# Energy

January 5, 2012

Industry Comment - Changes

**Rafi Khouri** B.Sc, MBA | 403.509.0560 | rafi.khouri@raymondjames.ca
**Ana Wessel** (Associate) | 403.509.0541 | ana.wessel@raymondjames.ca
**Cynthia Yee** (Associate) | 403.221.0355 | cynthia.yee@raymondjames.ca

**International Oil & Gas**

## Int'l Weekender: Admidst Ongoing Uncertainty, Some International Oil Options for 2012

- Brent crude traded above US$105/bbl for most of 2011 (210 of the year's 258 trading sessions, to be precise) – a reality not easily inferred from the wild gyrations in market value observed for the Brent-levered E&Ps in our space during the year.
- We expect Brent prices will remain within a similar range over the next 12 months. Our 2012 average forecast is US$100/bbl – ~12% lower than the current spot price.
- Most of the mid to larger cap international oil companies under coverage are heading into 2012 with record/near record production levels, solid balance sheets, and self-funded organic growth prospects.
- In contrast, most of these companies are trading below 2P reserve value. Should capital market valuations remain depressed – particularly in the event that our macro/commodity outlook pans out (or proves conservative) – we would expect M&A activity to intensify substantively.
- Valuations in the small cap space, on the other hand, are less straightforward. As a large percentage of companies remain in the exploration stage, there are no booked reserves to underpin fundamental value assessments. Having said that, we believe several companies do offer a very compelling investment thesis, albeit with varying risk elements.

**Balance Sheet Screen**

- Gran Tierra screens as the most rounded investment idea heading into 2012. With no debt, US$182 mln in working capital and an ability to fund its 2012 capital capex program from cash + cash flow, we believe it should offer the most downside protection of the group, especially in times where investors might be focused on company debt levels.
- Bankers Petroleum also screens very well on balance sheet, with an estimated positive working capital position of US$31 mln heading into the year, as well as operational flexibility to reduce capex if required should oil prices drop.
- Pacific Rubiales' balance sheet, following the recently closed 10-year note, is also very healthy, although we do note that the longer-term heavy oil projects do allow less capex deferral flexibility than smaller scale projects such as Bankers or Gran Tierra.

**Reserve Growth Screen**

- The highest scoring companies in this category will always be the pure 'explorecos', as these companies are starting with no booked reserves. Having said that, these companies also present the highest risk.
- Our top pure exploration pick for 2012 is PetroNova. While it does not have the largest potential (in terms of in unrisked resource upside relative to the group), we believe it offers a good balance between target size and geological risk, all in the context of an active (13 wells) and fully-funded 2012 drilling program. In our view, Porto and Petromanas offer the highest impact options, but also the highest geological risk.

**Production Growth Screen**

- Using management guidance, the ArPetrol, Greenfields and Parex screen at the top of the production growth curve.

**Valuation Screen**

- Of the mid-large cap producers, Bankers is the most undervalued compared to reserves, due in our view to market uncertainty around the company's production &/or reserve growth profile.
- Of the small cap companies, ArPetrol, Pan Orient and PetroMagdalena screen as the most undervalued.

| Company | Ticker Primary | Ticker Secondary | Current Price | Target Price (6-12mo) Old | Target Price (6-12mo) New | Div. Yield | Tot. Return To Target | Rating Old | Rating New |
|---|---|---|---|---|---|---|---|---|---|
| **International Oil & Gas** | | | | | | | | | |
| ArPetrol Ltd. | RPT-TSXV | | C$0.09 | C$0.30 | C$0.30 | 0% | 233% | Outperform 2 | Outperform 2 |
| Bankers Petroleum Ltd. | BNK-TSX | BNK-AIM | C$4.85 | C$10.50 | C$10.50 | 0% | 116% | Strong Buy 1 | Strong Buy 1 |
| Gran Tierra Energy Inc. | GTE-TSX | GTE-AMEX | C$5.02 | C$10.50 | C$10.50 | 0% | 109% | Strong Buy 1 | Strong Buy 1 |
| Greenfields Petroleum Corp. | GNF-TSXV | | C$6.90 | C$12.00 | C$12.00 | 0% | 74% | Outperform 2 | Outperform 2 |
| Niko Resources Ltd. | NKO-TSX | | C$49.16 | C$66.00 | C$66.00 | 0% | 35% | Outperform 2 | Outperform 2 |
| Pacific Rubiales Energy Corp. | PRE-TSX | PREC-BVC | C$19.41 | C$42.00 | C$42.00 | 2% | 118% | Strong Buy 1 | Strong Buy 1 |
| Pan Orient Energy Corp. | POE-TSXV | | C$2.00 | C$4.50 | C$4.50 | 0% | 125% | Outperform 2 | Outperform 2 |
| Parex Resources Inc. | PXT-TSX | | C$7.76 | C$9.00 | C$9.00 | 0% | 16% | Outperform 2 | Outperform 2 |
| PetroAmerica Oil Corp. | PTA-TSXV | | C$0.12 | C$0.25 | C$0.25 | 0% | 117% | Outperform 2 | Outperform 2 |
| PetroDorado Energy Ltd. | PDQ-TSXV | | C$0.19 | C$0.40 | C$0.40 | 0% | 116% | Outperform 2 | Outperform 2 |
| PetroMagdalena Energy Corp. | PMD-TSXV | | C$1.17 | C$2.30 | C$2.30 | 0% | 97% | Outperform 2 | Outperform 2 |
| Petromanas Energy Inc. | PMI-TSXV | | C$0.16 | C$0.40 | C$0.40 | 0% | 150% | Outperform 2 | Outperform 2 |
| Petrominerales Ltd. | PMG-TSX | PMGC-BVC | C$17.58 | C$21.00 | C$21.00 | 3% | 22% | Outperform 2 | Outperform 2 |
| PetroNova Inc. | PNA-TSXV | | C$0.47 | C$1.90 | C$1.90 | 0% | 304% | Outperform 2 | Outperform 2 |
| Porto Energy Corp. | PEC-TSXV | | C$0.13 | C$0.30 | C$0.30 | 0% | 140% | Outperform 2 | Outperform 2 |
| Shamaran Petroleum Corp. | SMN-TSXV | SNM-OMX | C$0.37 | C$0.30 | C$0.30 | 0% | -18% | Underperform 4 | Underperform 4 |
| Suroco Energy Inc. | SRN-TSXV | | C$0.36 | C$1.00 | C$1.00 | 0% | 178% | Outperform 2 | Outperform 2 |
| Talisman Energy Inc. | TLM-TSX | TLM-NYSE | C$13.63 | C$14.00 | C$14.00 | 2% | 5% | Market Perform 3 | Market Perform 3 |
| WesternZagros Resources Ltd. | WZR-TSXV | | C$0.63 | C$0.70 | C$0.70 | 0% | 11% | Market Perform 3 | Market Perform 3 |

