



**CORPORATE UPDATE**

June 22, 2011

**ANGLO CANADIAN OIL CORP.**  
(V-ACG) \$0.150

**RATING: BUY**  
(unchanged)

**TARGET: N/A**  
(unchanged)

**Summer Nordegg Program –  
Optimizing Geology, Not Technology**

- ▶ **EVENT: Summer program aims to gather data on the Nordegg (and the Montney) without making a large investment in completion technology.** We sat down with Anglo management to get more clarity on exactly how the summer program has changed in light of the recently announced farm-in with Quatro. Discussed more fully within, Anglo will satisfy its requirement to validate and preserve Quatro’s Montney oil rights by way of two low-tech narrow bore verticals. (Past versions of the summer program contemplated, 9 5/8” diameter wells, allowing for costly horizontal multi stage frac completions.) Simply put, this summer’s program is now primarily focused on identifying and optimizing the geological parameters needed to commercialize the Nordegg. Look for these learning’s to be coupled with the latest in completion technology in a subsequent round of drilling.
- ▶ **IMPACT: We come away less concerned that Anglo will be dragged into costly Montney undertakings.** With roughly 270 sections of Nordegg rights, we expressed concern in our last note that success in the Montney might prove to distract attention and capital away from the primary objective –validating the Nordegg. Upon closer inspection, it seems clear the summer program is not destined to make big splash by applying high end completion technology in either the Nordegg or the Montney. That said, we are comforted by the fact that when it does come time to marry the geology and the technology the probability of success should be much higher. Moreover, Anglo remains committed to dedicating its capital to the Nordegg without being distracted by other horizons.
- ▶ **VALUATION: Summer activity heating up in the Nordegg.** While this play has demanded patience, investors can take some comfort that activity levels in the Nordegg are finally starting to heat up. Anglo shareholders stand to be rewarded with any notable success achieved on the path to commercializing the Nordegg. With an EV of \$17 MM and ~270 Nordegg sections, no other producer offers such exposure to this emerging resource play. We reiterate our **BUY** rating (**SPECULATIVE** risk rating) - at this time we carry no target price.

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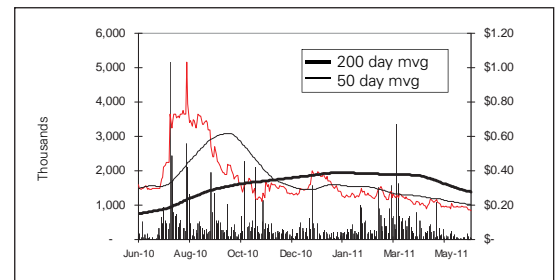
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**Company Statistics**

Risk	SPECULATIVE
Basic Shares O/S	200.7 mm
F.D. Shares O/S	243.3 mm
Warrants O/S	26.7 mm
Stock Options O/S	15.9 mm
Market Capitalization	\$30 MM
52-week Range	\$1.07/\$0.15
30 Day Ave Trading Volume	121,000
Enterprise Value	\$17 MM

**Financial Summary**

Anglo Canadian Land (Sections)	269 (100% WI)
Third Party (AJM) PIIP (Billion bbls)	6.5
Area	Grand Prairie, AB
Depth (meters)	1,160 - 2,400
Net Pay (meters)	21 - 27
Reservoir Porosity (%)	5 - 18
Water Saturation (Fraction)	0.15 - 0.30
Permeability (mD)	0.1 - 10
API (Oil)	17 ->27
Lithology	vf sandstone/ siltstone, shale, carbonate, coquina



**PI Financial Corp. has received compensation for acting as a fiscal agent for ACG in the previous 12 months. See the disclosure section for additional details.**

**Corporate Information**

Anglo Canadian Oil Corp. (V-ACG) is a Canadian oil company pursuing the the “Nordegg Member” source rock in Alberta and Bakken heavy oil in southwest Saskatchewan.

