHERN LIGHTS/IONA ENERGY

I get many emails from subscribers saying – how can I get the financings you get? Well, here is one, a new issue that will be managed by the founders and some of the directors of Ithaca Energy (IAE-TSX, see original write up in the Members Centre dated July 10 2010, Bulletin # 25).

This team has bought a shell company on the Toronto Stock Exchange Venture board (TSXv) called Northern Lights, symbol NLC.P-TSXv (it’s halted, don’t go look). They will come public with three assets in the North Sea totalling 650 boe/d of natural gas, and each have exploration upside.

This financing will not be completed until mid-late February, though if you want some you will likely have to call your CANADIAN broker as soon as the term sheet is made public – likely within days. Wellington West is the lead with 60% of the deal but the rest of the syndicate has not been announced. So even though I still have a few questions to answer, I want to give the Canadian subscribers (and any other subscribers who may have access to Canadian financings) advance notice that this is coming.

There is only one press release out announcing the new company (which I have cut & paste in its entirety below) that still leaves some (important) details to be figured out, but here is the way I read it so far:

The public shell and privateco Iona will merge 1:1, creating a 27 million share company. Then a syndicate of brokerage firms will raise \$60 million via 100 million shares at 60 cents. So there will be

1. 127 million shares out
2. 650 boepd of gas that is their net 20% interest from two North Sea gas fields
3. 42.5% of one offshore oil DEVELOPMENT stage play (i.e. it already has an economic discovery, but there are no details on it in the release)

What I don't know is how much these three assets cost (even though they know, and chose, for some reason, not to include that # in the press release) and therefore I don't know how much cash will be left out of that \$60 million after paying for these assets.

The successful history of this team will attract a lot of attention, and the North Sea is hot right now with Sterling and Ithaca and Xcite all having success there (and hopefully XOP-TSXv, Canadian Overseas Petroleum!). Plus we know their oil play is at the development stage.

So to me this 60 cent financing is a no brainer as I don't see it ever trading below its issue price, barring a BIG downturn in the price of oil. And of course, being in the North Sea means its oil will get Brent Crude pricing, the European benchmark price, which is now \$10 more than West Texas Intermediate (WTI) in the US.

HOWEVER, buying this stock in the open market will (may) NOT be a no-brainer trade initially, so I do apologize to my non-Canadian subscribers. I am not sure how big a premium the market will give this deal – it could be enough to deter me from buying anymore. (If I'm lucky it will be big enough to make me a seller ;0)). It will also depend on how quick exploration drilling will start – there are a lot of details yet to be discovered. For example, if I have misinterpreted the share structure, and there is a lot more stock out then I reserve the right to change my mind.

Put the stock on your screen, do your own research and watch for the news on the term sheet where they will announce the syndicate – and see if you have an account at one of those brokerage firms. I will send out the news to everyone once I see it.

I intend to buy 100,000 shares at 60 cents.

Here is the news release:

Mr. James Bell reports

NORTHERN LIGHTS ACQUISITION CORP. ANNOUNCES PROPOSED QUALIFYING TRANSACTION

Northern Lights Acquisition Corp. has released details concerning its proposed qualifying transaction involving a business combination with Iona Energy Company Limited. Iona is a private Canadian company formed to acquire, develop, and explore for oil and natural gas assets in the United Kingdom's North Sea.

Northern Lights has entered into a letter agreement with Iona dated Dec. 13, 2010, pursuant to which Northern Lights and Iona intend to complete a business combination. The transaction is presently contemplated to be the qualifying transaction for Northern pursuant to TSX Venture Exchange Policy 2.4, and will be effected by way of an amalgamation pursuant to the Business Corporations Act (Alberta), whereby: (i) Northern Lights and Iona would amalgamate under the name Iona Energy Inc.; (ii) the holders of the Northern Lights common shares will receive