## Exhibit 1: International Oil &Gas Comps Table

| Company | Ticker | Price (C$) 4-Jan-12 | 52 wk High | 52 wk Low | Net Asset Value Booked Reserves 2P NAV | P/2PNAV | Net Asset Value Risked NAV | P/NAV | P/CF 2011E | P/CF 2012E | 2P Reserves (MM BOE) | RJ Rating | 6-12 Mo Target | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ArPetrol | RPT.V | $0.09 | $0.26 | $0.06 | $0.16 | 58% | $0.29 | 31% | nm | 2.6x | 8 | OP-2 | $0.30 | 233% |
| Bankers Petroleum | BNK.T | $4.85 | $9.92 | $2.95 | $8.45 | 57% | $10.32 | 47% | 7.5x | 4.8x | 238 | SB-1 | $10.50 | 116% |
| Gran Tierra | GTE.T | $5.02 | $9.37 | $4.45 | $6.18 | 81% | $10.38 | 48% | 4.5x | 4.3x | 43 | SB-1 | $10.50 | 109% |
| Greenfields | GNF-V | $6.90 | $11.00 | $6.00 | $10.50 | 66% | $11.83 | 58% | nm | 6.5x | 23 | OP-2 | $12.00 | 74% |
| Niko* | NKO.T | $49.16 | $105.28 | $39.00 | $44.06 | 112% | $66.11 | 74% | 13.4x | 11.3x | 202 | OP-2 | $66.00 | 35% |
| Pacific Rubiales | PRE.T | $19.41 | $35.00 | $18.03 | $23.19 | 84% | $42.86 | 45% | 3.8x | 3.6x | 421 | SB-1 | $42.00 | 118% |
| Pan Orient | POE.V | $2.00 | $7.55 | $1.81 | $4.77 | 42% | $4.77 | 42% | 2.1x | 2.4x | 32 | OP-2 | $4.50 | 125% |
| Parex | PXT.T | $7.76 | $9.65 | $5.60 | $4.93 | 158% | $9.15 | 85% | 8.5x | 3.1x | 10 | OP-2 | $9.00 | 16% |
| PetroAmerica | PTA.V | $0.12 | $0.74 | $0.08 | $0.06 | 196% | $0.26 | 44% | nm | 2.4x | nm | OP-2 | $0.25 | 117% |
| Petrodorado | PDQ.V | $0.19 | $0.77 | $0.13 | $0.13 | 139% | $0.41 | 45% | nm | nm | 1 | OP-2 | $0.40 | 116% |
| PetroMagdalena | PMD.V | $1.17 | $4.13 | $0.81 | $2.07 | 57% | $2.37 | 49% | 6.6x | 3.2x | 29 | OP-2 | $2.30 | 97% |
| Petromanas** | PMI.V | $0.16 | $0.56 | $0.09 | $0.03 | nm | $0.41 | 39% | nm | nm | nm | OP-2 | $0.40 | 150% |
| Petrominerales | PMG.T | $17.58 | $41.83 | $15.52 | $14.56 | 121% | $21.30 | 83% | 2.5x | 3.3x | 70 | OP-2 | $21.00 | 22% |
| PetroNova | PNA.V | $0.47 | $2.12 | $0.43 | $0.03 | nm | $1.89 | 25% | nm | nm | nm | OP-2 | $1.90 | 304% |
| Porto*** | PEC.V | $0.13 | $1.00 | $0.10 | $0.17 | 74% | $0.31 | 40% | nm | nm | nm | OP-2 | $0.30 | 140% |
| Shamaran** | SNM.V | $0.37 | $1.43 | $0.29 | $0.30 | 122% | $0.34 | 108% | nm | nm | nm | UP-4 | $0.30 | -18% |
| Suroco | SRN.V | $0.36 | $0.95 | $0.29 | $0.39 | 91% | $1.03 | 35% | 4.2x | 1.8x | 2 | OP-2 | $1.00 | 178% |
| Talisman | TLM.T | $13.63 | $24.82 | $11.34 | $7.08 | 192% | $13.97 | 98% | 3.9x | 3.6x | 2,137 | MP3 | $14.00 | 5% |
| WesternZagros | WZR.V | $0.63 | $1.00 | $0.38 | $0.51 | 122% | $0.72 | 88% | nm | $3.12 | nm | MP3 | $0.70 | 11% |
| **Average** | | | | | | **104%** | | **57%** | **5.7x** | **4.0x** | | | | **103%** |

