

WILDCAT WILLIE**Skip 'www' and think 'WD-40'... as in oil**

Willie confesses to being Wary, Wistful and Weary over the e-stock cleansing... and racks up profits in the oil patch

I realize that it might not be fashionable to discuss the Internet these days, after the mid-April massacre of tech stocks in general and dot.com stocks in particular.

But old Willie had a thought. Add Wary or Wistful or, better still, Weary to Wildcat Willie and there you have it - three W's and the start of an e-mail address.

But the 3 W's might be as close as Willie gets to the high-tech world these days. And that's just fine with him.

Yes, Willie is wary. The recent market high jinks would unnerve anyone.

And yes, he is wistful, wishing for simpler times when long-term investment meant years, not months.

And finally, yes, Willie is weary of a market that has refused to recognize the value and new price realities in the oil and gas sector. But now, in recent weeks, that might have begun to show signs of changing.

By mid-April, oil prices were showing signs of stabilizing above US\$25 per barrel. Natural-gas prices know no such equilibrium; they continue to move up to more than \$US3 per mcf (nymex gas) and more than \$4 (Alberta Spot).

Now, of course, spot prices don't translate directly to well-head prices. Most producers usually have a blend of gas prices, but for many of them, it looks as if prices will exceed \$3 per mcf this year, while those with lots of spot gas might achieve more than \$3.50.

These prices compare to an average of \$2.55 last year and \$1.45 five years ago.

Refugees from the tech mugging might want to look again at some oily and gassy names.

No, Willie hasn't been shooting the lights out lately with his performance, but he's back in positive territory for the year and up two per cent from last time.

Willie figures it's going to get a lot better from here. Good prices are helping to encourage investor interest, as is the beginning of takeover fever - the bids for Ulster, Northrock and Ranger might just be the start of an onslaught of takeover activity.

Just what the doctor ordered to get money flowing back into the oil and gas sector of the market.

While the triple-W in dot.com stocks might be giving investors the willies these days, there are some other initials that are giving Willie

and others the willies these days.

Those initials are RSE. They stand for Ross Smith Energy. These boys hoofed it out of oil-patch shop Peters & Company almost two years ago and set up a specialty research business catering to institutions.

Using sleuths and third-party engineers, RSE has taken a much more rigorous and critical approach to sussing out company production numbers and reserves.

Bravo. This type of product is especially in demand these days after the spectacular busts of Probe, Blue Range and Merit.

The trouble now is that any whiff of negative mention in an RSE report on a company is enough to send investors off their lunch and their shares.

But even worse, in recent months the mere rumor that RSE is about to do a report or is doing a report on a company is having the same effect.

First it was Compton. Market worries about its numbers placed a shrinking spell on the share price. Then stories of an upcoming RSE report put another jinx on the price.

But once the report came out and began to be leaked (allegedly no busts in the

numbers), the share price began to recover.

Most recently, the RSE jinx has fallen on Genesis Exploration (GEX-TSE, \$7.60, 403-266-6900, www.genesisexp.com).

Although it appears that RSE has not done a recent one on Genesis (these reports are meant to be top-secret), they supposedly pinpointed some questions to be asked of Genesis in some kind of industry overview.

Well, starting a few weeks ago, the rumors began about a negative S&R report on Genesis.

With some analysts already worried about a pause in production growth (production in the first-quarter 2000 will be flat with fourth-quarter 1999), this was enough to send the share price in an even steeper dive to a low of \$7.40.

Willie's view is that all this skepticism is healthy, but in this case it appears misdirected. Nothing has a guarantee in this crazy business, but Willie figures this will be one of the few mid-1999 start-ups to make it not only through the 15,000 BOE/d barrier, but to keep right on growing beyond 20,000 to 30,000 BOE/d at least.

Willie's confidence in Genesis comes from five years of watching the team of David Wilson and Don Sabo take Genesis up the growth curve. These two inspire confidence with their forthright and open approach to running their business.

Except for 1998, this team has always made its forecasts (in 1998, timing issues delayed production but all estimates were made in 1999), and it appears likely that they will make their 15,000 BOE/d estimate for this year as well.

That is because, in spite of a slow start in first-quarter 2000, production is now on the move up again, first to 14,000, and then to 15,000 BOE/d and above in a month or so. The fourth quarter is pegged at 16,400, with an exit close to 17,000 BOE/d.

Remember this: Genesis is trading at a 4.5 debt-adjusted cash flow multiple for 2000 - far below its historical average.

And in spite of the naysayers, Genesis has had a great first quarter, with the drill bit making at least eight new discoveries that will lead to lots of development drilling.

In Willie's opinion, this is a company and a team to stick with through thick and thin.

