BULLETIN # 70 – AUGUST 7 2011 – THE BI-WEEKLY WRAP EVERY SINGLE OGIB STOCK !!

This weekend, there is SO MUCH we could write about the global economic situation. The good news is, the value reset button for oil and the juniors is almost complete. But for now I'm going to focus on my little world of junior energy stocks.

The new stock I bought Friday was 3000 shares of **Eagle Energy Trust, (EGL.UN-TSX**) at an average price of $10.17. These new trusts are allowed as long as they don't use Canadian assets. All Eagles' assets are in the US.

You can read the three stories on Eagle Energy and the new class of energy income trusts on my public blog – use the search function on the right hand side of the home page and type in income trust or Eagle Energy.

Eagle is paying out $1.05 Canadian annually right now, so my yield works out to just over 10%. The company has a conservative payout ratio of 50% - meaning that they only give half of their net cash flow to shareholders; they keep half in the treasury for growth or a rainy day. (Many of the old income trusts had succumbed to investor greed and become a ponzi scheme where payouts were 100% or more of cash flow and management teams just filled the gap with continuous (and ruinous) equity.)

Now, this was before the S&P downgrade of the US (hello rainy day!), which will surely cause a drop in the greenback on Monday. Earning money in lower US dollars and paying out in higher Canadian dollars will increase that payout ratio a bit.

I see yield stocks being one of the safest sectors to be in during this turmoil, but the dips in intraday trading in some big yield stocks say that won't save them during a panic week. Once the market stabilizes – (and it will, though I'm not sticking my neck out to say at what level) I see Eagle as my bank. I can put up to $200,000 there – no more than that as liquidity then becomes an issue – and pull it out to buy other stocks when needed. I put it in my retirement savings account so I don’t have to worry about the complicated tax treatment their distributions get, which are part dividend and part return of capital.

I bought another 2000 shares of **Open Range (ONR-TSX**) at $5.73 – I just love this company. This high margin Poseidon frack fluid tank system is growing so strong. Like I said with Coastal Energy last year, I see myself selling this stock for double digits inside a year. The need in the Bakken for a cheap, large, heated system like this is huge. This is an innovation that will continue to get traction in the industry at $50 oil and $2/mcf gas.

I bought another 26,500 shares of **Wavefront (WEE-TSXv)** at 82 cents. I anticipate adding to this position in small chunks each month from now to Christmas. This is a 2012 story. I don't expect any big revenue jump in the next quarter's financials, so the stock could be this price in November – particularly in this market environment.

But again, their waterflood pulsing product works, (sometimes dramatically) reducing the decline rate of oil wells and increasing the overall amount of oil retrieved in secondary recovery. (Primary recovery is when the well produces on its own or with a pump jack, and then once that stops bringing up enough oil to be economic, the industry moves to secondary recovery, of which waterfloods are by far the most popular.)

Its return on capital for customers is compelling, as the last press releases show. The market is getting glimpses of who its customers are – Penn West was announced in one recent press release. There are over 50 different clients now, most of them majors or large intermediates who have large aging oilfields. It would only take one order of 50 units for one field – and that's realistic – for a domino effect to start. My guess is Wavefront is 80 units away (at $3000/month) from positive cash flow. Units have a 6-9 month payback and are estimated to have a 5 year life. Once positive cash flow starts, the recurring monthly business model ***should*** mean rapid scaling of profits.

Again, The Street hates the company, which is my opportunity. The stock ran to $3 on its PEMEX deal in Mexico two years ago, and no orders came. The institutional crowd lost money and won't buy the stock until the company has positive cash flow. I expect the stock to be close to $1.50 by then, sometime late next winter. If the stock drops to 50 cents this week I will buy more.

The caveat here of course is that management has not yet shown they can land The Big Order. They need to do that for this stock to really be the 5-10 bagger I think it can be.

I'll run through some quick comments on each OGIB portfolio stock now in the order that they appear in the excel sheet which tracks my gains and losses.

IONA ENERGY – INA-TSXv

Nothing to report; we should get an update on the spud date for their Orlando target in the North Sea any day. I did not speak with management this week.

ITHACA ENERGY – IAE-TSX

Nor did I speak with this management team yet. It's a very liquid junior, in the Top 3 of most analysts BUY lists. Its liquidity means funds can sell it easily when they get redemptions or when anybody loses heart in the market, and that's what we're seeing now. Last year's financing price of $1.70 should provide support and I will likely buy another few thousand shares there if I see that level holding. All indications from management are that Athena production will come online on time late this year. When does the market start pricing that in? Likely mid-late September is my best guess. Compelling valuation of 2-2.5x 2012 cash flow right now.