| Company | Ticker | O/S Shares (Mln) | Mkt Cap ($Mln) | Ent. Value ($Mln) | CFPS (basic) 2011E | CFPS (basic) 2012E | AT Netback ($/boe) 2011E | AT Netback ($/boe) 2012E | EV / Prod ($/boe/d) | EV Reserves ($/boe) | Production (boe/d) 2011E | Production (boe/d) 2012E | 11E Net Debt/(Cash) Debt $M | D/CF |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ArPetrol | RPT.V | 572 | 51 | 15 | -$0.01 | $0.03 | 4.65 | 15.65 | $45,472 | $1.82 | 322 | 2,837 | ($31) | na |
| Bankers | BNK.T | 247 | 1,200 | 1,138 | $0.65 | $1.01 | 37.84 | 40.46 | $85,964 | $4.79 | 13,239 | 18,224 | $0 | nm |
| Gran Tierra | GTE.T | 278 | 1,394 | 1,166 | $1.12 | $1.17 | 50.33 | 43.99 | $49,101 | $26.96 | 23,742 | 26,979 | $0 | na |
| Greenfields | GNF.S-V | 15 | 102 | 44 | -$0.08 | $1.07 | 32.34 | 22.31 | $36,250 | $1.94 | 1,225 | 3,940 | ($43) | nm |
| Niko | NKO.T | 52 | 2,533 | 2,771 | $3.68 | $4.33 | 20.56 | 20.45 | $70,444 | $13.73 | 39,334 | 36,988 | $205 | 0.7x |
| Pacific Rubiales | PRE.T | 272 | 5,272 | 5,272 | $5.15 | $5.40 | 42.37 | 37.10 | $60,013 | $12.51 | 87,853 | 106,339 | $86 | 0.1x |
| Pan Orient | POE.V | 57 | 113 | 55 | $0.93 | $0.84 | 73.72 | 58.67 | $26,160 | $1.73 | 2,116 | 2,451 | ($53) | na |
| Parex | PXT.V | 108 | 840 | 844 | $0.91 | $2.53 | 51.68 | 50.12 | $156,046 | $81.90 | 5,407 | 14,047 | ($1) | nm |
| PetroAmerica | PTA.V | 578 | 67 | 41 | nm | $0.05 | 64.08 | 63.78 | nm | nm | 265 | 1,402 | ($25) | na |
| Petrodorado | PDQ.V | 483 | 89 | 43 | ($0.00) | ($0.00) | 83.36 | 75.08 | nm | mn | 113 | 120 | ($49) | na |
| PetroMagdalena | PMD.V | 142 | 166 | 204 | $0.18 | $0.36 | 54.07 | 46.60 | $73,723 | $6.96 | 2,768 | 4,538 | ($39) | nm |
| Petromanas | PMI.V | 631 | 101 | 40 | nm | nm | nm | nm | nm | nm | nm | nm | ($63) | na |
| Petrominerales | PMG.T | 101 | 1,769 | 2,184 | $6.96 | $5.27 | 59.73 | 60.20 | $56,956 | $31.40 | 38,348 | 33,329 | $387 | 0.5x |
| PetroNova | PNA.V | 165 | 78 | 37 | -$0.04 | -$0.03 | nm | nm | nm | nm | nm | nm | ($33) | na |
| Porto | PEC.V | 199 | 25 | (14) | -$0.03 | -$0.03 | nm | nm | nm | nm | nm | 0 | ($39) | na |
| Shamaran | SNM.V | 808 | 295 | 264 | nm | nm | nm | nm | nm | nm | nm | nm | $31 | na |
| Suroco | SRN.V | 122 | 44 | 37 | $0.09 | $0.20 | 108.88 | 100.00 | $39,060 | $21.45 | 943 | 1,728 | ($0) | na |
| Talisman | TLM.T | 1,025 | 13,966 | 19,111 | $3.48 | $3.80 | 27.86 | 26.29 | $44,964 | $8.94 | 425,028 | 454,612 | $5,536 | 1.7x |
| WesternZagros | WZR.V | 371 | 234 | 173 | $0.02 | $0.20 | nm | 38.10 | nm | nm | 643 | 5,000 | ($61) | na |
| **Average** | | | | | | | **50.82** | **46.59** | **$62,013** | **$17.84** | | | | |

| Commodity Price Assumptions | 2011A | 2012E | LT |
|---|---|---|---|
| Dated Brent (US$/bbl) | $108.88 | $100.00 | $100.00 |
| Foreign Exchange Rate (US$/C$) | $1.01 | $0.98 | $0.98 |

Notes:
*Fiscal Year End is March 31
**Cash in lieu of 2P NAV for PMI, PNA, and Base NAV in lieu of 2P NAV for PEC, PTA, SNM, WZR.
***Fiscal Year End is August 31

Ratings:
SB-1: Strong Buy
OP-2: Outperform
MP-3: Market Perform
UP-4: Underperform.
UR: Under Review

Source: Company Reports, Raymond James Ltd.

## Company Summaries and Investment Highlights

**ArPetrol** heads into 2012 with $31.1 mln in working capital (RJL estimate), and plans to drill 4-5 wells this year: 2-3 exploration wells and 2 appraisal/development wells. While oil and gas prices remain "capped" in Argentina, we highlight that ArPetrol currently has Gas Plus approval, allowing it to sell gas to industrial users without being subject to redirection (thus allowing for better pricing).

We recommend ArPetrol to investors looking for a vehicle to invest in the improving Argentinean oil & gas sector, especially given that the stock is trading at a 42% discount to our 2P NAV, thus offering investors a free option not only on RPT's exploration portfolio, but also on a portion of its current reserves.

