

OGIB IB # 83 - PORTFOLIO PURCHASE - JUNE 7 2011 TUSCANY DRILLING - TID-TSX

Today I am putting 25000 shares of Tuscany Drilling into the OGIB portfolio at \$1.11. This company is just over a year old, and is focused on drilling in Latin America, where they say drilling rates/profit margins are higher.

The company has aggressively expanded in the last year, and raised lots of equity recently at \$1.40 and \$1.53 to pay for acquisitions. There is now 266 million shares out, which is one big reason why the stock has tanked down to this range.

Yesterday the company released its Q1 earnings, which showed better cash flow (EBITDA) than the market was expecting, and to me represents a turnaround on the corporate activity. The company stumbled in earlier this year in getting rigs into countries and operating, and then they decided to purchase a large Brazilian drilling company (they now own 20% of the drills in Brazil).

The stock was trading at \$2, but after seeing one stumble, the market was not about to finance the company at that valuation - so it got done at \$1.53. The stock immediately traded underwater and the underwriters had to scramble to get the financing done. Without a strong aftermarket in a soft market the stock drifted lower and actually spiked lower on the Q1 news - my opportunity.

The stock chart is against me here (big downtrend) but it does look like a double bottom. The Fibonacci's say it could bottom out at 97 cents.

The company has 17 rigs, only 12 of which were contributing revenue to this quarter. Two more are being built. Gross margin was a healthy 35%. The rig fleet is new, which is a positive. Tuscany is basically still a start up company. But it has some critical mass, a geographic focus, and is cashed up. Management owns a good piece of the company. Also, at this price, I'm one of the cheapest cost bases in the stock and yesterday's quarterly tells me the company is getting over its start-up/growing pains.

They also have \$67 million in debt and say they can increase their line to \$120 million.

I'm always looking for 50% - 100% gains in 9 -12 months and I think Tuscany can do this for me. That puts the stock at \$1.65 - barely above the recent financing prices. Several brokerage firms cover the stock - the larger national bank owned firms have low targets of \$1.50 while the more junior firms have targets ranging up to \$2.50.

And because I am a retail investor with only so much money, I have to sell

something to pay for all this. **So this morning I sold the rest of my Sterling Resources at \$1.81** - which had a cost base of \$3. I do intend to keep following Sterling and revisit the story this fall. I am also giving notice I will likely sell part (realistically most) of my **Primary Petroleum (PIE-TSXv)** in the coming week. I am still a big believer in the Alberta Bakken, but Primary is just drilling vertical holes this fall (DSTs - Drill Stem Tests) and no horizontals until 2012. I don't expect Rosetta or Newfield to announce results until later this year (though Rosetta will be under more pressure than Newfield to release early). Nothing is negative with the story, it's just a timing and cash management issue. I do expect to buy this stock back in the fall. I own both DeeThree and Bowood for Alberta Bakken exposure.

This stock has done wonders for me. I bought Primary on a financing at 8 cents - but subscribers couldn't buy it under 16 cents. But the stock traded great volume in the 70s, 80s and 90 cent range - a huge winner! And as per my rule, I give advance notice of my selling on stocks that I can get below market. Today is that notice.

Iona Energy will be coming to trade in the next few days, symbol INA. Again, I bought this stock in a different (more buoyant) junior market. I expect the stock to trade under its 60 cent issue price, and I am not a buyer of the stock in the market at this time. It does have 350 boe/d production which management says gives about \$300,000 a month in cash flow. I'll have a more detailed report in the works very quickly.

Border Petroleum (BOR-TSXv) has told me they expect to have their website up and live by next week. I am hoping the market will have a positive reaction when they can see exactly where their 25 sections of Slave Point formation at Red Earth is. I'm also seeing some very positive trading - blocks of stock going through above 40 cents, then it traded half a million shares in the 35-40 cent range. The 25 cent financing came free trading yesterday, June 6. So I'll wait to see what happens next week.

In overall market comments, I would just say that I love the sense of doom out there right now. I feel it too - I look at my portfolio and wish I was in more cash, had sold more...but I still say we are not going to see a collapse in equity values or oil prices. While oil fundamentals dictate it should be \$10-\$15 barrels lower, and OPEC is going to try to help it get there by increasing more production, I don't see oil going much lower. There is very little spare capacity in the world. But that doesn't mean investors won't continue to leave the junior stocks - the explorers and the junior producers.

I'm very content with my strategy of moving into energy services as this consolidation in the charts of the producers continues.

More coming in the bi-weekly wrap - Golar, Lynden and more. It was wonderful

to see so many subscribers at the Vancouver Investment Conference - some of whom had flown out from Montreal and New York.