

Pennant Energy Proves a Profitable Producer

By Marco A. Murillo

Instead of running with risk in view of huge oil findings, the company maintains a conservative approach based on guaranteed opportunities and diversification on drill-ready or existing wells within Canada.

An August article in Canadian Business magazine titled "What's Next for the Oil Patch?" included a brief discussion that portrayed a not-so-bright future of junior energy companies in Alberta. Intrigued by the news, Resource Investor talked with Thomas Yingling, president of Pennant Energy Inc. [TSXV: PEN] a junior company successfully venturing into oil and gas. Yingling's opinion is clear: Alberta has an excellent, unmatched environment for oil and gas exploration and production (E&P).

Contrary to the fragile environment the article presents, E&P opportunities in Alberta are better than ever before, he says. Rigs are available at realistic prices, the price of the oil mix is up, the legislation works, and the number of experienced workers, technicians and managers outnumbers most of the other producing locations in the world. Moreover, Yingling said that the current Canadian taxation scheme for income trusts benefits the junior companies because it freed up lots of Crown Land allowing juniors to access more projects. Under the new taxation law, many income trusts are pulling back from the arena.

At the time trusts restructured their assets bringing down the oil rig count, they released lots of the pressure on production costs too, due to availability of resources, both human and machinery. It is said that a steep decline in oil rig count has helped push the costs of drilling down 10% since last year. Venture capital may be the main vehicle junior resource companies use to finance their operations, but good financial and operations management are key in keeping a junior resource company afloat. These savings in production costs can translate into increased shareholder value.

For Yingling, profit strategies involve low cost growth but also industrious growth – "growth through drilling" as Yingling says, and it is paying off. As a venture capitalist and former president of an investment-consulting firm, Yingling decided to steer Pennant Energy towards strong financials rather than risk. He has taken this Canadian junior with a background in mining exploration for zinc in BC and turned it into a modest Canadian oil producer. His successes almost immediately brought revenues into the financial statements. By June 2007, Pennant reported a yearly production of approximately 3,019 bbl of oil.

Pennant earned 15-45% interest in nine wells from the Willinston Basin in southwestern Manitoba from Rideau Petroleum Ltd., which operates over 90 wells within the Daly field. In 2002, Rideau ranked sixth out of the top 25 operators in the province and reported a cumulative oil production from the operated wells of 1.88 million barrels by the end of 2003.

The Willinston Basin holds most of the oil produced in Manitoba. Discovered in the 50s, commercial light oil production commenced in 1985 with the discovery of the Bakken A Pool in the Daly Field. Exploration since then has extended the productive area to the north and south. Over 6,000 wells have been drilled at the basin by operators including Tundra Oil and Gas, Rideau Petroleum, Grand Banks Energy Corp. and Kiwi Resources.

Pennant's light sweet oil pours from the Lodgepole and Bakken formations at an API gravity of 39° - 40° warranting a net back price that averaged .07 bopd for most of 2007. Initial production from the first well was recorded at 42.8 bopd while production from the second well drilled averaged 35.5 bopd. Production from the Bakken makes up 4% of the provincial total, which is estimated to be close to 18,000 bbl/d. The light sweet crude oil is easy to process and once refined is sold to local buyers or exported into the USA. Wells in this oil field are expected to produce for another 20 years paralleling the producing life of older neighbor wells.

Pennant's investment in Manitoba proved to be low-risk and, more importantly, had a payback period of only six months, giving the company producer status, something rarely found after one deal. Pennant has no debt. Current cash-flow from its Manitoba operations allows the team to work with its own resources preventing share dilution and giving investors stronger potential for capital gains from future ventures. Although the company believes that Manitoba is a province with excellent conditions to find untapped oil and gas resources, it is also considering low-risk, quick-return opportunities in Alberta and Saskatchewan.

On March 1, 2005 Pennant announced test results of the Meekwap Well in Northern Alberta. During the first days of production, the oil free flowed on its own at rates of 400 to 1,100 barrels of oil per day and solution gas flowed at up to 350 mcf per day. By September 2005, the production rate stabilized at 100 bopd. The company earned the 8% to 4% (after payout) of the working interest to participate in this and another three additional wells on the Meekwap prospect by contributing with 8% of the costs to drill and test the field.

The E&P team at Pennant Energy integrates the joint efforts of leading exploration geologist James Britton, P. Geol. P. Eng., Alan Carswell, David Finn and Rod Morris. Britton's experience spans over forty-five years and four hundred and thirty oil and gas wells, some of which are still abundant producers. He engineered Dynamic Oil & Gas Inc's growth from 25 boepd to over 5,000 boepd. David Finn has been active in the oil & gas business for over 30 years. His experience in western Canadian sedimentary basins comes from working at the geological and engineering departments of Amoco Canada. From Amoco he moved to the British Columbia Petroleum Corporation where he was responsible for monitoring the development of northeastern British Columbia gas fields. Allan Carswell is an accomplished and well-renowned geophysicist with a multi-disciplinary geological background in the oil & gas business. He has also been involved in a number of important oil pool discoveries across North America and has earned various academic awards including being the beneficiary of a three-time Canadian Society of Exploration Geophysicists Scholarship and two-time holder of a Natural Sciences and Engineering Research Council (NSERC) graduate scholarship.

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