We calculate that **Bankers Petroleum** will be able to fully fund its planned $215 mln 2012 capital spending program from operating cash flow. Furthermore, the company has $90 mln in unused credit lines.

At currently valuations, the market appears to be pricing in a material y/y reserve drop, a material Brent oil price drop, or some combination of the two. Given that we do not expect reserves to go down y/y, and are forecasting Brent at US$100/bbl for 2012, we believe Bankers' shares offer a very appealing risk/reward proposition at current levels. In addition, with an operational update expected on January 9th, and a reserve report by mid-February, Bankers offers several potential near-term catalysts in a volatile market.

With $178 mln cash on hand at the end of 2011, and projected 2012E cash flow of $318 mln, **Gran Tierra** is well positioned to fund its planned $367 mln 2012 capital expenditure program. We expect 2011 year-end reserves to have increased y/y, mainly driven by successful Colombia drilling, as well as our expectation of a technical upgrade at Costayaco.

As Gran Tierra shares are currently discounting 2P reserves at ~US$70/bbl Brent, we believe there is a lot of downside protection already built-in, should oil prices pull back materially from current levels. In addition, with 10 exploration wells (4 in Colombia, 1 in Peru, 3 in Argentina, and 2 in Brazil) planned this year, we expect 2012 to be another catalyst rich year for Gran Tierra.

**Greenfields** heads into 2012 with a projected $42.7 mln in working capital (RJL estimate), allowing it to supplement cash flow towards funding its capital budget of $43 mln. We view 2012 as transformational for the company, with the expected arrival of the "Western style" rigs this January – with plans to recomplete 23 wells this year. The company also plans on receiving one to two drilling rigs later in the year.

In calendar 2012, **Niko** plans to commence its high impact exploration campaign in Indonesia. Presently, the company is currently drilling the Stalin-1 well (35.75% WI), located offshore Trinidad. Based on management estimates, the well has a gross unrisked estimate of 600 mln – 800 mln bbls of original-oil-in-place, and positive news from the well could act as a catalyst for the stock. Stalin-1 is planned to be the first of a back-to-back 3 well campaign on this block (Block 2ab). In India, we currently forecast a continued decline in production from the D6 block; however, we believe we are no longer the outlier on the street, and thus expect this view to be priced into the stock.

**Pan Orient** heads into 2012 with estimated net cash of $53.5 mln which – combined with our projected cash flow of $47.7 mln for the year – should allow the company to internally fund a 2012 capital program equal to or larger than that of 2011 (official budget has not yet been released). In Indonesia, the company plans on drilling an appraisal well into the North Tuba Ori gas discovery this quarter, as well as an exploration well on the Batu Gajah block. Also in Indonesia, Pan Orient anticipates drilling two exploration wells on the Citarum Block, following the Cataka-1 well started last year.

Pan Orient's shares are currently trading in line with 1P reserves, which we believe is due to several factors, including expected negative reserve revisions in Thailand, as well as company production for 2011 well below initial guidance.

We expect **Parex** will continue to pursue its aggressive, multi-pronged growth strategy aimed at delivering a 2012 exit production of 17,000 bopd (vs. 2011 guidance of 14,000 bopd), in part via the drilling of 20-25 gross wells in Colombia and 5-10 gross wells in Trinidad. We estimate that the company exited 2011 with $72.7 mln in working capital which, combined with our projected cash flow of $268.3 mln for the year, should allow the company to comfortably fund its 2012 capital program of $230-270 mln – and also to possibly take advantage of potential non-organic growth opportunities.

Parex shares are currently trading above 2P NAV, although we believe the company deserves this premium for several reasons, including management's strong track record of delivering on production guidance, our expectation of reserve growth at the end of 2011, and an active and very material drilling program for 2012.

We anticipate **PetroAmerica** will deliver significant production growth in 2012, with average production guidance of 1,400 bopd in 2012 (compared to our 2011 forecast of 265 boepd). In addition, the company has drilling plans to follow up on the Las Maracas and the Balay discoveries. With a 2011E year-end working capital of $25.3 mln, and 2012E cash flow of $27.7 mln, PetroAmerica has indicated will internally fund its exploration program (budgeted at $38.4 mln), while looking to debt to finance its development program. Based on management estimates, the 7 exploration wells planned for 2012 is targeting 45 mln bbls of working recoverable oil (unrisked mean case), with the majority of the drilling scheduled to start in 2Q12.

We believe 2012 will be an eventful year for **Petrodorado**, as months-worth of regulatory (and, more recently, weather-related) delays converge into a period of intensive/ compressed drilling activity. We expect to see forward movement on each of the company's remaining core assets, including: two stratigraphic wells in the heavy oil-prone Tacacho block (Putumayo basin) in 1Q12 and 4Q12, respectively; one well in Peru block 138 (Ucayali basin, PRE-operated) in 2Q12; and up to two wells in the potentially high-impact Pirity block in Paraguay. In addition, the company plans to deploy two rigs to its Llanos Basin CPO-5 block to drill up to five (two firm) wells through June targeting 3D-defined 'Corcel-type' prospects, two of which are immediate neighbors/analogs to PMG's 10,000 bopd Yatay discovery (PDQ management is undoubtedly watching closely for results of PMG's Yatay-2 well, expected in early January).

We estimate that PDQ exited 2011 with ~$49.2 mln working capital (not including likely proceeds from the impending divestiture of the Moriche and La Maye blocks), giving it ample room to internally fund its $43 mln 2012 capital program.