common shares of Amalco in such amount as determined by the number of Northern shares held by such person multiplied by the Northern exchange ratio (as defined below); (iii) the holders of Iona shares will receive one Amalco share for each one Iona share held; (iv) the holders of Iona warrants will receive one replacement warrant of Amalco for each one Iona warrant held, each such Amalco Iona replacement warrant entitling the holder thereof to purchase one Amalco share at an exercise price of 22 cents per Amalco share and having an expiry date of Aug. 13, 2013; (v) the holders of Northern Lights stock options will receive replacement stock options of Amalco with the number and exercise price thereof adjusted to reflect the Northern exchange ratio; (vi) the holders of Northern Lights broker warrants will receive replacement warrants of Amalco with the number and exercise price thereof adjusted to reflect the Northern exchange ratio. For greater certainty, the Amalco Northern replacement options and the Amalco Northern replacement broker warrants shall expire on the earlier of: (A) the expiry date set out in the agreements creating such securities; or (B) the date that is one year from the closing date of the transaction. For the purposes of this agreement, the Northern exchange ratio shall mean the ratio obtained by dividing: (i) the deemed value of Northern being \$1.25-million divided by the offering price (as defined below); by (ii) the 6,075,000 Northern shares which are currently outstanding (on a fully diluted basis). For illustrative purposes only, if the offering price (as defined below) is \$1.20, the Northern exchange ratio would be 0.17147.

The transaction is subject to the policies of TSX Venture Exchange relating to qualifying transactions, as well as shareholder approval of Northern Lights and Iona. Upon completion of the transaction, Iona Energy Inc. will be a company focused on acquisition and development of proven undeveloped oil and natural gas offshore properties in the United Kingdom's North Sea.

About Iona and the Iona properties

Iona was co-founded by Neill A. Carson, Brad G. Gunn, Donald B. Copeland and Jay M. Zammit to pursue oil and natural gas development opportunities in the United Kingdom's sector of the North Sea. To date, Iona has successfully negotiated letters of agreement giving it exclusive rights to negotiate sale and purchase agreements on three North Sea fields. The first acquisition is a proposed 20-per-cent working interest in two producing southern North Sea natural gas fields known as Trent and Tyne with an option to increase Iona's working interest to 37.5 per cent in the fields. Combined, these two fields have recently been producing, on average, 18 million cubic feet per day gross, or 650 barrels of oil equivalent per day net to Iona's proposed working interest. Iona has proposed an effective date of Sept. 1, 2010, for this transaction thus representing an immediate production opportunity for Iona, and ownership of this key infrastructure with access to existing and further potential third party tariff revenues.

The second acquisition is a previously drilled oil discovery called Orlando in United Kingdom block 3/3 in the northern North Sea with a plan for development in progress to a nearby platform. Iona proposes to acquire a 42.5-per-cent working interest in the Orlando field and exploration portfolio. Iona has successfully negotiated a sale and purchase agreement for Orlando dated Dec. 17, 2010.

Subject to financing and drilling rig availability, Iona expects to drill both properties in 2011. Iona is also evaluating oil and gas acquisition opportunities in the North Sea and will attempt to

execute those that meet financial and operational thresholds and are complementary to its existing properties.

Financial information of Iona

As Iona has not yet conducted operations, other than to raise capital and seek asset acquisitions, no initial financial information is available at this time.

Financial information regarding Iona will be included in a subsequent news release.

Iona corporate history and structure

Iona Energy Company Limited was incorporated under the Business Corporations Act (Alberta) on Jan. 16, 2008. The registered office and head office of Iona are both located in Calgary in Alberta.

Iona has 22,575,065 Iona shares and 264,500 warrants issued and outstanding. Iona has no stock options or other rights to purchase Iona shares issued or outstanding.

The principal shareholders of Iona are Mr. Carson of Aberdeen, Scotland, Mr. Zammit of Calgary in Alberta, Robin M. Baxter of Aberdeen, Scotland, Mr. Copeland of Calgary in Alberta, Mr. Gunn of Calgary in Alberta, and J. Roger Laing of Cochrane in Alberta, who own or control, directly or indirectly, a collective total of 46 per cent of the outstanding Iona common shares.

Summary of the proposed qualifying transaction

Northern Lights has entered into the arm's-length letter agreement, pursuant to which Northern Lights and Iona have agreed to complete the transaction.

Iona has engaged lead investment dealer Wellington West Capital Markets Inc. and a syndicate of investment dealers to act as agent on a commercially reasonable efforts basis for a private placement of up to \$60.0-million of common shares of Iona at a price to be determined. Iona intends to use the net proceeds of the brokered private placement to complete its two transactions including paying its share of the cost of drilling two wells in Iona's two core operating areas, Orlando, the greater Tyne area, and for general corporate purposes. Further information concerning details of the brokered private placement will be included in a subsequent news release.

