OGIB IB #104—OCTOBER 6 2011
PORTFOLIO PURCHASES – COASTAL ENERGY, OPEN RANGE AND LEGACY OIL AND GAS

I'm just putting the finishing edits on the 15 page full report on Northern Offshore and it will be posted to the Members Centre (Bulletin #77) about noon west coast time tomorrow. It's too big to email out. Don't let the size intimidate you; it's a regular report with just a lot more pictures so you can simply understand what I'm talking about.

I am very confident that the current dividend will double next year, and I run through the numbers for each of the six vessels that Northern Offshore has in fleet. An annualized dividend of 40 cents by year end 2012 is not out of the question. Current dividend is 12 cents annually.

Offshore drilling was a new area of the oil and gas market for me so it was fascinating and different to do the research and write that report. It gave me a buzz all week. (God makes us all different and that geeky buzz I get from researching and writing this is why you subscribed.)

In other portfolio action, I bought back my 10,000 shares Open Range at an average cost of $8.33. I bought back my 10,000 Coastal at an average price of $9.19. My thoughts are that I will hold them for this five week rebound that I expect to happen. <u>But if it doesn't, then these become very short term trades.</u>

Coastal has <u>great</u> production growth and Open Range has a coming dividend. These stocks have two of the best charts, but they are weakening. Coastal really needs to hold here at $9.60. ONR looks better, but $8.50 is an important level for it. I may sell them at anytime—I bought them for a four-five week trade, but it may be a lot less. I have a lot of lower cost ONR I don't worry about selling for a long time.

I also initiated a 7,000 share position in **Legacy Oil and Gas** at $8.77 **(LEG-TSX)**. As I've said before, Legacy is one of the leading intermediate oil producers, and in market downturns I get to buy these stocks cheap. But I also bought it for a four-five week trade.

With current production of approximately 13,000 boe/d (barrels of oil equivalent per day), the company expects to exit the year at or above 15,750 boe/d.

- It is increasing production by more than 50% in the last half of 2011
- It has one of the highest netbacks at $51.34. It's almost all light oil.
- Debt to cash flow is 1.1:1, and the market is now MUCH more sensitive to any debt.
- HUGE inventory (over 1000) of low risk wells across multiple plays –including
  - 2 large land positions in the Saskatchewan Bakken,
  - The big joint venture in the Alberta Bakken (in the overpressured western side)
  - The Manitoba/North Dakota Spearfish formation-conventional oil pools that can be drilled hzlly
  - SW Alberta-Turner Valley

Legacy always trades at a big premium to other intermediate producers—usually about 70% more on per flowing barrel basis. The company has a market cap of $1.25 billion and debt of $250 million for an enterprise value of $1.5 billion. Divide that by 13000 boe/d and you get $116,000 per flowing barrel, vs its peer group of roughly $75,000.

I would suggest that CEO Trent Yanko is #2 on the Calgary management team list after the Crescent Point duo of Paul Colborne and Scott Saxberg.

I look at companies like Ithaca and Legacy and think—with their imminent production growth and high standing in the investment world—these are the companies the institutions will move first in a rebound.

Despite all the good things I'll be telling you about this company, I will be playing the chart on this one (and almost all my stocks). I believe we are due for a 3-5 week rebound here, and I may sell this stock in early November if I see the chart telling me to do so.

The market is now hyper sensitive to debt, so that could prevent Legacy's stock from moving like I think it could.

I do expect the market to have a 1-2 day pullback close to its bottom early-mid next week, which could set up another buying opportunity (but only history will show that!). But if the market can't hold that bottom, this will be a very short term trade.

Moving average resistance on LEG is at $9.55 and $10. Top of its channel is also $9.55. If it can't break out past that mark, I could also trade it out very, very quickly.

In other words, unless you're a subscriber who is in front of the screen watching stocks all day, you may want to pass on these trades. Consider your risk tolerance in this crazy market.

I'm taking Friday-Tuesday off for Canadian Thanksgiving, and will be back at my post Wednesday morning. I'm exhausted--I've researched and written a lot of copy these last two weeks! But the Northern Offshore report was truly fun.

MISCELLANEOUS

Full reports on Eagle Energy Trust (nice rebound today after new production guidance) and Open Range will be out in 2-3 weeks.

I'm in Calgary twice this month, meeting with management teams.

I am also giving a keynote address at the ALTERNATIVE INVESTMENT OPPORTUNITY CONFERENCE at the BMO CENTRE at Stampede Park in CALGARY on Saturday October 15.