Energy

May 11, 2011

Industry Brief

Rafi Khouri B.Sc, MBA | 403.509.0560 | rafi.khouri@raymondjames.ca
Cynthia Yee (Associate) | 416.777.7175 | cynthia.yee@raymondjames.ca

International Oil & Gas

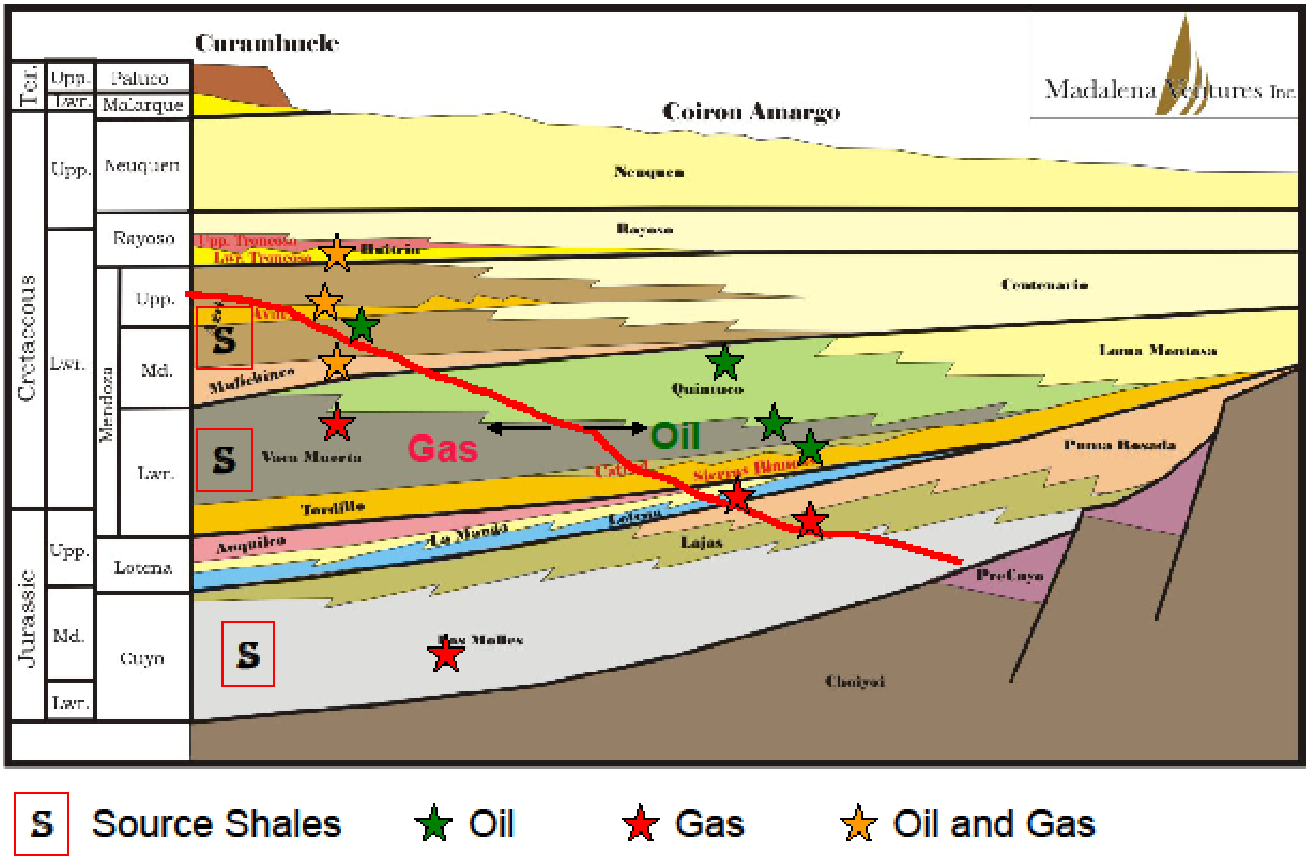
Argentina's Emerging Shale Play - Potential for Longer Term Gas Price Increase