Directors and officers

After completion of the transaction, the board of directors of Northern Lights will consist of six directors, all of whom are nominees of Iona, namely Mr. Carson, Mr. Laing, Mr. Copeland, Mr. Gunn, Rod Maxwell and Mr. Zammit, provided the TSX Venture does not object to such nominations and such persons are eligible to act as directors pursuant to the requirements of the Business Corporations Act (Alberta). Contemporaneous with the completion of the transaction, the officers of Iona Energy Company Limited will be appointed by the board of directors of Iona

Energy and will include Mr. Carson as chief executive officer, Mr. Gunn as chief financial officer and Adrian Harvey as corporate secretary. The biographies of each of the proposed directors and officers of Iona Energy upon completion of the transaction are detailed below.

Mr. Carson (50), chief executive officer and director

Mr. Carson has accumulated 28 years of management and international project experience in the oil and gas industry. On completion of his bachelor's and master's degrees in the geosciences from British universities, Ulster University and Birmingham University respectively, he joined Amoco in 1981. During different periods over 14 years with Amoco he was based in London, United Kingdom, and was responsible for numerous exploration and production projects within the U.K. continental shelf. His international career widened through exploration management positions for BP Amoco in the Netherlands, Bolivia and Pakistan.

Mr. Carson, as performance unit leader for BP Pakistan, was responsible for the delivery and growth of approximately 12,000 barrels of oil per day and capital budgets in excess of \$50-million (U.S.). Through his career, Mr. Carson, with BP Amoco, has executed growth plans through successful oil and gas discoveries, and the development and management of commercial portfolios. He contributed as a select member of a targeted team to BP's worldwide new venture screening initiative in 2003. From 2003 to 2004, Mr. Carson operated his own consultancy, Carson Resources Ltd., within which he and his staff advised companies on delivery assurance in tough international, commercial and operational environments.

In late 2003, Mr. Carson co-founded Ithaca Energy Inc., where he served as its president and a director from April, 2004, and acted as chief operating officer until late 2007 when he formed Iona in early 2008. While at Ithaca, Mr. Carson was responsible for asset acquisitions, all aspects of operations, including safety, general corporate strategy and the drilling of four successful oil wells. Mr. Carson lives in the heart of the United Kingdom's oil and gas region, Aberdeen, Scotland.

Mr. Gunn (41), chief financial officer and director

Mr. Gunn has more than 17 years of management experience in financial markets and technology development. He began his career as an equities and options trading specialist for two of the largest banks in Canada. From 1996 to 2001, Mr. Gunn founded and served as chief executive officer of Freerealtime, a Web-based provider of real-time financial market information services and analytic tools.

While serving at Freerealtime, Mr. Gunn presided over revenue growth from \$500,000 (U.S.) to over \$16-million (U.S.) a year, raised over \$17-million (U.S.) in equity funding, including the principal backing of two U.S. investment banks, completed two acquisitions and took the company public in September, 1998, with a market capitalization of \$90-million (U.S.). In 2000, the company completed a \$24-million (U.S.) acquisition and spun off its advertising sales division, PerfectCircle Media, to Interep for \$3-million (U.S.). Mr. Gunn served on Freerealtime's board of directors from November, 1995, to December, 2000, and was

instrumental in extending the company's reach through extensive partnership and affiliate arrangements.

In early 2004, Mr. Gunn co-founded Ithaca Energy Inc. and served as its chief financial officer and a director from April, 2004, through to January, 2008. While at Ithaca, Mr. Gunn was responsible for structuring, negotiating and raising more than \$300-million in equity capital and over \$50-million in senior debt. Mr. Gunn holds a bachelor's degree in economics with a minor in management from the University of Calgary and co-founded Iona Energy in January, 2008.

Mr. Copeland (65), director

Mr. Copeland has more than 41 years of experience in the oil and gas exploration and production industry. He has been involved in a senior management capacity with a number of companies and has been a co-founder of several exploration and production companies active in Western Canada, South America and the U.K. sector of the North Sea.

