

Unless otherwise denoted, all figures shown in C\$

Event:

- This morning we are providing an update on our international sector coverage, which is a follow-up to our recent commodity price update and outlook.

Details:

- With the recent uncertainty in the global markets, junior international E&P companies, which are generally viewed as higher-risk investments, have fallen out of focus as investors who continue to have exposure in the energy space look to domestic producers, primarily those with resource play potential, for investment.
- In our opinion, the biggest challenge currently facing the internationals is access to capital in order to develop discovered reserves and/or fund exploration programs.
- Despite this, current valuations on our international names remain compelling given that many of them are trading below their respective NAV's on a price deck that is in line with current strip pricing.
- In addition, with depressed valuations there is an increased probability that these junior internationals become takeover targets by larger internationals or state oil companies (as we have seen recently with First Calgary Petroleum and Tangyanika Energy) for their large reserve potential.
- In response to the perceived capital risk, we have incorporated increased capital risk factors to our valuations, resulting in lower target prices for the majority of internationals under coverage; however even with the increased risk factors, returns to our targets remain compelling.

Recommendations:

Overall, we continue to believe that the international E&P space offers investors the potential for material upside, and the current market correction provides an opportunity to own internationals with exposure to large in-place reserve potential at lower valuations. We recommend investors focus on two core premium international names: Cirrus and ♦Pacific Rubiales.

♦During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies or a predecessor company.

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International producers have been the worst hit in the recent market downturn:

- On Monday, our oil and gas team published a morning note entitled "Introducing The Cormark Fundamental Value Ratio For Domestic E&P's And Trusts" which, among other things, explored the recent market weakness felt by domestic producers and trusts. Stock prices had fallen ~50% on average for our Mid-Cap producer group, which was the largest drop of our three domestic groups (Small-Cap producers and Energy Trusts being the other two) reflecting their liquidity and attraction to a broad range of investors. However, we note that the international producers group has experienced the most significant drop of all, at 69%. We believe this pronounced decrease in value is due to a combination of challenges faced by international producers including currently limited access to capital, higher risk operating regions and weaker commodity prices, which together result in international producers being viewed as higher risk investments.

Figure 1 International Peer Group Share Price Performance.

	Price		% Change
	30-Jun-08	8-Oct-08	
International Producers			
◆ Antrim Energy Inc.	\$3.35	\$0.66	-80%
◆ Argenta Oil & Gas Inc.	\$0.22	\$0.05	-80%
◆ Canoro Resources Ltd.	\$1.39	\$0.33	-76%
◆ CGX Energy Inc.	\$2.11	\$0.77	-64%
Cirrus Energy Corp.	\$4.80	\$2.00	-58%
◆ Epsilon Energy Ltd.	\$8.00	\$1.70	-79%
◆ Niko Resources Ltd.	\$97.74	\$48.00	-51%
◆ Pacific Rubiales Energy Corp.	\$13.43	\$4.56	-66%
◆ Petrolifera Petroleum Ltd.	\$8.69	\$2.05	-76%
Solana Resources Ltd.	\$5.68	\$2.22	-61%
Average			-69%

Source: Bloomberg.

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Recent weakness also evident in P/NAV multiples:

- With the recent decline in the share prices, many of the international peer group is now trading at a discount to its net asset values, compared to premiums prior to the recent market weakness. NAV is a key measure for the international group, as many of the projects are not yet producing and therefore current cash flow is not a good measure of future value. We believe that these lower valuations reflect a growing lack of investor confidence that these companies will be able to realize the value from these larger international projects; however, it also presents an opportunity for investors looking to own large oil in place projects at discount prices.

Figure 2 P/NAV Comparison

	P/NAV	
	30-Jun-08	8-Oct-08
International Producers		
◆ Antrim Energy Inc.	1.5	0.3
◆ Argenta Oil & Gas Inc.	1.3	0.3
◆ Canoro Resources Ltd.	0.8	0.2
◆ CGX Energy Inc.	NA	NA
Cirrus Energy Corp.	3.3	1.4
◆ Epsilon Energy Ltd.	2.5	0.5
◆ Niko Resources Ltd.	2.4	1.2
◆ Pacific Rubiales Energy Corp.	1.1	0.4
◆ Petrolifera Petroleum Ltd.	1.6	0.4
Solana Resources Ltd.	1.9	0.8
	1.8	0.6

