

Colombian Oil, the Next Big Thing?

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As a general rule, the most successful man in life is the man who has the best information

The Colombian government has:

- Lifted restrictions on foreigners operating in the oil and gas industries
- Lowered royalties
- Improved security

These initiatives have paid off in a big way for Colombians. Colombia's oil-licensing agency, ANH, said last week that Colombian and foreign companies operating in the country produced an average 704,000 barrels of crude a day in October, that's 34% higher than in 2005.

Armando Zamora, head of the ANH, announced Colombia's oil industry has attracted about \$3.5 billion in 2009 from foreign investors, expectations are for the same amount to be invested in 2010 and the country's oil industry has enough momentum behind it to reach production of 1 million barrels a day by 2015.

The recent and expected future rise in production levels will come from new discoveries and efforts by firms to boost production at existing fields. Two of the largest growth stories, and investor successes, in the global oil patch during the last two years have been in Colombia - Pacific Rubiales (PRE-TSX \$14.50) and Petrominerales (PMG-TSX; \$17).

Rubiales is a fast growing heavy oil producer whose production has grown from 21,000 barrels of oil per day (bopd) to 41,000 bopd in the last two years, and has a clear path to doubling that production again by the end of 2010. The stock has gone from \$2 - \$14.50 this year.

Petrominerales has hit some very large wells, up to 10,000 bopd, and has grown production from 2000 to 30,000 bopd in the last 5 years. The stock went from \$3 - \$22 per share in 2007 and from \$5 - \$17 this year.

This kind of growth has spawned a quick land rush in the South American country, with management from both these two companies and ex-management from the state oil company trying to get in on the action.

The result? Several new junior oil explorers with top quality management and big land positions in a country with proven permissive geology. And all of them have been able to

raise large amounts of money - so the brokers and analysts are bringing their promotional pizzazz to these plays.

All this sounds great for retail investors, and it is, but there is one big caveat: these companies have issued large amounts of stock at low prices to get their initial land positions. So it may take a lot of production growth for the value to catch up to valuations. However, if they strike one good well into a large oil formation the large amount of shares outstanding will no longer be an issue.

Here are briefs on three Canadian listed junior Colombian oil plays. Each of these companies has one key person with big company experience in Colombia, and a former high-ranking official from some national oil company (NOC) in South America.

Canacol Energy CNE-TSX.v

Share Price \$0.34
Current Production: 2000 bopd
Shares Outstanding: 326 million
Net Cash: \$12 million

President and CEO Charle Gamba was VP Exploration for Occidental Petroleum in Colombia from 2004 to 2006. The COO, Mark Holliday, comes from Petrominerales. Director Alvaro Barrera-former President of Ecopetrol, the state oil company of Colombia.

Canacol has interests in 22 fields, including a couple in Brazil and Guyana. The Corporation has increased net 2P reserves by 347%, from 1.247 million barrels of oil (mmbo) in 2008 to 4.334 mmbo in 2009, with a corresponding increase in NPV10 of 72% from US\$55.817 million in 2008 to US\$96.171 million in 2009. The Corporation has also established a significant conventional oil exploration position with interests in 15 exploration contracts covering over 2.4 million net acres. The Corporation operates two producing oil fields, Rancho Hermoso (100% working interest) and Entrerrios (60% working interest), located in the Llanos Basin of Colombia. In Brazil the corporation has a non-operated 47.5% working interest in 4 producing oil fields located on the Reconcavo Basin.

But their big story is that they have a 10% interest in a billion barrel discovery called Capella (The Capella heavy oil discovery accounts for the majority of additional reserves added during the course of 2009) - and they own 100% of two nearby blocks, with what looks like similar geology.

Canacol's plan is to slowly build up production over the coming 6 months with low risk and inexpensive drilling, before going after these much larger targets.

Alange Energy Corp. ALE-TSX.v

Share Price	\$0.495
Production	1534 bopd
Shares Outstanding:	745.4 million
Market Cap:	\$447.24 million
Net Cash:	\$40 million

CEO and Chairman Luis Giusti was formerly Chairman and CEO, Petróleos de Venezuela, S.A. (PDVSA) and is an External Director of the Royal Dutch Shell Group. Director Mauricio Salgar was COO of Ecopetrol (Colombia's state national company) until 2007.

Alange has interests in 11 properties in Colombia. The key producing asset is the Cubiro Block in central-eastern Colombia, with the Santa Cruz in the north, the La Punta in the middle, and Topoyaco property in the south of the country, providing exploration potential.

Alange will drill more than 50 development wells and roughly seven exploration wells by the end of 2010. Alange Energy has implemented exploration and development programs to increase the current total production of approximately 3,000 barrels of oil per day ("bopd") to approximately 5,500 bopd by the end of 2009 and to over 10,000 by the end of 2010. As a result of the acquisition of an additional 19.27% working interest in Cubiro production Alange Energy's share of production will increase by 600 bopd or almost 50% to reach 1,800 bopd at present and then increasing to about 3,300 bopd by the end of 2009 and to more than 6,000 bopd by the end of 2010.

Management is also confident that it will be reporting an increased level of total oil reserves and prospective resources for the Cubiro property when it prepares an updated National Instrument 51-101 technical report on its properties at the end of the year.

Alange's portfolio has a lot of natural gas as well as oil.

Petroamerica Oil Corp. PTA -TSX.v

Share Price	\$0.53
Production	0
Shares Outstanding:	321,654,094
Net Cash:	\$34 million

Petroamerica is the newest of the bunch. The big coup for Petroamerica is that they have recruited most of the senior operational management from Petrominerales (PMG-TSX) – Paul Kroshko, Anh Vardalos and Wade Spark. This team was instrumental in developing Petrominerales' key asset, the Corcel Field. Wells there have an IP (initial production) rate of 10,000 bopd - BIG wells.

One director from Pacific Rubiales, Augusto Lopez, sits on the board of Petroamerica and Ron Pantin, CEO of Petro Rubiales, is on the Advisory Board.

So between the management track record at Petrominerales, and the fact that a couple Pacific Rubiales people are involved early, Petroamerica could quickly build into a fast growing oil producer. If Pacific Rubiales gets bought out (Pacific Rubiales has reached a production level of 117,784 barrels of oil equivalent per day (boepd) of gross operated production, equivalent to 48,667.7 boepd net after royalties in all its assets in Colombia) than Petroamerica is the junior that should benefit the most, as it appears key members of that team could be moving here.

Petroamerica has interests in 5 properties in three major oil producing basins in Colombia, for a total of more of more than 550,000 acres. Petroamerica recently announced it has been awarded a farm-in by Pacific Rubiales Energy Corp. on the CPO-1 Block which is located in the Llanos Basin of Colombia. The CPO-1 Block lies on trend and to the northeast of the Caracara field.

Conclusion

As these well-funded plays start drilling, institutional and retail investors alike will be watching to see which horse comes out ahead. Shouldn't Colombian oil be on every investor's radar screen?

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