TAG OIL – TAO-TSX

Production will jump from 950 boe/d to over 6000 boe/d as 5000 boe/d behind pipe production gets brought onstream in September and October. This should support the stock. However, this is only $25 netback gas, and that 6000 boe/d includes what is called "flush" production – the high level of production that comes on at the beginning of these horizontal fracked wells. These wells in North America have steep declines, about 70% in Year 1, so the "baseline" production will be less, and the market usually prices in baseline production, not flush.

What the company is doing here is filling the value vacuum created by the monstrous valuation of 3x Net Asset Value that it has enjoyed this last year. (This management has not only outperformed operationally, but also with the stock. They created good alliances with securities firms and the stock has always traded great, technically.) So I'm not convinced this new production will have much impact on the stock.

But the (really) good news in the year end press release issued while I was on vacation was they intend to drill their first production test well into the big east coast Whangai shale this fall. I had not expected this until 2012. (I suspect this has to do with competitive pressures which I will talk about more later.)

This shale is 300-600 m thick, which means the payzone is thick enough it could be fracked vertically. Everybody drills horizontally in the Bakken because the payzones are only a few metres thick but stretch out laterally for a long way. Vertical wells would be cheaper than horizontals, as you don't have to drill 1 km or more sideways. This COULD mean that these wells will be much more profitable than North American shale plays. I'm trying not to get too excited about that -- lots of ifs and maybes still.

This is rolling hillside country, and the oil would likely be trucked to one of two ports on the east coast of the north island. Shell has the big tank farm there, and they are regulated by the government on this – they must take oil from other producers here no matter how small the amount. Indications are so far it's very light oil and could get a premium to Brent pricing. I'm trying not to get too excited about that either -- lots of ifs and maybes still.

As an aside, I met with another, newly public company with a similar sized land position in the Whangai shale – it's called New Zealand Energy Corp, symbol NZ on the TSX Venture exchange. Up front I will tell you I own 200,000 shares at 25 cents, in seed stock, in this company (how many newsletter writers tell you that, eh?), but it is NOT and OGIB stock. The valuation here is very high (even more crazy than TAG was a year ago) for retail subscribers. And it is a very well structured stock – tight, well held. It just came public Thursday, and held up remarkably well.

If and when I have time in the coming weeks I will provide a bit more information on this company – mostly reporting on how their drills are doing in the east coast basin. They also have Taranaki lands like TAG (much larger land position than TAG) but it really is the east coast play that will make the stock go up or down. They are re-entering an old well in the southern part of the east coast play called Ranui-1. This well has already hit 225 m of Whangai shale but the operator ran out of money, says NZEC. They will be drilling through the bottom of the Whangai shale this fall and doing a production test. I suspect they will have their data out before TAG, and their results will have a definite impact on TAG's stock.

COASTAL ENERGY – CEN-TSX

What a beautiful run of exploration success this company has had. The oil pool they discovered at their offshore Gulf of Thailand acreage at Bua Ban was both bigger laterally and deeper than expected, giving the company a lot more reserves and imminent production than they ever anticipated.

The company has been issuing news releases about the pay thickness and porosity of many wells recently – all positive. Then they started announcing the production rates, which were better than expected. The Bua Ban North B-06 and 08 wells are producing at a restricted rate of 2000 bopd, which is 500-1000 bopd better than expected. There are five more wells to come onstream at Bua Ban North B and 3 at Bua Ban North A.

Coastal is now choking back flow rates on their wells to help increase overall reserves. If you push too hard on production you could cause water to come into the formation, and once that happens, water can take over most of your production until it is exhausted. High water cuts in their initial
Songkhla wells in early 2010 caused a dramatic drop in production and share price.

The new Songkhla H-1 well is now producing at 1000 bopd and management expects it could do 3000 bopd. Management says there is a full year of appraisal and development drilling. Appraisal drilling is not raw exploration, but rather testing the outer limits of the known field – so still exploration but in an area where there is already a discovery. Development drilling is like infill drilling where there is a very high Chance Of Success (COS).

Macquarie is reporting that they expect Coastal to exit 2011 with 20,000 bopd plus (before any of these wells were announced production 10,000 bopd – 8000 offshore and 2000 onshore. So they are now likely doing 15,000 bopd, with 4000 bopd from the two Bua Ban wells and 1000 from the Songkhla H well).

BUT it's important to remember these wells come on with FLUSH production and decline, so Macquarie is modelling a baseline production of only 16,000 bopd – and that's with no new discoveries, just what has been announced to date.