Since 1977, Mr. Copeland held various executive positions with both independent resource management companies and majors, including Texaco and Dome Petroleum. In 1986, Mr. Copeland became senior vice-president of Trilogy Resource Corporation. He was in charge of land, exploration and gas marketing. Trilogy grew to become a \$200-million company.

Mr. Copeland has served as president of Pangman Resource International Ltd., a private investment and consulting company, since 1992. He has also held served on the board of directors of several oil and gas companies including: non-executive chairman of the board of Oilexco, a Toronto Stock Exchange-listed company focused in the North Sea; Orca Petroleum; and Vision 2000 Exploration.

Mr. Laing (53), director

Mr. Laing is a business unit leader with RLG International, an international performance consulting firm. He has been with RLG since 1988 working in a variety of industries across Canada, the United States and Europe including, oil and gas, health care, transportation, printing, publishing, and the public sector. Within RLG, Mr. Laing has led the firm's businesses in both the United States and the United Kingdom. Currently Mr. Laing serves as part of the RLG strategic executive team.

Mr. Laing is also a director of Technical Limit Services Ltd., a performance coaching organization specializing in offshore drilling operations. Additionally, Mr. Laing serves on the board of directors for the Bethany Care Society, where he chairs the strategic and long-range planning committee.

Mr. Maxwell (47), director

Mr. Maxwell is managing director of StoneBridge Merchant Capital Corp. and has over 25 years of experience in the investment and financial advisory services industries. Prior to co-founding

StoneBridge Merchant Capital Corp. in 1996, Mr. Maxwell was a partner with KPMG in the corporate finance/business valuations practice.

Mr. Maxwell holds a bachelor of commerce degree from the University of Calgary. He is a chartered accountant and is a member of both the Alberta Institute of Chartered Accountants and Canadian Institute of Chartered Accountants. In addition Mr. Maxwell is a chartered business valuator and is a member of the Canadian Institute of Chartered Business Valuators. Mr. Maxwell is also a director with TSX-listed Cathedral Energy Services Ltd. and TSX Venture Exchange-listed Hyperion Exploration Corp.

Mr. Zammit (51), director

Mr. Zammit practises in the areas of corporate finance and securities, advising on public and private financing matters as well as reorganizations, takeovers, mergers, shareholder disputes, acquisitions, dispositions and strategic relationships. Mr. Zammit serves on the board of several public and private companies as well as several non-profit organizations.

Mr. Zammit attended the University of Manitoba and received a bachelor of commerce (finance) in 1982, following which he served as a consultant to the International Air Transport Association. He obtained a bachelor of laws in 1987 from the University of Manitoba and was admitted to the Alberta bar in 1988. In 1989, Mr. Zammit was seconded to the Alberta Securities Commission.

Conditions for completion of transaction

The completion of the transaction is subject to the approval of TSX Venture Exchange and all other necessary regulatory approvals. The completion of the transaction is also subject to additional conditions precedent, including shareholder approval of Northern Lights and Iona, satisfactory completion of due diligence reviews by the parties, board of directors' approval of Northern Lights and Iona, and completion of the brokered private placement, and certain other usual conditions.

Other matters

The transaction will be an arm's-length transaction as none of the directors, officers or insiders of Northern Lights own any interest in Iona.

The corporation will make an application to TSX Venture Exchange for an exemption from the sponsorship requirements of TSX Venture Exchange, but there is no assurance that such an exemption will be available.

Trading of the Northern Shares will not resume until TSX Venture Exchange has reviewed a reserve report regarding the Iona properties and all other documents required by TSX Venture Exchange have been filed.

Northern Lights will issue a further news release when TSX Venture has received the necessary documentation and trading of the common shares is to resume.

As indicated above, completion of the transaction is subject to a number of conditions, including but not limited to, TSX Venture acceptance and shareholder approval. The transaction cannot close until the required shareholder approval is obtained. There can be no assurance that the transaction will be completed as proposed or at all.

We seek Safe Harbor.

OTHER COMPANY UPDATES *(in alphabetical order)*

CONTACT EXPLORATION – CEX-TSXV

I have sold my last 30,000 shares of Contact at 36 cents. I still have 100,000 warrants at 12 cents for another 15 months. This sale is because I need to raise cash for other purposes, and the stock has done what I expected it to do. Plan your trade; trade your plan.

