INTERIM BULLETIN #81 – MAY 19 2011
PORTFOLIO ADDITION – ITHACA ENERGY (IAE-TSX)

I bought 5000 shares of Ithaca Energy this morning at $2.05. I really wanted to buy more, but I'm still nervous the oil price will be $10-$15 per barrel lower at some point this summer on a couple bad trading days. My thoughts are I am going to dollar cost average (buy) another 20,000 shares this summer, either in 2 week intervals or on bad news days like the stock had yesterday.

And while the news wasn't good, it wasn't horrible. Basically, Ithaca hit a dry hole in the North Sea in the Jacky field. The Jacky and Beatrice fields have been the cash cow for production for Ithaca over the last two years, but they are old legacy assets that are diminishing in importance for Ithaca, as Athena gets prepared for production starting in December.

All the analyst reports on Ithaca yesterday afternoon and this morning said that net 2P reserves from Jacky account for only 2% of the company's reserves – 1.2 million out of 51.8 million overall. Most analysts did not downgrade the stock, and one reduced their target by the same 2% that Jacky represents to the company.

At the same time, you will notice their institutional clients aren't out buying the stock en masse *this morning. The stock dropped and is staying down.* Technically, that's not a good sign.

This is one more setback for the company at Jacky – last month, in April, they had two failures on their underwater pumps there. One analyst reported that production is now only 3300 bopd, which is down 1000 bopd from earlier in the year. I think the market may be waiting to see how 2010 cash flow will be impacted by this series of small setbacks (small set against the big increase in production that is coming at year end with Athena field coming onstream and Harrier/Stella gas field in late 2012).

I also think that there is a lingering hangover in the institutional community about North Sea oil stocks, given that comparable companies Xcite Energy and Sterling Resources have both fallen dramatically in the last two weeks on bad news. Between that and the UK government's new (increased) royalty regime, investment psychology for the North Sea is more negative than it was six months ago.

The company's AGM is today, May 19, and the market may be waiting to hear something new from management. They did post a new presentation to the website today, which you can view here - http://www.ithacaenergy.com/uploads/IthacaAGM2011.pdf .