**A Disclosure fact sheet is available on Pages 6-7 of this report.**



## Discussion

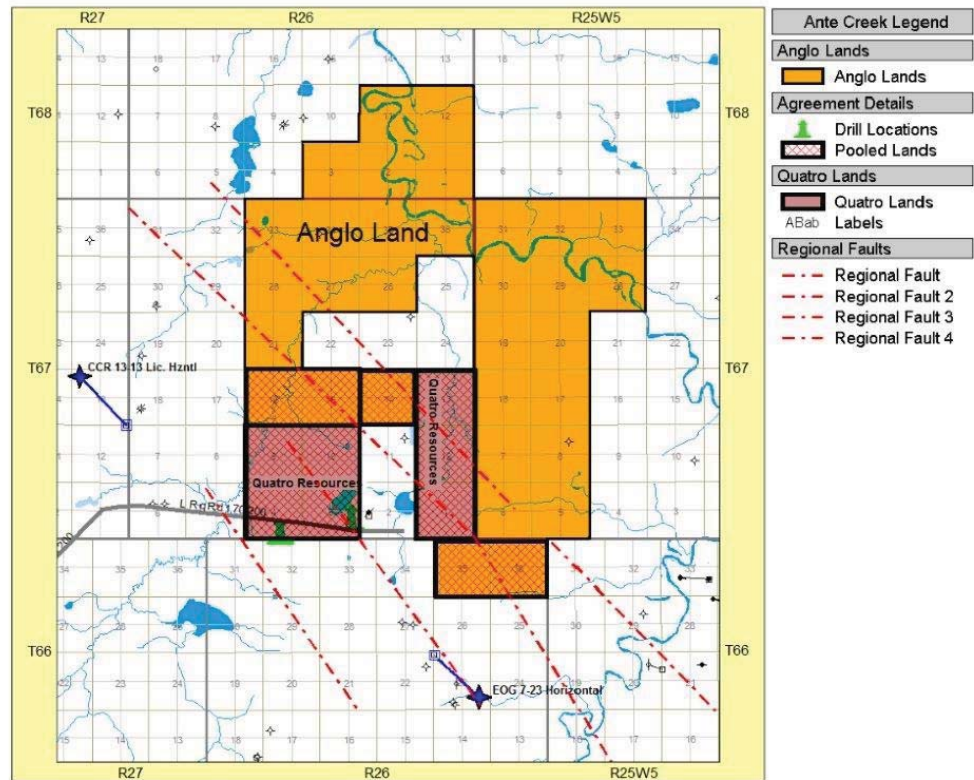
**Location trumps technology on next round of Nordegg drilling.** Those familiar with the Anglo story are acutely aware that access issues have caused hefty delays with regards to the Company's primary corporate objective –validating the potential within the Nordegg. That said, the Company made judicious use of the time to undertake a thorough geotechnical review of its lands. Thus, as compared to previous attempts that arguably put completion science over geotechnical science, the next two locations are more preoccupied with geological set up than with a particular completion strategy. To be clear, there is no doubt that horizontal multi stage frac'ed wells will play an essential roll in unlocking the Nordegg. That said, the Company is striving to marry the best geotechnical science with the best in completion technology

**Geological opportunity positions southernmost lands on top of the prospect list.** Discussed in previous research, each of Anglo's land blocks were selected on the basis of specific geological characteristics. The two southernmost land parcels were chosen primarily for their combined exposure to structure, increased pressure and potential for natural fracturing. The Nordegg in this region is not only located on structural highs but tends to be over-pressured –relative to the surrounding region. This structural element also sets up a number of well defined faults running northwest by southeast. Particularly in tighter reservoirs, faults can play a vital role in enhancing permeability –by way of natural fracturing. With the Nordegg found at ~2,100 meters in this area, this is among the deepest of Anglo's land block –and as such is the most costly to evaluate. That said, depth generally corresponds with thermal maturity –which in turn yields lighter gravity crudes. Crudes in this region are expected to feature an API in the mid twenties. The area targeted is known as Ante Creek North (West Central Alberta), and is located approximately 25 miles southwest of Sturgeon Lake.