The company announced an independent prospective resource of 2 Tcf (trillion cubic feet) of gas based on a 20% recovery of 10 Tcf of Original Gas In Place (OGIP) in their New Brunswick shale play, which is 24 km on trend from Corridor's (CDH-TSX) Frederick Brook Shale being developed with Apache (APA-NYSE).

They also announced that one of their oil wells had a dramatic decrease in production – from 200 down to 60 bopd. That, and the fact they put this release out on the worst day in the market in weeks, put some pressure into the stock. I will be speaking with management soon to get a better understanding of how/why this happened and what the future holds for this wells as they see it.

CGX ENERGY – OYL – TSX

This stock took a 20% dive one day this week as another expensive exploration well in the Guyana Basin came up dry.

CGX is a very high risk, very high reward drill play in the Guyana Basin, off the northeast coast of South America where the countries of Suriname and Guyana meet. The Guyana Basin ranked as second most prospective unexplored basin in the world by US Geological Society in 2000 with an estimated resource of 15 billion barrels. CGX anticipates that the resource potential on their 25% WI well in the Guyana Basin would mean 300 million barrels net to them if successful.

This is why Suriname and Guyana spent most of the last decade in international court trying to get their interpretation of where the offshore boundary should be – there are billions of dollars of royalties at stake here.

Now, with the dispute settled, there is lots of activity in this basin – and besides highly prospective geology, part of the reason is that the two countries have created a favourable fiscal regime.

The slide on the next page comes from a Morgan Stanley report which ranks the fiscal rake of the host country in some of the major international drill plays this year (i.e. how big a piece of the pie will the host government take). Guyana and French Guiana are #1 and #3, meaning the producer gets to keep the highest percentage of the cash flow from a well vs. other countries – see the yellow bars in the lower right of the slide. (Suriname is much lower.)

Guyana Basin (Suriname/Guyana/French Guiana)

Geology: Passive, continental-margin-style sedimentary accumulation. Targets mainly Late Cretaceous to Lower Tertiary (Paleocene) turbidite fans. High-quality rock (Canje); stratigraphic traps.

Analog: Campos and Espiritu Santos Basins in Brazil. Possibly Jubilee-Venus trend in West Africa.

Primary risk: Effective seal as oil migrates to shore.

Current production: A single producing field, Tambaredjo, onshore Suriname (~15 kboe/d)

Companies:
MUR, NBL, REP, TLW, XOM, CGX, Maersk, Inpex

Upcoming Exploration Wells

Operator	Well	Country	Working Interest	Spud Date	Resource (MMboe)	Oil/Gas Focus
MUR	Aracan	Suriname	100%	4Q11	350	Oil
MUR	Caracara	Suriname	100%	4Q11	682	Oil
TLW	Zaedyus	French Guiana	40%	1Q11	175	Oil
CGX	Jaguar	Guyana	25%	1Q11	175	Oil
Inpex	B31	Suriname	35%	1Q11	500	Oil
CGX	Eagle	Guyana	100%	3Q11	300	Oil
CGX	Wishbone	Guyana	100%	4Q11	439	Oil

TOTAL 2010-11 DRILLING 2,621
Source: Company data, Morgan Stanley Research

Fiscal regime:
Guyana: PSC, marginal govt. take = 40%
Suriname: PSC, marginal govt. take = 75%
French Guiana: Concession, marginal govt. take = 20%

Valuation, estimated PV of barrels, if discovered:
Guyana: \$14.99/boe
Suriname: \$5.49/boe
French Guiana: \$18.75/boe

Source: CGX Energy

Value per Discovered bbl by Basin (\$/boe)

Basin	Value (\$/boe)
French Guiana	18.75
Suriname	5.49
Guyana	14.99
Libya	13.5
China	12.5
Gabon	12.0
Nigeria	11.5
UK	11.0
Indonesia	10.5
Greenland	10.0
Qatar	9.5
E. Guinea	9.0
Cote d'Ivoire	8.5
US GOM	8.0
Angola PSC	7.5
Brazil	7.0
Suriname	5.49
Brazil	5.0
Angola PSC	4.5
Malaysia OIV	4.0
Egypt	3.5
Australia Gas	3.0
India Gas	2.5
Indonesia Gas	2.0

The CGX Eagle Eocene is a 25% partner in a well that will get spud in May – which is costing them about \$30 million - and this is an all or nothing well. Subscribers should be aware that this stock WILL go to 25 cents if they miss. CGX has no other assets. In buying the stock when I did, I hoped to be able to get my cost out in a speculative premium in the stock before results come out.