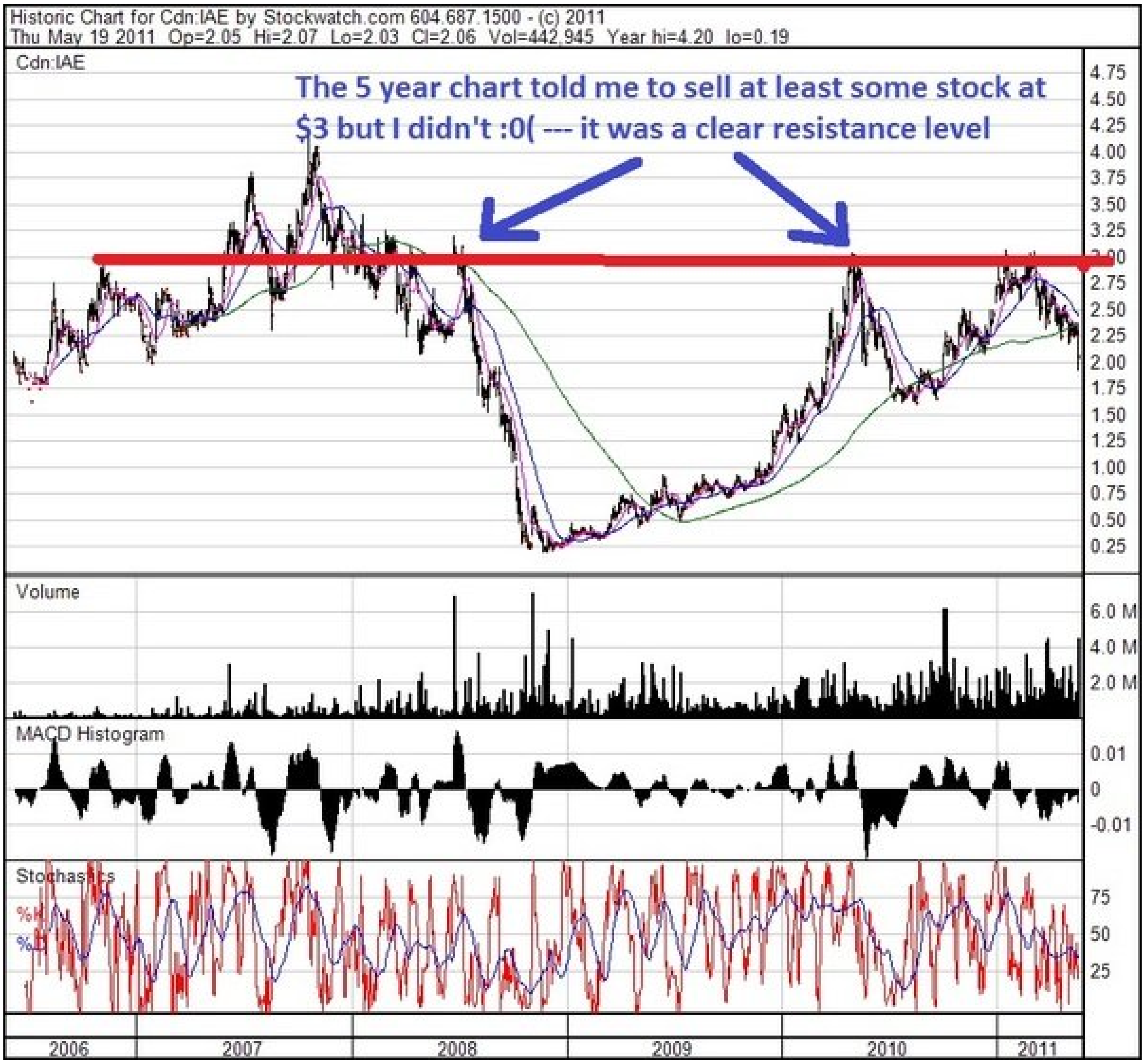
My only real concern here is that despite the company already trading at relatively cheap valuation – about 65% of its 2P NAV – the stock will become a “show-me” stock, where the institutional money is not willing to give management a premium in the stock in advance of big production increases. They may now rather sit and wait in cash on the sidelines until it is VERY clear that Athena will be brought into production on-time and on-budget.

I have believed that Ithaca was a great buying opportunity through the summer, and the new Athena production would REALLY start to get priced into the stock starting in September. The market may be telling us that might not happen until November or December now.

Should the stock trade below its $1.70 financing price from last year, I will revisit the entire position and reserve the right to change my mind in a heartbeat despite all the positive things I am saying about the company right now.

(I’m going to be including that caveat on all my OGIB portfolio stocks – a mental stop loss.)

See the five year and one year charts below.



Historic Chart for Cdn:IAE by Stockwatch.com 604.687.1500 - (c) 2011
Thu May 19 2011 Op=2.05 Hi=2.07 Lo=2.03 Cl=2.06 Vol=442,945 Year hi=4.20 lo=0.19
Cdn:IAE
The 5 year chart told me to sell at least some stock at $3 but I didn't :0(--- it was a clear resistance level
4.75
4.50
4.25
4.00
3.75
3.50
3.25
2.75
2.50
2.25
2.00
1.75
1.50
1.25
1.00
0.75
0.50
0.25
Volume
6.0 M
4.0 M
2.0 M
MACD Histogram
0.01
0
-0.01
Stochastics
%K
%D
75
50
25
2006
2007
2008
2009
2010
2011

Historic Chart for Cdn:IAE by Stockwatch.com 604.687.1500 - (c) 2011
Thu May 19 2011 Cp=2.05 Hi=2.07 Lo=2.03 Cl=2.06 Vol=441,495 Year h=3.06 lo=1.61
Cdn:IAE
Volume
MACD Histogram
momentum up as stock moves down--that's called
a "non-confirmation" or "positive divergence"
%K
%D
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
Apr
May
2010
2011