- On May 10, 2011, YPF's CEO reported the discovery of ~150 mm boe of technically recoverable unconventional oil shale resources (from ~250 m thick Vaca Muerta (VM) formation) in Loma La Lata (Neuquén basin). YPF made it clear that that several formal steps need to be taken before these new resources could be booked as proved reserves (c.f. RJ Latin America Daily Observer, dated May 11, 2011). This follows an announcement (Dec 2010) by Repsol confirming the existence of ~4.5 Tcf of non-conventional natural gas (shale gas) in the Neuquén basin "after drilling 4 tight gas exploration wells south of Loma La Lata in the Neuquén province".
- Share prices of several Canadian listed oil & gas companies highlighting a quasi pure play focus on Argentina were up materially during May 10th - most later in the day after the YPF news was released (BOE-V up ~26%, MVN-V up ~15%, CWV-V up ~21% and AZA-V up ~8% to name a few).
- Gran Tierra (offering non pure play exposure to Argentina) shares were up ~5% on the day, although we believe this was driven by a beat on production and reserve growth potential in Colombia (Moqueta). c.f. our Gran Tierra Company Brief dated May 10, 2011.
- ArPetrol shares were flat on the day. It is our understanding that ~228.4 mln shares of RPT (from Jan 11, 2011 financing) will become free trading on May 12, 2011.
- Based on their most recent respective investor presentations, all of BOE, MVN, CWV & AZA report some form of potential for/exposure to shale play exposure in the Neuquén basin, while at this stage ArPetrol does not, in our view, have exposure to the emerging Neuquén basin shale plays. Specifically, the VM shales appear to thin out towards the east of the basin (see Exhibit 1), which is the area where we map ArPetrol's Neuquén acreage.
- We do, however, believe that these emerging oil & gas shale plays could have longer term pricing benefits for Argentine gas producers that have/are able to secure Gas Plus contracts, such as ArPetrol.
- Specifically, we believe current full cycle cost in North America (including land) is ~$4.50+/mcf (~$3.50+/mcf excluding land). In the event this cost structure is transposable to the emerging Argentine plays (we think likely, but too early in the cycle to know for sure), we would expect Argentina focused producers to expect potential pricing in-line with this cost structure prior to extensively developing these plays (thus materially higher than the ~US$2.37/mcf recently reported as realized pricing by Gran Tierra which we believe reflects current (non Gas Plus) pricing in parts of the country.
- Given that we currently model ArPetrol's NPV using $2.78/mcf in 2011 and ~$3.05/mcf for 2012 – 2014, we view the cost structure of (and thus potential longer term pricing that could be derived from) emerging Argentine shale gas plays as a longer term directionally positive for the value of ArPetrol's current conventional asset base.
- We model ArPetrol's 2P NAV (including US$0.07/shr in working capital) at US$0.17/shr. At current share price levels of C$0.15/shr, we thus believe investors are not only offered a free option on potential reserve growth from exploration lands, but also on further potential increases in realized gas sales price.

Company	Ticker Primary	Ticker Secondary	Current Price	Rating
International Oil & Gas				
ArPetrol Ltd.	RPT-TSXV		C$0.15	2
Gran Tierra Energy	GTE-TSX	GTE-AMEX	US$7.24	1

Raymond James Ltd.

Exhibit 1: Neuquén Basin Cross Section



Source: Madalena Ventures

Important Investor Disclosures

Raymond James is the global brand name for Raymond James & Associates (RJA) and its non-US affiliates worldwide. Raymond James & Associates is located at The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716, (727) 567-1000. Affiliates include the following entities, which are responsible for the 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.

Raymond James European Equities rating definitions

Strong Buy (1) Absolute return expected to be at least 10% over the next 12 months and perceived best performer in the sector universe. Buy (2) Absolute return expected to be at least 10% over the next 12 months. Fair Value (3) Stock currently trades around its fair price and should perform in the range of -10% to +10% over the next 12 months. Sell (4) Expected absolute drop in the share price of more than 10% in next 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	RJL	RJA
Strong Buy and Outperform (Buy)	70%	53%	60%	24%
Market Perform (Hold)	29%	41%	34%	10%
Underperform (Sell)	1%	6%	0%	8%

Raymond James Relationship Disclosures

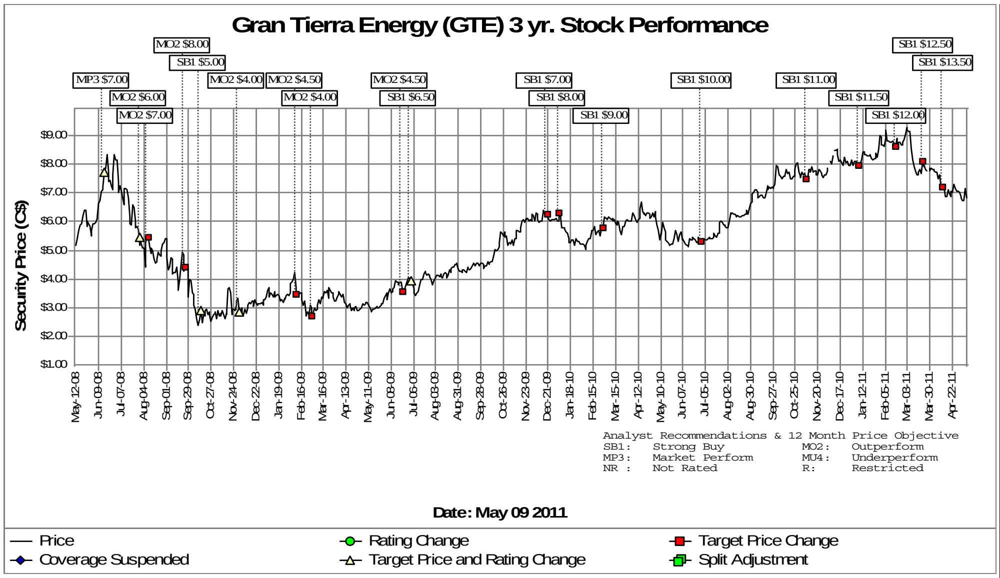
Raymond James Ltd. or its affiliates expects to receive or intends to seek compensation for investment banking services from all companies under research coverage within the next three months.