In the above slide you will read on the left hand side – Upcoming Exploration Wells. Each and every well drilled before the CGX well will have – and did have this week – an impact on CGX' stock.

Murphy Oil (MUR-NYSE) announced that their first wildcat well offshore Suriname was dry, and that following weather delays, they will be moving onto their second location. They were aiming for the same Turonian formation (depth=6500 m) that the CGX will be, but they were 300 km from CGX-- still in the Guyana basin. There is a lot of BIG MONEY in this basin and they just sell off everything that's in the play even if it's far away. This basin really is one of the most watched plays in the world right now by bigger energy investors.

I went over the geology maps with CEO Kerry Sulley who said the Murphy wells are far away from the mature source kitchen *as they map it*, whereas they sit on the bull's eye of the source kitchen. While it doesn't condemn any of CGX prospects, the market used it as an excuse to sell off the stock. I was impressed with how the stock bounced back the next day. Murphy's next well will test a Paleocene target, similar to the CGX Eagle Eocene Target (target depth 3500 m).

CGX is currently looking to farm down both their interest in the May well, called the *Georgetown Jaguar prospect in the Turonian formation*, to 12.5% and in their second well, their 100% owned Corentyne Eagle, in the shallower Eocene formation, which won't get drilled until next year. Jaguar hits, they'll get a good deal on a joint venture with the Eagle well. If not...

Like I said, I hope to be able to sell my cost out into a developing speculative premium before the results of CGX's well are out. Successes on these other earlier wells would help that cause dramatically. We're now 0-for-1 on those with three more to go. This was the farthest away well.

Those 3 upcoming wells are one other by Murphy, which should get spud any day depending on high seas, a well by London-listed Tullow Oil in February into the Turonian, and then a well by Inpex (a large Japanese oil & gas company listed on the Tokyo Stock Exchange) into the Albian formation, which is even deeper than the Turonian.

Hopefully those wells go 3-for-4 and I'm selling out my cost on CGX at much higher prices. But if those wells go 0-for-4, I will reduce my position just before results get closer on the CGX well, regardless of the bid – at that point I won't be interested in betting \$30,000 on 1-in-5 chance of success with the last 4 wells being duds.

The company has ~193 million shares out and ~\$45 million cash.

DONNYBROOK ENERGY – DEI-TSXv original write up *Interim Bulletin #44* –
October 21st 2010

My timing is a bit off on Donnybrook – I had said I expected news on their first well with Cequence by now but they just started fracking the well a couple days ago, so results will still be at least a couple weeks away and maybe more if they decide to report a 30 day rate vs a 1,3 or 7 day IP rate.

But the stocks of natural gas producers in the liquid rich Montney gas formation on the B.C.- Alberta border continue to perform well. This is good news for Donnybrook, which has 20 net sections in the highly prospective Simonette and Resthaven areas in the southeast end of the trend.

Progress Energy (PRQ-TSX) has seen its stock go from \$10.75 - \$14 in the last three months based on news that 11 horizontal wells are averaging over 5MMcf/d (five million cubic feet of gas per day, or 833 boe/d-barrels of oil equivalent per day).

What I'm liking in the market is the stock action of Cequence Energy (CQE-TSX), the joint venture partner on much of the ground Donnybrook successfully and quietly leased over the summer in this Simonette area.

Cequence has gone from \$1.60 - \$2.70 in the last two month – a 68% move, and it included a 40 cent jump just last week. Analysts are speculating it's anticipation of their first next well results at Simonette – *which is the well Donnybrook is joint ventured on*. And Cequence is being mentioned as the turnaround story of the year if this play works. That would be GREAT news for Donnybrook.

There are several productive zones to chase in the Montney – Upper, Middle and Lower Montney, and the Doig, and each zone is being tested in different areas of the Montney by different players. So the market has still not seen what the full potential of a big land package could mean for a company.