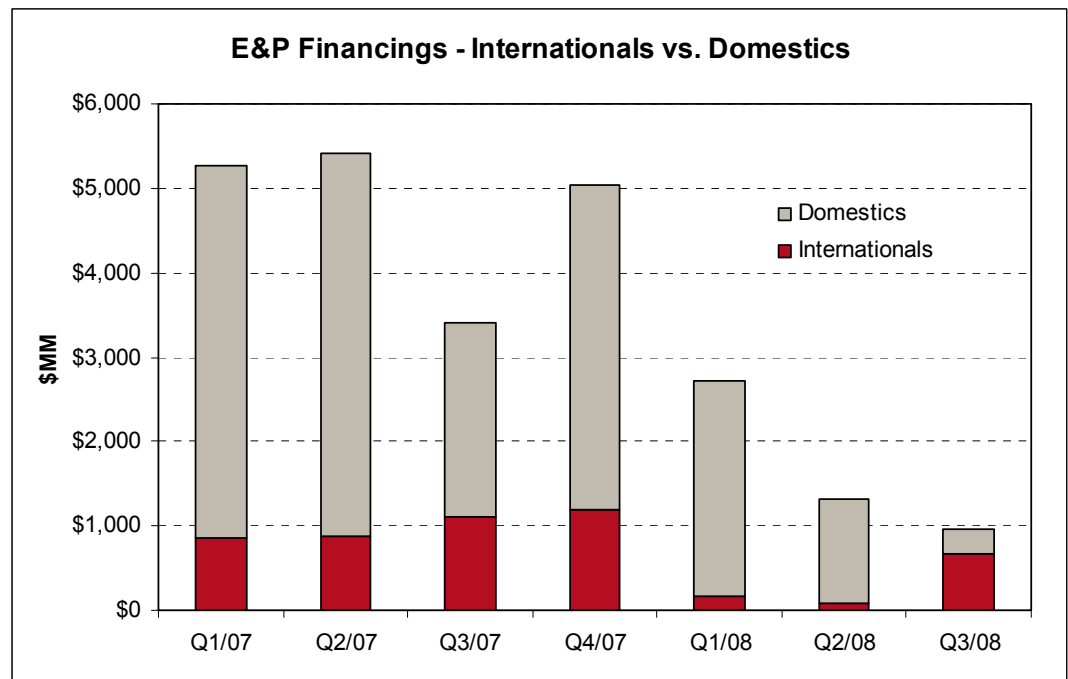
Source: Bloomberg, Cormark Securities Inc.

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Market weakness makes it challenging to raise capital:

- Investor sentiment is also evident in the recent lack of financings in the whole E&P space. This lack of availability of capital will likely have a greater impact on international E&P's than their Domestic counterparts as international projects generally require more capital to bring to first production and cash flow. This makes an international producer more reliant on the capital markets for funding and as such, the lower activity in the capital markets creates a challenging environment for under funded internationals looking to grow.

Figure 3 E&P Equity Financings (January 1, 2007 to Present)



Source: FPinfomart.

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A strong balance sheet becomes a key component over the coming months:

- As a result of the challenging equity markets, we believe that international companies that have a balance sheet strong enough to allow them to focus on drilling/development projects are well positioned to come out of the downturn stronger than those that are under funded. The majority of our international peer group have access to capital to continue with their programs; however, with tightening credit markets we note that banks may be forced to tighten lending practices going forward, which could directly impact a number of our international producers that have contingent lines based on project development.

Figure 4 Financial Standing

	D/CF		Net Debt YE08 (\$MM)	Current LOC (\$MM)*	Net Debt / LOC
	2008E	2009E			
International Producers					
◆ Antrim Energy Inc.	NA	8.5x	(33.9)	50.0	NA
◆ Argenta Oil & Gas Inc.	NA	NA	(6.9)	NA	NA
◆ Canoro Resources Ltd.	0.4x	1.4x	6.5	NA	NA
◆ CGX Energy Inc.	NA	NA	38.4	NA	NA
Cirrus Energy Corp.	NA	NA	(83.2)	46.2	NA
◆ Epsilon Energy Ltd.	NA	NA	(18.3)	11.0	NA
◆ Niko Resources Ltd.	NA	NA	(32.6)	550.0	NA
◆ Pacific Rubiales Energy Corp. (1)	0.1x	NA	29.9	240.0	NA
◆ Petrolifera Petroleum Ltd.	0.4x	0.7x	35.0	88.0	40%
Solana Resources Ltd.	NA	NA	(77.6)	NA	NA
Average	0.3x	3.5x			

* Line of credit

(1) PRE net debt includes \$240 million of convertible debentures.

Source: Company Reports, Cormark Securities Inc.

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Activity in the international M&A market should limit the downside for the solid businesses:

- Despite the near-term challenges, international producers continue to explore for large oil in place reserves and recent market activity shows that if the market is not going to fairly value these reserves, then these companies could become potential take-over targets. Although the commodity prices are off their highs, the run-up in prices has created some very well funded National Oil Companies (NOC) that may look to deploy this excess capital through the acquisition of large oil in place reserves. We have seen this recently, with two transactions in the current uncertain market that were completed at 53% and 80% premiums to pre-announcement levels, both by NOC's (outlined in the table below). As a result, we believe there is an implied limit to the downside for international companies that are building solid businesses in the face of declining market prices, especially for those that are funded to carry out their planned capital programs.