Willie sticks his neck out and calls for a \$12-per-share price within 12 months.

Reviewing the holdings

Here are a few observations on portfolio holdings:

Berkley Petroleum (BKP-TSE, \$9.35, 403-571-3600). In fourth-quarter 1999 it once again missed its quarterly numbers but promises not to in first-quarter 2000. No one is buying that yet, for good reason! That leaves the big California gas play to justify a higher price.

The upside from California? Up to \$9 per share based on a 4-bcf discovery. Meaningful test results from the company's 19,724-foot well there will come by the end of May. The exploration upside here keeps Willie hanging in - just.

Bonavista Petroleum (BNP-TSE, \$20, 403-213-4300). Great growth, but a sky-high price. Willie and many others (obviously) won't bet against the superb management team running this outfit.

Compton Petroleum (CMT-TSE, \$1.70, 403-237-9400). Looks cheap, but the market is taking a wait-and-see attitude because of high debt levels and high finding costs in 1999. This could be the comeback story of 2000 if management can reduce debt as promised, make its numbers and get finding costs down.

Edge Energy (EDG-TSE, \$2.40, 403-269-3779). High debt levels and less than stellar results in 1998 and 1999 have put a cap on the share price.

The street thinks this will be the breakout year, with beefed-up management and some great new exploration areas on Indian and Metis lands. Willie thinks it will be, too, but it won't be easy with its debt constraints.

Ionic Energy (IOI-TSE, \$3, 403-264-8668). This story has lived up to its top billing and its premium multiple.

It has already recovered from a 500-bbls/d production loss in

December (a big well dropped drastically) and continues to build up its land base and production. Willie's target price might be conservative.

Player Petroleum (PYP-TSE, \$5.20, 403-205-3952). Watch out! Production is set to go from 2,000 BOE/d to close to 3,000 BOE/d within a month or so. A new oil discovery also adds excitement.

This remains one of the best of the best of the small companies in Calgary. Biggest hurdle? Lack of market liquidity.

Real Resources (RER-TSE, \$0.65, 403-262-9077, www.realres.com). See last month's column! Recent drilling success has now taken productive capacity to more than 3,000 BOE/d.

The share price has responded, but Willie now includes this in the elite small-company category.

Renata Resources (RTA-TSE, \$0.53, 403-231-3300, www.renata-res.com). Once it buys out a major joint-venture partner, its debt to cash flow will exceed 2 to 1 times. In the short run - no market fireworks.

Longer term? The company's horizontal cadmium play may make it a serious long-term winner. A good hold with no rush to add to the position quite yet.

Saddle Resources (SRI-CDNX, \$0.70, 403-269-1800). The true extent of this company's growth will not show up until the second quarter, when production

should beat 1,000 BOE/d. Its small size and small production base historically (650 BOE/d in the first quarter) is a handicap.

But the company's strategic position in the Rainbow area of Alberta makes it a strong takeover candidate as well as being a source of above-average internal growth.

Willie's hunch? This will be one of the best small-company market performers in 2000.

Search Energy (SGY-TSE, \$1.50, 403-261-8810). In the 4,000- to 5,000-BOE/d size, Search is the best of the best in Willie's eyes.

Production will bust through 5,000 BOE/d by summertime (it is 4,100 BOE/d now and rising), and the company's deep-gas play at Klua provides large additional upside.

So does the company's track record of astute corporate deals. Expect one in 2000. Also remember that Petro-Canada is a major shareholder.

Tethys Energy (TET-TSE, \$1.65, 403-294-3550). Cheap and solid. The question mark here is about from where the next growth burst will come. That's the main handicap on this story. It will be worth the wait.

Velvet Exploration (VLV-TSE, \$4.15, 403-265-0088). The big foothills discovery needs more work to prove it can produce the 10 to 20 mmcf/d needed to make it truly commercial. That's one

reason the price is down 20 per cent from recent highs.

But look out - first-quarter results should be better than expected, thanks to great success in its less-romantic drilling areas. Willie still rates this as a great buy. Management is tops.

Vermilion Resources (VRM-TSE, \$6, 403-269-4884). Buy it. Growth prospects have never been better, and the shares remain undervalued relative to its peers.

Ventus Energy (VTU-CDNX, \$6.50, 403-218-3606) Debt worries have been overdone. By year-end, the company's debt will be way below its bank line (expected to increase to \$75 million shortly).

Production is now at 7,000 BOE/d and should exceed 8,000 BOE/d by year-end.

(c) Copyright 2000 by MPL Communications Inc.,

Excerpted from Investor's Digest of Canada, May 5, 2000

Reproduced by permission of Investor's Digest of Canada, 133 Richmond St. W., Toronto, ON M5H 3M8