**PetroMagdalena** heads into 2012 with the primary objective of giving continuity to the achievements of the second half of 2011. Management has indicated plans for $50 mln to $60 mln in capital expenditures, including 6 Llanos Basin exploration wells (of which 4 should be drilled in 1Q12) targeting unrisked resources of ~9 mln bbls (management estimate of PMD's gross working interest share). Based on both our forecasts as well as management's, the 2012 budget should be fundable from cash + cash flow. PetroMagdalena's management is guiding for average 2012 production of 4,300 to 4,700 boed (gross before royalties).

We estimate that **PetroNova** exited 2011 with $33.4 mln in working capital, which should allow it to fund all exploration wells planned for 2012. The company is currently drilling its first well into the CPO-6 block, with news expected once testing results are completed. We expect the company to drill 8 additional exploration wells on its Llanos blocks (CPO-6, 7 & 13) before year end, as well as a minimum of three wells in the Caguan-Putumayo basin (Put 2 and Tinigua blocks).

**Petromanas** heads into 2012 having secured a 2000 HP drilling rig from KCA Deutag to drill the three wells planned for 2012. With $60.3 mln in estimated working capital, we expect Petromanas will be able to fund at least 2 of the 3 wells, and possibly all 3 wells as sole risk, although the company has indicated ongoing plans to secure one or more JV partners. Management anticipates spudding a well on the Jubani prospect (Block A) this quarter (50 – 70 days to drill), followed by a well at Shpiragu in mid-2012 and at Papri in late 2012.

We expect to see active and highly material newsflow from **Petrominerales** during the first few months of 2012. The company has recently commenced drilling operations on its first Peruvian exploration well (La Colpa 2X); results from the potentially high-impact wells into the Llanos Foothills (block 25) and the testing of the Jamuco-1 well (the first would-be discovery into the so far disappointing block 31) could also provide important catalysts for the stock. Given that PMG has not historically provided forward looking production or capital budget guidance, our current 2012E production forecasts assume developing out current discoveries.

**Porto** heads into 2012 – a calendar year we believe will be critical for the company – with $25.2 mln in calculated working capital (RJL estimate). While the company's 2011 exploration drilling campaign has delivered limited success, Porto recently announced the signing of an MOU with two established European energy companies (Sorgenia and Rohöl-Aufsuchungs Aktiengesellschaft) to exploit its tight-oil play in Portugal. While Porto remains one of the higher-risk investment propositions within our coverage universe, we highlight that current market valuation is roughly in-line with our estimated working capital position at year end. We also note that Porto has opted to stack the drilling rig (thus lowering monthly cash expenditures) as it completes ongoing geophysical analysis.

**Pacific Rubiales** heads into 2012 with an estimated $345.8 mln in net working capital and a solid balance sheet following the recent refinancing of the majority of its debt into 10 year notes. We model Pacific Rubiales as funding its 2012 capital expenditures from cash flow, although note that management has not yet provided formal guidance for the year. We expect 2011 year end reserves to have increased y/y, although do point out that the company had reported a 3Q11 end reserve update, factoring in several of the drill results for the year.

With Pacific Rubiales shares discounting 2P reserves at ~US$80/bbl Brent, we believe there is a lot of downside protection already built in in the even oil prices do pull back materially from current levels. We also believe that the company's current land base can maintain continued production growth over the next 5 years, including its 500,000 boed (gross operated) production target in the mid-term.

**ShaMaran** heads into 2012 with an estimated $31.4 mln in working capital, after raising gross proceeds of $51 mln through a private placement in late-2011. Its plans for 2012 include further drilling at Pulkhana (Pulkhana 10 and 11). In addition, it plans to commence drilling operations at Atrush-2 in 2Q12.

**Suroco** is planning a 2012 net capital spending program of approximately $42.7 mln, which will include 7 appraisal wells on the Cohembi Field at Suroriente. Its exploration program includes 3-4 exploration wells on the San Antonio, Alea 1947C and Alea 1848A Blocks. We note that the company could potentially increase spending in 2H12, with the possibility of mobilizing a second rig to Suroriente, and drilling 3 more wells on the block. We expect Suroco to be able to fund its program with internally generated cash flow, proceeds from warrants, in addition to cash on hand.

Following a $47 mln investment from TAQA in late-2011, **WesternZagros** heads into 2012 with $61.1 mln in working capital (RJL estimate). Furthermore, the company is now generating cash flow through selling its oil into the domestic market. However, we note we do not expect this revenue structure to continue indefinitely.

The company is presently testing the Mil Qasim-1 exploration well, from which we would anticipate results shortly. Meanwhile, drilling of the Kurdamir-2 exploration well is ongoing, and is anticipated to be complete in mid-2012. Other activities in 2012 include procuring long lead materials and services for a 3D seismic program, an appraisal well at Sarqala (Sarqala-2) and an exploration well on the Garmain Block (Hasira-1).

## Changes to our Estimates

We have recently adjusted our 2012 and long-term foreign exchange assumption to $0.98, from $1.00 previously. Additionally, we have updated our models to reflect actual 4Q11 commodity pricing. The resulting changes to our net asset values and cash flow forecasts are highlighted in Exhibit 2 below.