Figure 5 Recent M&A Transactions

Company	Price			Purchase Price Metrics	Buyer
	Pre-Announcement	Bid	Premium		
First Calgary Petroleum	\$2.36	\$3.60	53%	Purchase Price: \$923 MM 2P Reserves: 190 MMBOE \$4.86 per BOE 2P	Eni S.p.A.
Tanganyika Oil Company Ltd.	\$17.50	\$31.50	80%	Purchase Price: \$2.1B 2P Reserves: 851 MMBOE \$2.47 per BOE 2P	Sinopec Int. Petroleum

Source: Company Reports, Bloomberg

Conclusion:

- With the uncertainty in the overall markets and lack of funds flow into the international E&P space, we feel that it is prudent to reflect the increased capital risk in our target prices. Coinciding with the increased capital risk is an increased timing risk, reflecting the possibility that some projects may be delayed due to the potential lack of available capital. As such, our capital and timing risk factor has been increased on the majority of our international coverage universe, to the 40%-50% range from the 10%-20% range, resulting in lower price targets as outlined in the following table. That said, it is important to note that these key projects, although they may end up being delayed, are not going to disappear. With the large reserve in place nature of most of the key projects, we believe that the international peer group is set up to be the biggest winner in a market recovery.

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Figure 6 Changes to Target Prices

	Price 8-Oct-08	Target Price		Target Return
		Old	New	
International Producers				
◆ Antrim Energy Inc.	\$0.66	\$5.00	\$4.00	506%
◆ Argenta Oil & Gas Inc.	\$0.05	\$0.60	\$0.10	122%
◆ Canoro Resources Ltd.	\$0.33	\$2.75	\$1.50	355%
◆ CGX Energy Inc.	\$0.77	\$8.00	\$5.00	549%
◆ Cirrus Energy Corp.	\$2.00	\$5.75	\$5.75	188%
◆ Epsilon Energy Ltd.	\$1.70	\$6.50	\$4.00	135%
◆ Niko Resources Ltd.	\$48.00	\$125.00	\$90.00	88%
◆ Pacific Rubiales Energy Corp.	\$4.56	\$20.00	\$17.00	273%
◆ Petrolifera Petroleum Ltd.	\$2.05	\$16.50	\$10.00	388%
◆ Solana Resources Ltd.	\$2.22	\$6.50	\$6.50	193%

Source: Bloomberg, Cormark Securities Inc..

Upcoming potential catalysts:

- Within the international peer group, valuations continue to be driven by company specific catalysts that expose the investor to the potential for material upside. For reference, we have identified the upcoming potential catalysts for our international coverage list below:
 - **Antrim Energy** – FDP to be submitted to DBERR this quarter for approval mid-2009; first oil from Causeway by mid-2010
 - **Argenta Oil & Gas** – Third party drilling on the Loma block, expected before year-end
 - **Canoro Resources** – Results from Amguri-12, expected in the coming weeks
 - **CGX Energy** - Completion of the 3D seismic program, expected by year-end, and a resulting successful search for a JV partner in its first well offshore Guyana
 - **Cirrus Energy** – Results from the Q14 exploration well (expected in 2-4 weeks); Successful drilling of the M7 production well and resulting first gas expected by year-end
 - **Epsilon Energy** – Results from the AI Waya 2 sidetrack (expected in the coming weeks), first results from frac'ing the horizontal wells in Pennsylvania (mid-November) and results from the West Mahwra 2 exploration well (60-90 days).
 - **Niko Resources** – First gas from D6, expected before year-end.

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- **Pacific Rubiales Energy** – La Creciente gas production ramping up to 100 MMcf/d in early 2009; Rubiales development on track for ramp to to 126,000 B/d gross by September 2009.
- **Petrolifera Petroleum** – First drilling in Colombia (imminent) and Peru (May 2009).
- **Solana Resources** – Pending completion of the merger with Gran Tierra Energy this month.

Recommendations:

- In the current market volatility we believe investors should focus on the international companies that have the best combination of strong management, development and exploration opportunities and strong balance sheet. In our opinion, the two international E&P's on our coverage list that have the best combination of these attributes are **Cirrus Energy** and **Pacific Rubiales Energy**, and should be the go to names for investors looking for exposure to the international space.

We, Todd Kepler, David Beddis, Brent Watson, Dustin Daniel, Jason Sawatzky and Natalie Steenhoven hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company(ies) and its (their) securities. We also certify that we have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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Cormark's recommendation terminology is as follows:

Top Pick	our best investment ideas, the greatest potential value appreciation
Buy	expected to outperform its peer group
Market Perform	expected to perform with its peer group
Reduce	expected to underperform its peer group

Our ratings may be followed by "(S)" which denotes that the investment is *speculative* and has a higher degree of risk associated with it.

Additionally, our target prices are set based on a 12-month investment horizon.

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