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September 11, 2009 For Immediate Release

Intermediate oil and gas producers offer investment sweet spot

CALGARY, ALBERTA – The stock prices of mid-sized oil and natural gas companies have been outperforming the market since the spring, a report released today shows.

While junior and senior oil and gas players have kept pace with the overall index, intermediate companies have been shining stars. The latest iQ Report by Bryan Mills Iradesso, a national communications firm, shows that the average intermediate increased 40 percent from April through August including dividends and distributions. This compares with a return over the same period of 25 percent for the S&P/TSX Composite Index, 21 percent for the S&P/TSX Capped Energy Index of senior players and 21 percent for the iQ Report's list of junior players.

The iQ Report tracks the performance of junior and intermediate oil and gas companies and trusts that operate primarily in Western Canada and trade on the TSX or TSX Venture Exchange. The comparison, compiled quarterly and made available free to investors, defines juniors as companies that produce between 500 and 10,000 barrels of oil equivalent per day (boe/d) and intermediates as companies that produce between 10,000 and 100,000 boe/d. The latest report compares the financial and operating results of all 60 juniors and 25 intermediates that met the criteria for inclusion in the second quarter of 2009. Information is also provided on international companies, oil sands players and emerging producers.

"Investors have returned to the oil and gas sector," said Peter Knapp, president of Bryan Mills Iradesso and co-editor of the iQ Report. "Almost everyone who had the courage to average down when times were tough at the beginning of 2009 is glad they did."

Only one of 25 intermediates lost ground on the stock market from April through August. Iteration Energy was the lone decliner over this period with a loss of three percent while Advantage Oil & Gas increased the most at 103 percent. The average junior also gained ground over this period with 47 of the 60 companies in this category heading in the right direction.

Knapp said investors have been attracted to the intermediate players during the early stages of the global economic recovery because of their balance of risk and reward. The intermediates offer a 33 percent oil weighting compared with 24 percent for the juniors, active hedging programs to help shield investors from volatile commodity prices, and a level of trading liquidity that allows relatively easy access to funds.

"The juniors could be the next to shine as the economic recovery becomes firmly established," Knapp said.

Other highlights from the latest iQ Report include the following:

- As a result of mergers and acquisitions, the number of companies meeting the criteria for inclusion in this edition of the iQ Report by producing between 500 and 100,000 barrels of oil equivalent per day in the second quarter of 2009 is down about 30 percent from the highs reached in early 2006.

- Fifty-seven of 60 juniors and 19 of 25 intermediates reported a loss in the second quarter of 2009. The good news is that although the net earnings were ugly, all but five of the juniors and all of the intermediates reported positive cash flows.

- Median cash flow netbacks for the second quarter of 2009 were $10.25 per boe for juniors and $20.24 per boe for intermediates. This represents a significant decline since the same quarter of 2008, when median cash flow netbacks were $38.08 per boe for the juniors and $37.43 for the intermediates. Cash flow netbacks indicate how much cash flow a company generates from each barrel of oil equivalent of production.

Bryan Mills Iradesso's complete iQ Report is available free to the media and investors who fill out an online form on the following website: http://iq.bmir.com.

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