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..
	Raymond James Ltd. has provided investment banking services within the last 12 months with respect to ArPetrol Ltd..
	Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to ArPetrol Ltd..
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.
	Raymond James Ltd. has received compensation for services other than investment banking within the last 12 months with respect to Gran Tierra Energy.

Stock Charts, Target Prices, and Valuation Methodologies

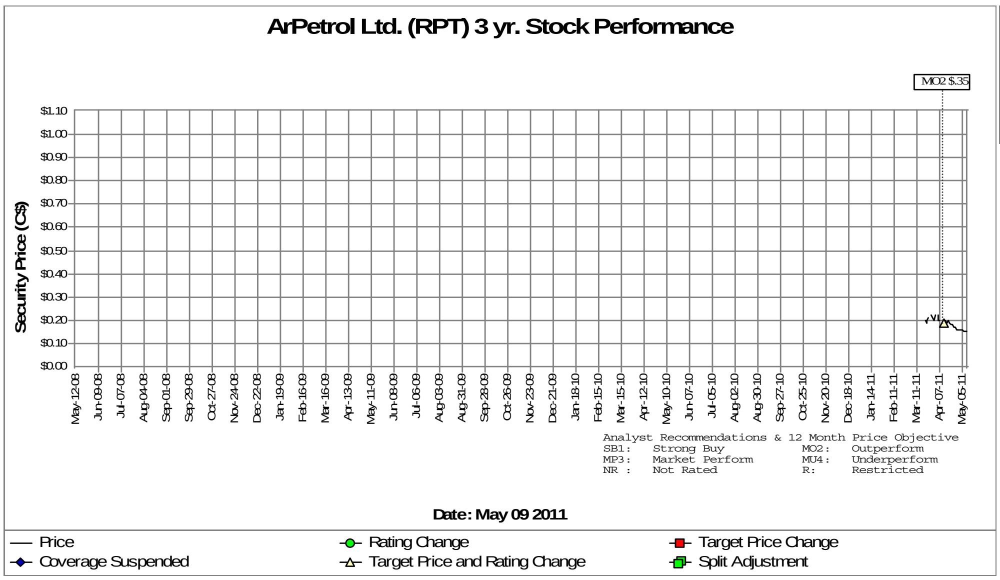
Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial 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.

Target Prices: The information below indicates target price and rating changes for the subject companies included in this research.



Update Date	Closing Price	Target Price	Rating
Apr-12-11	7.21	13.50	1
Mar-22-11	8.10	12.50	1
Feb-16-11	8.60	12.00	1
Jan-07-11	7.97	11.50	1
Nov-08-10	7.50	11.00	1
Jun-29-10	5.29	10.00	1
Feb-26-10	5.80	9.00	1
Jan-04-10	6.31	8.00	1
Dec-18-09	6.25	7.00	1
Jul-02-09	3.92	6.50	1
Jun-22-09	3.58	4.50	2
Mar-02-09	2.69	4.00	2
Feb-10-09	3.46	4.50	2
Dec-01-08	2.86	4.00	2
Oct-14-08	2.87	5.00	1
Sep-24-08	4.40	8.00	2
Aug-08-08	5.46	7.00	2
Jul-30-08	5.46	6.00	2

Valuation Methodology: We value international oil and gas companies on a Net Asset Value (NAV) basis by discounting the company's estimated future free cash flow generated from their existing assets.



Update Date	Closing Price	Target Price	Rating
Apr-12-11	.19	0.35	2

Valuation Methodology: We value international oil and gas companies on a Net Asset Value (NAV) basis by discounting the company's estimated future free cash flow generated from their existing assets.

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; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Risks - Gran Tierra Energy
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. Gran Tierra's oil & gas operations 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 militant activities. 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 Colombia's, Argentina's and Peru's governments; and changes in fiscal regimes.

Risks - ArPetrol Ltd.
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. ArPetrol's oil & gas operations 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 militant activities. 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 Argentina's 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 at www.raymondjames.ca/researchdisclosures. Copies of research or Raymond James' summary policies relating to research analyst independence can be obtained by contacting any Raymond James & Associates or Raymond James Financial Services office (please see raymondjames.com for office locations) or by calling 727-567-1000, toll free 800-237-5643 or sending a written request to the Equity Research Library, Raymond James & Associates, Inc., Tower 3, 6th Floor, 880 Carillon Parkway, St. Petersburg, FL 33716.

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.