**Farm-in arrangement allows for capital to be deployed subsurface rather than on civil engineering projects.** The recently announced farm-in arrangement with Quatro Resources means that the next two Nordegg wells will actually be drilled on offsetting lands and will not serve to validate Anglo's original leases. That said, as illustrated in Exhibit 1, the Quatro lands provide a natural extension to Anglo's existing holdings. The farm-in lands are shown in cross hatch with Quatro having contributed seven sections and Anglo contributing five. Upon completing two wells Anglo will earn 75% of the entire farm-in (12 sections). Without the farm-in Anglo would have been forced to undertake a lengthy road construction initiative to access its proposed summer locations –increasing the costs per well by approximately \$1.0 MM (from \$2.5 MM). To be clear, this capital may still ultimately be spent to drill future locations but a successful test could serve to dramatically reduce Anglo's cost of capital.



**Exhibit 1: Farm-in lands with Quatro Resources**



Source: Anglo Canadian Oil Corp.

**Road access saves not just capital –but time.** This arrangement also allows the Company to keep to its anticipated August spud date for its first well –subject to regulatory approvals, equipment availability and weather. If left to construct its own access, this spud date would likely have been deferred. Localized road bans were lifted last Wednesday, but due to heavy precipitation they were reapplied during the latter part of the week. Amid difficult conditions and with widespread delays, civil projects of this nature are expected to suffer delays –and face higher costs.

**Tentative locations offer best compromise of opportunity, access costs and land retention.** With survey work expected to be undertaken later this week, all discussions on locations remain tentative at this point. That said, the two proposed locations (03-04-067-26W5 and 08-03-067-26W5) were chosen based on road access, availability of seismic, land retention and an overlapping opportunity for Montney oil. The first location (03-04-067-26W5) will be drilled directly off an existing road whereas the second location (08-03-067-26W5) is expected to require minor road construction of approximately \$100K. Given the configuration of Quatro lands it will take a minimum of two locations to preserve all of the pooled Quatro lands.

**Completion technology is more of an afterthought for the summer program.** The Company has identified two lower cost verticals as a means of both ensuring they maximize intelligence gathering and minimizing costs of meeting farm-in obligations. Specifically, the plan is to undertake two 5 ½” diameter vertical wells that will allow them to log, core and test both Nordegg and the upper Montney in a cost effective fashion –expected to cost \$1.5 MM apiece. It is noteworthy that the farm-in conditions require Anglo to drill to preserve Montney oil rights –located directly below the Nordegg.

**Well diameter precludes subsequent horizontal completion –and we are okay with that.** Hypothetically speaking, were Anglo to drill a wider diameter hole with the view of ultimately going horizontal, they would potentially be setting themselves up for a serious dilemma –namely where to complete the horizontal leg. In an ideal circumstance, where both the Montney and the Nordegg



merited a horizontal completion –Anglo would more-or-less be compelled to pursue the deeper prospect. (This is because completing the shallower Nordegg would require abandoning the Montney.) Thereby Anglo would potentially have to allocate significant capital to validate a horizon where they have relatively limited exposure –Anglo has 5.25 net sections of Montney rights and over 270 sections of Nordegg rights. Naturally, Anglo will follow-up on all opportunities, but over the near term a narrow bore vertical avoids any dilemmas –helping to ensure Anglo preserves its capital for horizontal completions in the Nordegg.

**Cores cut on Quatro lands will be highly relevant to all of Anglo’s lands in this area.** It is likely that in a follow up to these summer wells, horizontals will be drilled on the Anglo lands –if for no other reason but to validate the lease. Whether it is on the joint lands or stand-alone lands the cores taken from the Quatro lands will help determine the optimal placement for a horizontal within the Nordegg –keeping in mind the Nordegg is up to 30 metres thick in this area. These cores will also help to optimize Anglo’s choice of completion procedures –particularly as portions of the formation would appear to be more amenable to acid stimulation while other parts would be more conducive to traditional sand frac completions. This data will also provide Anglo with data that may help it expand its land holding – as offsetting blocks are set to expire shortly.