So this doesn't mean anything other than there is more smoke all the time, and a big audience is watching this play. This well is on the edge of the Donnybrook-Cequence joint venture, and only 200 m from another one of Cequence's successful wells on their 100% owned ground – so while this is still a drill punt, I'm thinking chances are good. Fingers crossed.

And of course, I haven't mentioned the Resthaven well that DEI's anonymous joint venture partner is now drilling only 5 km (3 miles) away from Celtic's 2000 boed discovery well that caused their stock to jump 50%.

GASFRAC – GFS-TSXv

GasFrac issued a brief release that they are now operational again, as they said they would be at this time. It will be interesting to watch the stock over the next couple weeks.

WAVEFRONT ENERGY (WEE – TSXv) read my updated full report from Bulletin #19 – April 27th 2010 to get the background on this exciting but frustrating story.

Wavefront is an EOR (Enhanced Oil Recovery) technology that generates powerful fluid pulses that make the pore structure of rock and soil open then settle down again. This dramatically improves fluid flow in the ground for water floods and increases reserves and decreases decline rates. The return on investment is stellar and this technology has the ability to increase world oil reserves.

The company announced its quarterly with a smaller loss than one year ago, and increased revenue from its flagship Powerwave product – more than tripling it from \$117,000 in the same quarter a year ago to \$384,000 this year. This is wonderful but from a small base this is the kind of increase we need to see this each quarter, not each year. I applaud the company for being more transparent in the number of tools contracted, being used and being paid for. There are 227 contracted, 93 installed but only 49 getting any kind of revenue.

I can now back out how much they're charging on average - \$2613 per unit per month vs their stated goal of charging \$6000.

There was a lot of language on revenue recognition that was a bit Greek to me. I will be contacting management on this issue this week, and try to better understand when revenue on the other installed units may begin.

The bottom line as I see it is that Wavefront continues to have its challenges making new sales. Encana/Cenovus (The "Eastern Alberta client") loves the product, that's clear, but management has yet to make them pay for it. Wavefront is still burning \$500,000 a month, and had \$28 million cash at the end of November 2010. There are 82 million shares outstanding.

WINSTAR RESOURCES – WIX-TSXv

Completion of the highly anticipated CS-Sil#1 well has been delayed, and just started January 28 – the market was hoping to have results by now. This means results are likely late February – early March. This well will produce both oil and gas, but mostly gas – which can't be sold as there is no infrastructure to take it to market down there.

Management is now saying a "good" test would be 1,000 bbl/d of oil (approximately 10,000 boe/d total production), and a "great" Silurian test would be 2,000 bbl/d to 3,000 bbl/d of oil (potentially 20,000 boe/d total production). Management says the gas with the oil is not an issue in getting the oil to market.

So what this means is that the big upside on my math is now reduced. Other wells in this field have often produced 6000 bopd; management says this well will now be 1/6th – 1/3rd that. I

had made a case for a potential \$18 share price off this well, based on 5000 bopd at a \$94,000 per flowing barrel valuation.

Between management's new guidance and the political unrest in Tunisia (despite the fact that management says that has been and they expect it to be a non-issue), that is no longer realistic.

Just to pull a number out of the air, I would now use a \$70,000 per flowing barrel valuation – until the political turmoil has been gone for 6 months. A 2000 bopd well would bring the company to 4000 bopd total (at \$58 netback or profit per barrel), which multiplied by \$70,000 gives a market cap of \$280 million, or, on 35.3 million shares out for Winstar, \$7.93 a share.

I think the market would at least give the stock that much, as the company has many more drilling locations it could go after. The stock would also get some small credit for any big gas reserves this well discovered. Any future drilling in 2011 will depend on the success of this well – a great well would mean three more, including two Silurian at \$15 million each.

And the political unrest in the country has been a non-issue for them.

So we wait.

STOCKS I AM (OR MAY BE) SELLING – Contact Exploration – Black Pearl – Painted Pony

STOCKS I MAY BE BUYING AT THESE PRICES – Border Petroleum under 37 cents, Canadian Overseas Petroleum, Coastal Energy, Golar LNG, Sterling Resources, Bengal Energy