**Exhibit 2: International Oil & Gas Coverage Universe – Summary of Changes**

| | Price | Target Price | Rating | 2P NAV | | Risked NAV | | P/2P | P/Risked | 2011F CFPS | | P/CF | 2012F CFPS | | P/CF |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | 04-Jan | | | New | *Old* | New | *Old* | NAV | NAV | New | *Old* | 2011 | New | *Old* | 2012 |
| ArPetrol | $0.09 | $0.30 | OP-2 | $0.16 | *$0.15* | $0.29 | *$0.29* | 58% | 31% | ($0.01) | *($0.01)* | nm | $0.03 | *$0.03* | 2.6x |
| Bankers | $4.85 | $10.50 | SB-1 | $8.45 | *$8.38* | $10.32 | *$10.25* | 57% | 47% | $0.65 | *$0.62* | 7.5x | $1.01 | *$1.01* | 4.8x |
| Gran Tierra | $5.02 | $10.50 | SB-1 | $6.18 | *$6.18* | $10.38 | *$10.37* | 81% | 48% | $1.12 | *$1.09* | 4.5x | $1.17 | *$1.19* | 4.3x |
| Greenfields | $6.90 | $12.00 | OP-2 | $10.50 | *$10.41* | $11.83 | *$11.74* | 66% | 58% | ($0.08) | *($0.12)* | nm | $1.07 | *$1.07* | 6.5x |
| Niko | $49.16 | $66.00 | OP-2 | $44.06 | *$44.63* | $66.11 | *$66.37* | 112% | 74% | $3.68 | *$3.64* | 13.4x | $4.33 | *$4.33* | 11.3x |
| Pacific Rubiales | $19.41 | $42.00 | SB-1 | $23.19 | *$23.10* | $42.86 | *$42.66* | 84% | 45% | $5.15 | *$5.15* | 3.8x | $5.40 | *$5.71* | 3.6x |
| Pan Orient | $2.00 | $4.50 | OP-2 | $4.77 | *$4.41* | $4.77 | *$4.41* | 42% | 42% | $0.93 | *$0.90* | 2.1x | $0.84 | *$0.84* | 2.4x |
| Parex | $7.76 | $9.00 | OP-2 | $4.93 | *$4.83* | $9.15 | *$9.03* | 158% | 85% | $0.91 | *$0.84* | 8.5x | $2.53 | *$2.53* | 3.1x |
| PetroAmerica | $0.12 | $0.25 | OP-2 | $0.06 | *$0.05* | $0.26 | *$0.25* | 196% | 44% | nm | *nm* | nm | $0.05 | *$0.05* | 2.4x |
| Petrodorado | $0.19 | $0.40 | OP-2 | $0.13 | *$0.13* | $0.41 | *$0.40* | 139% | 45% | ($0.00) | *($0.00)* | nm | ($0.00) | *($0.00)* | nm |
| PetroMagdalena | $1.17 | $2.30 | OP-2 | $2.07 | *$2.04* | $2.37 | *$2.34* | 57% | 49% | $0.18 | *$0.16* | 6.6x | $0.36 | *$0.36* | 3.2x |
| Petromanas | $0.16 | $0.40 | OP-2 | $0.03 | *$0.03* | $0.41 | *$0.40* | nm | 39% | nm | *nm* | nm | nm | *nm* | nm |
| Petrominerales | $17.58 | $21.00 | OP-2 | $14.56 | *$14.32* | $21.30 | *$21.02* | 121% | 83% | $6.96 | *$6.75* | 2.5x | $5.27 | *$5.27* | 3.3x |
| PetroNova | $0.47 | $1.90 | OP-2 | $0.03 | *$0.03* | $1.89 | *$1.88* | nm | 25% | ($0.04) | *($0.04)* | nm | ($0.03) | *($0.03)* | nm |
| Porto | $0.13 | $0.30 | OP-2 | $0.17 | *$0.17* | $0.31 | *$0.32* | 74% | 40% | ($0.03) | *($0.03)* | nm | ($0.03) | *($0.03)* | nm |
| Shamaran | $0.37 | $0.30 | UP-4 | $0.30 | *$0.29* | $0.34 | *$0.33* | 122% | 108% | nm | *nm* | nm | nm | *nm* | nm |
| Suroco | $0.36 | $1.00 | OP-2 | $0.39 | *$0.39* | $1.03 | *$1.02* | 91% | 35% | $0.09 | *$0.08* | 4.2x | $0.20 | *$0.20* | 1.8x |
| Talisman | $13.63 | $14.00 | MP3 | $7.08 | *$6.95* | $13.97 | *$14.11* | 192% | 98% | $3.48 | *$3.39* | 3.9x | $3.80 | *$3.64* | 3.6x |
| WesternZagros | $0.63 | $0.70 | MP3 | $0.51 | *$0.50* | $0.72 | *$0.69* | nm | 88% | $0.02 | *$0.02* | nm | $0.20 | *$0.20* | 3.1x |

Note: All dollar values are in C$

Highlighted figures denote change

Source: Raymond James Ltd.

# Important Investor Disclosures

Raymond James & Associates (RJA) is a FINRA member firm and is responsible for the preparation and distribution of research created in the United States. Raymond James & Associates is located at The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716, (727) 567-1000. Non-U.S. affiliates, which are not FINRA member firms, include the following entities which are responsible for the creation and distribution of research in their respective areas; In Canada, Raymond James Ltd., Suite 2200, 925 West Georgia Street, Vancouver, BC V6C 3L2, (604) 659-8200; In Latin America, Raymond James Latin America, Ruta 8, km 17, 500, 91600 Montevideo, Uruguay, 00598 2 518 2033; In Europe, Raymond James European Equities, 40, rue La Boetie, 75008, Paris, France, +33 1 45 61 64 90.

This document is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The securities discussed in this document may not be eligible for sale in some jurisdictions. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation nor does it take into account the particular investment objectives, financial situations, or needs of individual clients. Information in this report should not be construed as advice designed to meet the individual objectives of any particular investor. **Investors should consider this report as only a single factor in making their investment decision.** Consultation with your investment advisor is recommended. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur.

The information provided is as of the date above and subject to change, and it should not be deemed a recommendation to buy or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. Persons within the Raymond James family of companies may have information that is not available to the contributors of the information contained in this publication. Raymond James, including affiliates and employees, may execute transactions in the securities listed in this publication that may not be consistent with the ratings appearing in this publication.