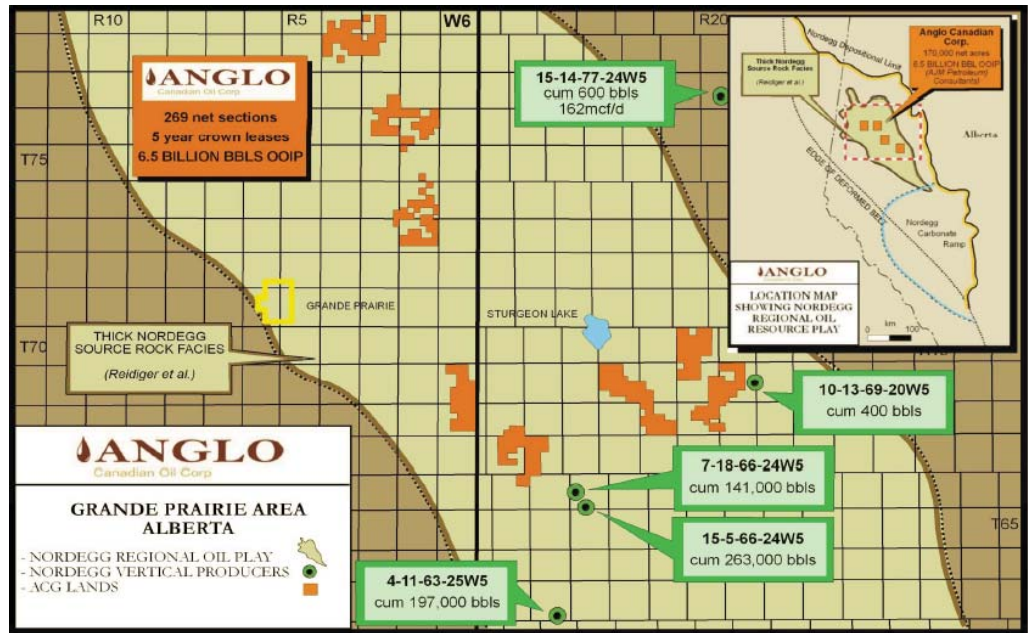
**Land potentially expiring may provide a consolidation opportunity –or at the very least a valuation proxy.** Although Anglo’s land still has just under four years remaining on its leases, the missing parts of the Anglo’s land package are set to expire in September. Discussions with the landholder failed to yield an agreement –with the holder opting to drill on their own. Given the access challenges, getting a well drilled will be no small feat. Should the land go down, Anglo, with a well drilled into the offsetting land would be ideally positioned to compete for this land. Such information does not guarantee success at land sales, however the consolation prize would likely be a land price precedent that is well above what the Company paid –or is currently given credit for by the market.

**Closeology and trendology are also drivers behind this summer’s program.** Referenced in previous research there have been several noteworthy wells vertically drilled into the Nordegg in this region. One of these wells is the 15-05-066-24W5 well drilled by Dome Petroleum in 1986 (shown on Exhibit 2) the other is the 07-18-066-24W5 wells drilled by ARC Resources Inc. (T-ARX) in 2003. Exhibit 1 identifies the recent horizontal well drilled by EOG ~3 miles away that is on trend with Anglo’s drilling and, as it turns out another horizontal well was recently licensed at 13-13-067-27W5 (to the west of Anglo’s land). The 15-05 location achieved cumulative production of 263,000 bbls while the 07-18 location achieved 141,000 bbls. Such wells are relatively rare and are thought to be the product of wells intersecting highly fractured rock. Simply put, these do not represent analogues of what should be anticipated from this summer’s program. That said, by completing wells horizontally one increases the chance of intersecting natural fractures meanwhile the multi-stage frac (or squeeze) should enhance production even in the absence of natural fractures.

**Sturgeon Lake S. 5 – 10 vertical Nordegg well pump issues to be addressed.** A broken sucker rod has necessitated a pump change on Anglo’s first vertical well into the Nordegg. This well, completed with 60 tonnes of sand with propane as the carrier fluid, initially produced ~10 bbls per day of 24° API oil with a water cut of ~60%. With road bans expected to be lifted imminently, a service rig is expected to move on location within the next week or two. Once repaired, management will monitor production rates and would be encouraged by 10 – 20 bbl per day of oil from the vertical zone. With successful results from a vertical completion, follow-on horizontal locations would be expected shortly thereafter, subject to regulatory approval and equipment availability.