First Energy says that with continued success at Bua Ban and Songkhla (management is planning another 8 wells at Bua Ban B and 4 at Bua Ban A (I'm trying not to get too excited about this, but failing) that could take production capacity to 30,000 bopd by year end. And if Songkhla H wells continue to come in at 3000 bopd, that 30,000 goes up 50%.

Average cash flow between the four research reports I read suggest cash flow estimates for 2012 at $350 million, about double 2011's $175 million (with a wide range of $250 M to $504 M!) with Cash Flow Per Share ranging from $2.13 to $4.24. Strangely, the company with the lowest financial estimates, First Energy, gives Coastal the highest price target.

Overall, management estimates they have only drilled 20% of their entire offshore acreage package.

Here are the new price targets from the firms:

Canaccord $14.75
First Energy $19.32 (12 UK pounds)
Macquarie $14
Stifel Nicolas $14.50

I could easily add 1000-2000 shares to my position this week if market turmoil continues to hit the stock. While valuations will get impacted due to this uncertainty, take out values will be much less affected, especially for a stock like Coastal where 4 shareholders plus management own 70% + of the stock.

This is the perfect time for someone to come in and buy Coastal. Valuation is still below NAV. Lots of low risk development upside in the next year. It's an Asian asset, close to the energy hungry markets, and Coastal gets pricing that's about $4/bbl below Dubai, which management says runs about $4/bbl below Brent. They expect that $4/bbl discount to go to $2/bbl in 2012.

I would be very surprised to see Coastal listed as a public company still at this time next year.

PETROFRONTIER (PFC-TSX)

This exploration play in the middle of Australia has had two positive announcements recently:

1. Heritage Oil has taken a 10% equity position in the company
2. Drilling has finally started on their Arthur Creek shale play

So PFC will be the first of the OGIB Big 3 International Shale Plays (PetroFrontier, TAG and Toreador, TRGL:NASD) to report results – are all these Bakken lookalikes real?

With the 11.5 million net acres, PetroFrontier becomes an instant takeover target on success. Australia obviously has Anglo Saxon rule of law, first world developed country, lots of oil and gas infrastructure etc. – a place where any large intermediate could expand into. I don't see a major taking out PFC as shale wells are generally small production for them – 200-700 bopd IP rate. But with a land package this size, you never know.

I would expect the company to raise at least some money upon success, but that highly sought after financing will likely not be available to people like us.

Keep your fingers crossed. This first well could have an impact on other international shale stocks as well.

BENGAL ENERGY (BNG-TSX)

Not much to report here yet, but there are some upcoming catalysts – the next few Cuisinier wells in Australia. I've said before this is a great conventional oil field, much better than expected but the operator, the Australian company Santos, does not have an aggressive development plan for it. This puts Bengal in a tough spot for a junior looking to grow production and cash flow.

They have $37 million cash.

Santos has to spud a well at their cost on the WOMPI property in Australia before the end of September.

In the Timor Sea, Bengal will see Thai national oil company PTTEP spud the offshore- AC/P 47 well, in which Bengal has a 10% working interest. This is raw exploration.

CANADIAN OVERSEAS PETROLEUM (XOP-TSXv)

I did not speak with management this week. Drilling on their first property continues with no news. I completely misjudged the speculative premium that I thought could flow into this stock. A miss here would be very negative for this stock. Great technical team and great suite of assets, but for investors, this is a binary stock. 1 or 0.

CGX ENERGY (OYL-TSX)

Again, not much to report as drilling has been pushed back (again) to September at least offshore Guyana, northeast South America. Murphy Oil has drilled two dusters in the Guyana Basin this year, virtually assuring no speculative premium before results from CGX's drill hole, in which it has a 25% interest.

INPEX, a large Japanese oil and gas company, is now drilling a well in the Guyana Basin and if they are successful, that could be a bonus for CGX.

TOREADOR RESOURCES (TRGL-NASD)

Didn't get to this one this week. Stock says no rush to either.

TORQUAY OIL (TOC.A-TSX)

This stock has been very quiet, and really hasn't traded very well until the mini-crash this week. It wouldn't go down – on volume. I will take that as a good sign somebody is confident in either the Bakken formation well (a horizontal) or the Ratcliffe formation well (vertical) that the market is waiting for news on.

If both these wells miss or come in under expectations I will start to slowly reduce my position. But I did take heart from its trading pattern this week.

BLACK PEARL (PXX-TSX)---PEYTO (PEY-TSX)---PAINTED PONY (PPY.A-TSX)

I did not speak with any of these management teams this week. The big news while I was away came from Painted Pony, and this bullet from their reserve report is all you need to know:

"Proved plus probable reserves totalled 85.6 mmboe, an increase of 163 per cent since Dec. 31, 2010. The NPV10 of the company's proved plus probable reserves was $797.9-million, an increase of 126 per cent in the first six months of 2011".