With respect to materials prepared by Raymond James Ltd. (“RJL”), all expressions of opinion reflect the judgment of the Research Department of RJL, or its affiliates, at this date and are subject to change. RJL may perform investment banking or other services for, or solicit investment banking business from, any company mentioned in this document.

All Raymond James Ltd. research reports are distributed electronically and are available to clients at the same time via the firm’s website (http://www.raymondjames.ca). Immediately upon being posted to the firm’s website, the research reports are then distributed electronically to clients via email upon request and to clients with access to Bloomberg (home page: RJLC), First Call Research Direct and Reuters. Selected research reports are also printed and mailed at the same time to clients upon request. Requests for Raymond James Ltd. research may be made by contacting the Raymond James Product Group during market hours at (604) 659-8000.

In the event that this is a compendium report (i.e., covers 6 or more subject companies), Raymond James Ltd. may choose to provide specific disclosures for the subject companies by reference. To access these disclosures, clients should refer to: http://www.raymondjames.ca (click on Equity Capital Markets / Equity Research / Research Disclosures) or call toll-free at 1-800-667-2899.

## Analyst Information

**Analyst Compensation:** Equity research analysts and associates at Raymond James are compensated on a salary and bonus system. Several factors enter into the compensation determination for an analyst, including i) research quality and overall productivity, including success in rating stocks on an absolute basis and relative to the local exchange composite Index and/or a sector index, ii) recognition from institutional investors, iii) support effectiveness to the institutional and retail sales forces and traders, iv) commissions generated in stocks under coverage that are attributable to the analyst’s efforts, v) net revenues of the overall Equity Capital Markets Group, and vi) compensation levels for analysts at competing investment dealers.

**Analyst Stock Holdings:** Effective September 2002, Raymond James equity research analysts and associates or members of their households are forbidden from investing in securities of companies covered by them. Analysts and associates are permitted to hold long positions in the securities of companies they cover which were in place prior to September 2002 but are only permitted to sell those positions five days after the rating has been lowered to Underperform.

The views expressed in this report accurately reflect the personal views of the analyst(s) covering the subject securities. No part of said person's compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. In addition, said analyst has not received compensation from any subject company in the last 12 months.

## Ratings and Definitions

**Raymond James Ltd. (Canada) definitions**

Strong Buy (SB1) The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months. Outperform (MO2) The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months. Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities. Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

**Raymond James & Associates (U.S.) definitions**

Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months. Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months. Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months. Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold. Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

**Raymond James Latin American rating definitions**

Strong Buy (SB1) Expected to appreciate and produce a total return of at least 25.0% over the next twelve months. Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months. Market Perform (MP3) Expected to perform in line with the underlying country index. Underperform (MU4) Expected to underperform the underlying country index. Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon. In transacting in any security, investors should be aware that other securities in the Raymond James research coverage universe might carry a higher or lower rating. Investors should feel free to contact their Financial Advisor to discuss the merits of other available investments.

**Raymond James European Equities rating definitions**

Strong Buy (1) Expected to appreciate, produce a total return of at least 15%, and outperform the Stoxx 600 over the next 6 to 12 months. Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months. Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months. Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.

**Suitability Categories (SR)**

For stocks rated by Raymond James & Associates only, the following Suitability Categories provide an assessment of potential risk factors for investors. Suitability ratings are not assigned to stocks rated Underperform (Sell). Projected 12-month price targets are assigned only to stocks rated Strong Buy or Outperform.

Total Return (TR) Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

Growth (G) Low to average risk equities with sound financials, more consistent earnings growth, possibly a small dividend, and the potential for long-term price appreciation.

Aggressive Growth (AG) Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

High Risk (HR) Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

Venture Risk (VR) Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

## Rating Distributions

| | Coverage Universe Rating Distribution | | | Investment Banking Distribution | | |
|---|---|---|---|---|---|---|
| | RJL | RJA | RJ LatAm | RJL | RJA | RJ LatAm |
| **Strong Buy and Outperform (Buy)** | 71% | 58% | 43% | 46% | 16% | 17% |
| **Market Perform (Hold)** | 28% | 36% | 50% | 25% | 6% | 3% |
| **Underperform (Sell)** | 1% | 6% | 7% | 0% | 14% | 0% |

## Raymond James Relationship Disclosures

Raymond James Ltd. or its affiliates expects to receive or intends to seek compensation for investment banking services from all companies under research coverage within the next three months.

| Company Name | Disclosure |
|---|---|
| ArPetrol Ltd. | Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to ArPetrol Ltd..<br>Raymond James Ltd. has provided investment banking services within the last 12 months with respect to ArPetrol Ltd..<br>Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to ArPetrol Ltd.. |
| Bankers Petroleum | Raymond James Ltd. has provided non-investment banking securities-related services within the last 12 months with respect to Bankers Petroleum.<br>Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to Bankers Petroleum.<br>Raymond James Ltd. has received compensation for services other than investment banking within the last 12 months with respect to Bankers Petroleum. |
| Gran Tierra Energy | Raymond James Ltd. has provided non-investment banking securities-related services within the last 12 months with respect to Gran Tierra Energy.<br>Raymond James Ltd. has received compensation for services other than investment banking within the last 12 months with respect to Gran Tierra Energy. |
| Greenfields Petroleum Corporation | Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to Greenfields Petroleum Corporation. |
| Niko Resources Ltd | Raymond James Ltd - within the last 12 months, Niko Resources Ltd has paid for all or a material portion of the travel costs associated with a site visit by the analyst and/or associate. |
| Pacific Rubiales Energy | Raymond James Ltd - within the last 12 months, Pacific Rubiales Energy has paid for all or a material portion of the travel costs associated with a site visit by the analyst and/or associate. |