Exhibit 2: Nordegg Map



Source: Anglo Canadian Oil Corp. May 2011 Investor presentation

## Disclosure Fact Sheet

### Ratings

**BUY** : recommendation: stock is expected to appreciate from its current price level at least 10-20% in the next 12 months.

**NEUTRAL** : recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

**SELL** : recommendation: stock is expected to decline from its current price level at least 10-20% in the next 12 months.

**U/R** : Under Review

**N/R** : No Rating

Analyst recommendations and targets are based on the stock's expected return over a 12-month period or may be based on the company achieving specific fundamental results. Under certain circumstances, and at the discretion of the analyst, a recommendation may be applied for a shorter time period. The basis for the variability in the expected percentage change for a recommendation, relates to the differences in the risk ratings applied to individual stocks. For instance stocks that are rated Speculative must be expected to appreciate at the high end of the range of 10-20% over a 12-month period.

### Price Volatility / Risk

**SPECULATIVE** : The Company has no established operating revenue, and/or balance sheet or cash flow concerns exist. Typically low public float or lack of liquidity exists. Rated for risk tolerant investors only.

**ABOVE AVERAGE** : Revenue and earnings predictability may not be established. Balance sheet or cash flow concerns may exist. Stock may exhibit low liquidity.

**AVERAGE** : Average revenue and earnings predictability has been established; no significant cash flow/balance sheet concerns are foreseeable over the next 12 months. Reasonable liquidity exists. Price Volatility/Risk analysis while broad based includes the risks associated with a company's balance sheet, variability of revenue or earnings, industry or sector risks, and liquidity risk.

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I, Alistair Toward, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this report. I am the research analyst primarily responsible for preparing this report.

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<b>7)</b> A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.	<b>7)</b> No
<b>8)</b> PI Financial Corp. and/or its affiliates makes a market in the securities of the subject company.	<b>8)</b> No
<b>9)</b> Company has partially funded previous analyst visits to its projects.	<b>9)</b> No
<b>10)</b> Additional disclosure:	<b>10)</b> No

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The attached summarizes PI's analysts review of the material operations of the attached company(s).

Analyst	Company	Type of Review	Operations / Project	Date
Alistair Toward	Anglo Canadian Oil Corp.	Management Meetings	Calgary AB	09/10

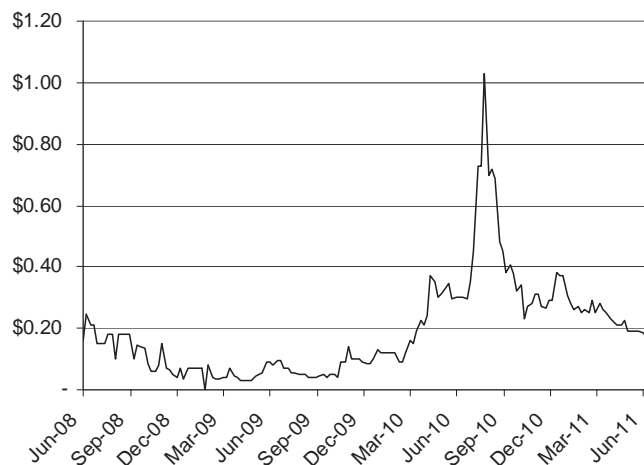
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Recommendations	Number of Recommendations	Percentage
BUY	44	84.62%
NEUTRAL	6	11.54%
SELL	2	3.85%
U/R	0	0.00%
N/R	0	0.00%
<b>TOTAL</b>	<b>52</b>	

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### Anglo Canadian Oil Corp. (Initiated Coverage: Oct 8/10)

Date	Rating Change	Target Change	Share Price
Oct 8/10	Buy	N/A	\$0.275

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