All is good here, other than the overall market.

WIND RIVER (WVR-TSXv)

While I bought this stock for its potential Niobrara shale play in New Mexico, I am now more excited about its Phat City play in northeast Montana. Wind River has upped its interest to 70% in this 46,543 acre land play, and it's conventional oil – which means low cost drilling, just vertical wells, no fracking. That gives WVR about 51 net sections.

Management says analogous wells have produced over 1 million boe. I don't have any figures but trust me this would mean a very, very profitable play if that's true – likely one of the highest IRRs and recycle ratios I've ever seen.

Of course, they have to hit. But WVR has also said drilling will start sooner than expected, by the end of summer, versus the earlier projection of October or November.

I'm excited.

LYNDEN ENERGY (LVL-TSXv)

Nothing new to report since my last update while I was in Europe. Let's get drilling at Mitchell Ranch. Put a development plan in place and let's go. I see that Michael Falloon, one of the leading writers in the oil and gas sector at www.seekingalpha.com (you should all become (free) members and check this site every day- I love it.) tweeted at SA that he thought Lynden was cheap.

BORDER PETROLEUM (BOR-TSXv)

No news here, no website as promised either, which tells me they are still trying to get more land. Still, they could have a bare bones website with at least the news releases, share structure and management bios.

I will say the stock has traded very well – IMHO, if there was any bad news here this stock would have traded below its 25 cent financing price this week. But the bids keep piling in the high 20s. Now don't take that to mean anything other than the stock trades well.

PRIMARY PETROLEUM (PIE-TSXv)

The stock took off just before the company announced it had a non-binding Letter of Intent with an unnamed company to joint venture (JV) their land package in the Alberta Bakken in Montana.

The stock traded strong volume at good prices and cleaned out a lot of sellers. I saw that our new friend Michael Falloon did a 3 part story on the Alberta Bakken at SeekingAlpha, increasing its exposure a lot. He has a following, so that could be where the volume came from.

I was hoping PIE would do deals similar to the way DeeThree structured their joint ventures, and kept some ground 100% for them, but I didn't get the impression that was the case here. It's not negative; it would have just saved some more upside for PIE shareholders.   Like Lynden, there is a lot of stock out on PIE now.

DEETHREE (DTX-TSX)

This Alberta Bakken company reports its quarterly financials this coming week and I will speak to management after results are out. HOWEVER – THIS STOCK TRADED GREAT ON FRIDAY – when an institutional order that size – about 1 million shares plus - comes in on a rotten day like Friday, and closes the stock up – that is very good news.

BOWOOD (BWD-TSX)

I confess I have been more focussed on DeeThree and Primary on this Alberta Bakken play. They have a big joint venture with Legacy Oil and Gas (LEG-TSX).

DONNYBROOK ENERGY (DEI-TSXv)

Upcoming share catalysts include a production rate from the first well at Resthaven that was joint-ventured with Celtic – they reported an IP rate of 3.2 mmcf/d. Their Big Stone property, which is on the eastern boundary of where Encana paid $300 million for Duvernay rights, will get drilled shortly. Another Simonette well with Cequence (CQE-TSX) will also get drilled.

I love what this team has done but I will say I do not see the stock having any huge run. I suspect the stock will stay steady as industry people buy the stock in anticipation of a buyout next year that I would see in the 80 cent - $1 range (unless the Duvernay rights start to get priced into all these southern Montney stocks – so far only Trilogy, TET-TSX, has any Duvernay priced into its stock).

IMHO Cequence could have as much or bigger jump that DEI over the coming 6 months, as it has a greater institutional following, will be drilling more wells and having more news. You will see me mention Cequence in a future public blog story as one of the few gas stories worth considering now. And as it is finishing off a financing now, won't have a cap on its stock like DEI will – they will likely have to raise money this fall. Hopefully they can get a big premium flow through deal.

OPEN RANGE – ONR-TSX

I really need to get this report written for subscribers, but you can see from my last two purchases in a turbulent market that I am very keen on this company and its stock. Gross margins on their Poseidon frack fluid handling systems are 89% - which will likely go down to 70% with inevitable competition.

Please check this system out for yourself here - http://poseidonconcepts.com/ . This system holds a lot more water than the regular 400 gallon tanks that have to be strewn together at a site, and it takes 2 days of trucking to get them all in to the frack site.

Their latest press release, issued while I was on vacation, said they were up to 125 units in the field from 100, and was now 60% in the US. Management did tell me in June they say the cold weather issues of handling frack water in wintry states like North Dakota, Montana and Colorado as their big market. And they are delivering.