| Company Name | Disclosure |
|---|---|
| Pan Orient Energy | Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to Pan Orient Energy. |
| | Raymond James Ltd. has provided investment banking services within the last 12 months with respect to Pan Orient Energy. |
| | Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to Pan Orient Energy. |
| Parex Resources Inc. | Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to Parex Resources Inc.. |
| | Raymond James Ltd. has provided investment banking services within the last 12 months with respect to Parex Resources Inc.. |
| | Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to Parex Resources Inc.. |
| PetroAmerica Oil Corp. | Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to PetroAmerica Oil Corp.. |
| | Raymond James Ltd. has provided investment banking services within the last 12 months with respect to PetroAmerica Oil Corp.. |
| | Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to PetroAmerica Oil Corp.. |
| PetroDorado Energy Ltd. | Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to PetroDorado Energy Ltd.. |
| | Raymond James Ltd. has provided investment banking services within the last 12 months with respect to PetroDorado Energy Ltd.. |
| | Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to PetroDorado Energy Ltd.. |
| PetroMagdalena Energy Corp. | Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to PetroMagdalena Energy Corp.. |
| | Raymond James Ltd. has provided investment banking services within the last 12 months with respect to PetroMagdalena Energy Corp.. |
| Petromanas | Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to Petromanas. |
| Petrominerales | Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to Petrominerales. |
| | Raymond James Ltd. has provided investment banking services within the last 12 months with respect to Petrominerales. |
| Porto Energy Corp. | Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to Porto Energy Corp.. |
| | Raymond James Ltd. has provided investment banking services within the last 12 months with respect to Porto Energy Corp.. |
| | Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to Porto Energy Corp.. |
| Suroco Energy Inc | Raymond James Ltd - within the last 12 months, Suroco Energy Inc has paid for all or a material portion of the travel costs associated with a site visit by the analyst and/or associate. |

## Stock Charts, Target Prices, and Valuation Methodologies

**Valuation Methodology:** The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences.

## Risk Factors

**General Risk Factors:** Following are some general risk factors that pertain to the projected target prices included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation.

**Risks - International Oil & Gas**
International oil & gas companies within our research universe are subject to a range of risks, including, but not limited to: environmental risk, political risk, operational risk, financial risk, hedging risk, commodity price fluctuation risk, and currency risk. Any difference between our oil & gas price forecasts and realized commodity prices will likely have an impact on our earnings and valuation estimates for the international oil & gas companies in our research coverage universe. International oil companies in our coverage universe are inherently complex and exposed to a number of risks, most of which are beyond the company's control. These include: environmental compliance issues; personal accidents; production problems; availability of labour and equipment, and interruption due to inclement, weather conditions, road closures, and/or local protests. Other risks include, but are not limited to: uncertainties surrounding capital and operating costs; aging equipment and facilities which could lead to increased costs; actions taken by host governments; and changes in fiscal regimes.

Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available for Raymond James at rjcapitalmarkets.com/SearchForDisclosures_main.asp and for Raymond James Limited at www.raymondjames.ca/researchdisclosures.

## International Disclosures

**For clients in the United States:**

Investing in securities of issuers organized outside of the U.S., including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of, the U.S. Securities and Exchange Commission. There may be limited information available on such securities. Investors who have received this report may be prohibited in certain states or other jurisdictions from purchasing the securities mentioned in this report. Please ask your Financial Advisor for additional details.

Raymond James Ltd. is not a U.S. broker-dealer and therefore is not governed by U.S. laws, rules or regulations applicable to U.S. broker-dealers. Consequently, the persons responsible for the content of this publication are not licensed in the U.S. as research analysts in accordance with applicable rules promulgated by the U.S. Self Regulatory Organizations.

Any U.S. Institutional Investor wishing to effect trades in any security should contact Raymond James (USA) Ltd., a U.S. broker-dealer affiliate of Raymond James Ltd.

**For clients in the United Kingdom:**

**For clients of Raymond James & Associates (RJA) and Raymond James Financial International, Ltd. (RJFI):** This report is for distribution only to persons who fall within Articles 19 or Article 49(2) of the Financial Services and Markets Act (Financial Promotion) Order 2000 as investment professionals and may not be distributed to, or relied upon, by any other person.

**For clients of Raymond James Investment Services, Ltd.:** This report is intended only for clients in receipt of Raymond James Investment Services, Ltd.'s Terms of Business or others to whom it may be lawfully submitted.

For purposes of the Financial Services Authority requirements, this research report is classified as objective with respect to conflict of interest management. RJA, Raymond James Financial International, Ltd., and Raymond James Investment Services, Ltd. are authorized and regulated in the U.K. by the Financial Services Authority.

**For institutional clients in the European Economic Area (EEA) outside of the United Kingdom:**

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

**Proprietary Rights Notice:** By accepting a copy of this report, you acknowledge and agree as follows:

This report is provided to clients of Raymond James only for your personal, noncommercial use. Except as expressly authorized by Raymond James, you may not copy, reproduce, transmit, sell, display, distribute, publish, broadcast, circulate, modify, disseminate or commercially exploit the information contained in this report, in printed, electronic or any other form, in any manner, without the prior express written consent of Raymond James. You also agree not to use the information provided in this report for any unlawful purpose.

This report and its contents are the property of Raymond James and are protected by applicable copyright, trade secret or other intellectual property laws (of the United States and other countries). United States law, 17 U.S.C. Sec.501 et seq, provides for civil and criminal penalties for copyright infringement.

Additional information is available upon request. This document may not be reprinted without permission.