

Western Canada's oil and gas producers finally kicking the natural gas habit

CALGARY, ALBERTA – After months of talking about making the switch from exploring for natural gas to producing oil, a survey released today shows that Western Canada's energy companies are finally kicking the natural gas habit.

Bryan Mills Iradesso's iQ Report, a survey of the public junior and intermediate oil and gas companies that operate in Western Canada, shows that the median junior explorer had a natural gas weighting of only 53 percent of overall production in the first quarter of 2011. This is a significant development given that the median natural gas weighting for the juniors has been fluctuating between 65 and 76 percent for the past four years. The natural gas weighting for the juniors in the first quarter of 2010 was 71 percent.

Intermediate oil and gas companies are moving in the same direction, with a median natural gas weighting of 63 percent of overall production in the first quarter of 2011. This compares with a natural gas weighting of 66 percent for this group in the first quarter of 2010.

"Oil and gas companies have finally stopped targeting natural gas in their drilling, production enhancement and acquisition programs," said Geoffrey Vanderburg, co-editor of the iQ Report. "Oil is where it's at."

This is just one of the findings of the latest iQ Report, a comparison of the financial and operating results for the period from January to March 2011. The report defines junior oil and gas companies as those with production between 500 and 10,000 barrels of oil equivalent per day (boe/d) and intermediates as companies with production between 10,000 and 100,000.

Highlights from the Q1 2011 iQ Report

- During Q1 2011, 79 percent of intermediates and 60 percent of juniors saw their share prices rise. The median return over this period was 8.1 percent for the intermediates and 5.4 percent for the juniors.
- In the following three months of April through June, 75 percent of intermediates and 79 percent of juniors saw their share prices decline. The median loss over this period was 11.7 percent for the intermediates and 13.1 percent for juniors. These returns are calculated using opening and closing share prices combined with dividends paid during the period.
- The number of intermediates with Q1 2011 production of more than 10,000 boe/d and less than 100,000 boe/d has increased to 28 companies, a 22 percent increase over the 23 intermediates operating in Q2 2010.
- Of the 28 intermediates this quarter, 82 percent have production of less than 50,000 boe/d and no companies reported production of between 80,000 boe/d and 100,000 boe/d. Overall, the population of juniors has remained steady over the past year.
- Information in the iQ Report shows that it makes sense for juniors to try to become intermediates. Based on June 30, 2011 share prices and December 31, 2010 reserves and net debt, the median intermediate was trading at an 18 percent premium to our simplified calculation of their net asset value. We based our calculation on the net present value of proved plus probable reserves plus \$125 per acre of undeveloped land minus net debt. Conversely, the median junior trades at a 12 percent discount to our simplified net asset value calculation. This means that intermediates can

get cheaper capital than juniors by issuing new shares. When this is considered along with the higher trading volumes that go with larger market capitalizations, intermediates are in a better position to make the public markets work in their favour.

- Twelve of the 28 intermediates and three of 57 juniors paid a monthly dividend to their shareholders in the first quarter of 2011. All but one of these companies are former income trusts.

The release date for Bryan Mills Iradesso's iQ Report for the first quarter of 2011 was delayed due to the 30-day extension granted to public companies to report their first quarter results in accordance with new International Financial Reporting Standards. The iQ Report for the second quarter of 2011 is expected to be released on schedule within two months.

About the iQ Report

The quarterly iQ Report tracks the performance of all junior and intermediate conventional oil and gas companies that operate primarily in Western Canada and trade on the TSX and TSX Venture Exchange. Select information is also provided on oil sands players, international operators and emerging producers. The comparison is available free at <http://iq.bmir.com>.

About Bryan Mills Iradesso

Bryan Mills Iradesso helps clients identify, reach and influence key audiences through a broad spectrum of disciplines, including investor relations, websites, annual reports, branding and marketing. With offices in Calgary and Toronto, Bryan Mills Iradesso has professionals with backgrounds in communications, investor relations, brand strategy, design, marketing and journalism. The firm's Calgary office publishes the iQ Report as part of its specialty communications services for energy clients.

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