This is a hybrid company that also produces close to 10,000 boe of natural gas in western Canada, but that will not be a driver for the stock and I expect they will either sell that production or create a dividend company, splitting the two very different businesses (which get different multiples of cash flow in their valuations).

TUSCANY DRILLING (TID-TSX)

Nothing corporately to report, but I see that this week's turmoil took the stock back down its lows, indicating to me that this stock is one the institutions are willing to sell first and hard. You have to make your acquisitions accretive, and the first here was not. I'll be wearing scuba gear for this stock for at least a couple quarters, but I'm loathe to sell it as I don't see it going much lower. But I might.

XTREME COIL DRILLING (XDC-TSX)

Tight stocks like this can and do have bigger price swings in this type of market. The business is growing well, I'm not concerned about the stock but I own enough of this at higher prices. But if it got under $4 I would be tempted. They report August 11. If I hear they have a contract for any of the new (expected to be high margin) service rigs being built, I may also be a buyer.

SECURE ENERGY SERVICES (SES-TSX)

Glad I sold 3000 at $9.64 last month! Nothing new to report, like XDC a great company doing a good job and has just been hit from the market selloff. It will be interesting if, over the coming 2-3 quarters, they are able to make their last two acquisitions as powerful for them (i.e. see strong organic growth out of them) as Canadian Energy Services did with their two acquisitions.

Their new $150 million debt line can actually be bumped to $200 million. This replaces the company's current $55 million line. Again, debt lenders generally do more exhaustive research than equity issuers, so this is also a comfort level increase that the lawsuit against them from management's former employer will not be a big issue moving forward.

Secure Energy reports August 10 after market close.

GASFRAC ENERGY SERVICES (GFS-TSX)

GasFrac reports tomorrow, Monday, Aug 8, at the close of the market. I expect a BRUTAL quarter, financially. However the stock did better than I expected in July while I was away, so that tells me that somebody is looking past these dismal numbers and sees something positive in the future.

What I'm looking for in the quarterly or on the conference call Tuesday is:
1. to hear the 6^{th} unit is now employed in the US
2. the new units being built for deployment this fall are still scheduled to be on time
3. some update on the propane recycling system they were to trial in early June. Propane is the single biggest cost for GasFrac at roughly 30%.

This management team desperately needs to report a hiccup free quarter, operationally and financially. I suspect they have been prepping the institutional crowd for how bad this quarter will be, and I haven't seen any downgrades yet. But any negative forward guidance (other than what Q2 will already produce) will likely be punished. Now, the flip side to this is that Calfrac is blowing the market away with their great numbers, showing the market that demand is high still. GasFrac management has always said they have more confidence in meeting 2012 projections than 2011 so maybe that's getting priced in.

CANADIAN ENERGY SERVICES (CEU-TSX)

I was on the phone when this stock traded down to $10.50 on Friday. Then the Italian announcement came and I couldn't get off the phone fast enough – it was $11.40 in 3 minutes.

The stock split has been great for liquidity. I would say CEU is the best run company in the portfolio. This team is growing the business great, getting their acquisitions at good prices and leveraging them well. If this stock gets beat up I'm a buyer.

WAVEFRONT (WEE-TSXv)

I spoke to this stock already up top.

RIDGELINE ENERGY SERVICES (RLE-TSX)

The late filing is not a concern to me; the operational update that should come with it is much more important. I expect that in 2-3 weeks.

OVERALL I think it's obvious the market will be more volatile over the coming month, and then we will have to see what concrete plans the heavily indebted nations of Europe and the US do to reduce their debts.

As a result it's likely you will see me shed some peripheral positions – smaller in size of investment and/or size of company, with the more junior stocks going first.

But right now my immediate favourites in which I may buy more stock in at any time are Open Range, Coastal Energy, Wavefront. Stocks I like a lot now but I already have enough are Wind River (though it's speculative), DeeThree and Ithaca.

I am speaking at a LOT of conferences this fall – please check UPCOMING EVENTS at the website to see if you can join me for a subscriber-only session in either St. Johns NFLD, Toronto, Montreal, San Francisco or New Orleans. I love meeting you - otherwise it's just me and the laptop.

I'm doing a once-in-a-lifetime fishing trip with my 69 year young father in the Queen Charlotte Islands Aug 15-20, so I will truly be off the grid those 5 days. He's the fisherman, not me, but he fishes in the rivers of Ontario where a 3-4 pound bass or a 6-8 pound lake trout is big news. I hope to have the camera rolling if he reels in a 50 pound salmon up there.