INTERIM BULLETIN #93 - SEPTEMBER 2, 2011
TAG OIL (TAO-TSX) and while I'm at it,
TORQUAY OIL CORP (TOC.A-TSX) & ITHACA ENERGY (IAE-TSX)

TAG OIL – TAO:TSX

TAG Oil today announced that it was joint venturing out **all** of its east coast shale play to Apache Corp (APA-NYSE; $98). Apache will spend $100 million to earn 50% of the play; after which TAG will have to pay its share.

This is obviously a great validation of the play. But it does mean there won't be any news from TAG on well results at the east coast shales until Q2 2012 is my guess—a full 2 years after I started writing about this company, on the basis of this east coast play.

TAG released the news on a Friday before a long holiday weekend, when much of the market is at least mentally if not physically gone, and the market is being crushed by a hapless US jobs report today, so the stock isn't doing quite as well as I might have thought.

But technically the stock has cruised through $7 like a knife through hot butter and I think it's doubtful the stock will look back, though I think there is a good chance in this downward market we're in that the stock won't take off to $10 or $11 right away—more likely to grind higher. But I'm not buying any more stock in TAG in this market.

That's partially because the release used very broad language and we have no idea how fast Apache has to spend money on any of the Phases that they talked about. There are no mini-milestones outlined, either in timing or in costs or level of development of the property. But if Apache spends $99.9 million and walks, TAG still owns 100% of the properties—they have to spend all that money to earn any working interest.

Managing joint venture agreements with major companies to ensure the news flow to keep market interest in your stock is a BIG deal for junior producers like TAG. Apache did not issue a news release on this. However, TAG will benefit from any news flow that comes neighbouring New Zealand Energy Corp. (NZ-TSXv).

NZ is actually having a much better day than TAG, up 25-30% on more volume that TAG.

I'm not a buyer, I'm not a seller, I'm a waiter right now to see how the market treats this news early next week. In the (very) unlikely event the stock can't hold above $7 next week for more than a day, I will take some small profits. Hearing more about the development plan could make me a buyer.

ITHACA ENERGY - IAE:TSX

I had an hour long talk with CEO Iain Mckendrick recently (which you will likely see as a free blog story one day next week), and my only real question was – what can go wrong here?

This North Sea producer has 5000 bopd net of oil discovered and behind pipe at their new Athena oil asset. They have all the money in the bank to put it AND the next asset into production. All the production updates for Athena say they are on time and on budget for a Q4 production start. Yet the stock languishes.

Now to be fair, I didn't really expect Athena to start getting priced into Ithaca's stock until September. But McKendrick says his feedback from The Street indicates to him that in this market, the stock may not get the valuation we all want until production actually starts in November or December.

Of course, there is always a risk that the Floating Production and Storage Offload vessel (FPSO) could sink enroute from Dubai in October. And despite consistent production tests, the wells at Athena may not perform to expectations. But both of those have huge longshot odds, i.e.*not very likely.*

Analysts I spoke to who follow the story also warned me *against* my thought that this was a defensive stock in a bear market – if oil falls sharply, even a low valuation stock like this (and it is VERY low – trading at roughly 2x current cash flow and 0.6x 2012 forecasted cash flow) will get hit.

I would urge you to go look at the new pictures on Ithaca's website that show the FPSO being built, and some of the high-definition cartoons of what the piping on the sea floor looks like for Athena – here is the link:http://www.ithacaenergy.com/Athena-Area.asp

The production declines that you would see in the quarterly were almost all a result of the ESPs (Electric Submersible Pumps—the undersea pumpjacks that bring the oil up) at the Jacky platform being repaired; those are now fixed and production is better than before.

At the Beatrice platform, which is at a 30 year old field with 98% water cut (so only 2% of the liquid coming out of the pump is actually oil) all the wells are flowing.

Remember the questions I always ask management? Iain, tell me the one, or maybe two things that you think the analyst community is missing or under-appreciating when covering your story. Here's what he had to say:

"Analysts haven't worked out what our tax loss pool really means, and how it will grow."

He is referring to the newly increased tax regime that the UK government instituted in the North Sea oil game.

"It grew again (this year) as we're continuing to develop assets and pour capital into the North Sea. For the next four years we are raking in our money tax free, so I think that tax holiday is a significant item."

And my other question to management is – what do you feel is the most under-appreciated aspect of your company by investors. He said:

"(It's our) Risk profile.   Ithaca has a strategic partner across all its assets—Dyas. Dyas is private Dutch company with 30,000 boe/d production. They are strong financially and experienced technically. Having them as a partner means risk mitigation. Dyas is putting up as much or more money than us. Dyas is the Oil and Gas arm of SHV the biggest private Dutch Industrial conglomerate."

The stock is also performing well in this market mayhem—it was one of two OGIB stocks this week that my technical chartist advisor, Donald Dony, said had improved enough he would be a buyer here.

IAE: Primary trend is down. Outlook is improving. Testing resistance at $2.10. May have bottomed in early August. Could start buying small amounts.

TORQUAY OIL CORP. – TOC.A:TSX

Torquay released their quarterly report the day after Bulletin #73 came out. In that bulletin, I advised that I was selling 10,000 shares, and I did that at $1.42 this week.

I also surmised that one of the two exploration Lake Alma drill holes that the market was waiting on (there are two – one Bakken horizontal and one horizontal well targeting the Ratcliffe zone, which doesn't get fracked, above the Bakken) had hit, judging by the way the stock was trading.

The quarterly report said the Ratcliffe hole was on "tight hole" status, which means management doesn't have to say what the IP rate was (Initial Production).   This gives them a competitive edge in buying nearby land, and the system gives them that edge. I take that to mean they hit on that well.

The company said they have 250 bopd behind pipe (which means they have discovered and tested that amount, but it has not been tied into the pipeline to be constantly produced yet), and the Ratcliffe well will be some part of that.

I like this Ratcliffe play as it is shallow, low cost production if it works. Neighbouring NAL is getting 75-200 bopd IP rates from their Ratcliffe play.

What's unclear with Torquay is how much of the Ratcliffe formation rights they own 100% and how much they own a 60% Working Interest (WI), as they have mentioned both numbers. Given the lack of exploration success in the Bakken formation to date, I think this is important. I have an email into management on this.

On the positive side:

- The stock has held up very well, IMHO, considering the decline in production that has happened – down to 330 bopd – but that is mostly due to the company being unable to get drilling in Q2 due to wet weather.
- Strong cash position--$13.6 million and no debt

- Lots of drilling to come at Lake Alma and their other smaller properties they acquired earlier this year
- High netback of $59—netback is profit per barrel

On the negative side, the company announced its Lake Alma production at quarter end was 17 bopd. They have spent millions on this asset and they have 17 bopd. **Yuck**—but I always said this was a high risk exploration play. Obviously you have to frack this part of the Bakken slightly differently than up in the main Viewfield area of the Canadian Bakken, 65 km to the northeast.

This would also be why operating costs at Lake Alma were $116 per barrel this quarter. **One hundred sixteen.** New accounting rules (IFRS) do make these companies expense more than before so that number is bigger for the whole industry but I confess I have not seen that big a number before. The exploration misses now get expensed right away.

That number will obviously go down in the second half with any successful wells.

Bottom line is all the upside is still there ***if*** they can make the Bakken work. An aggressive Ratcliffe program is also possible as these wells will cost just over $1 million and Torquay has the money.

I am not a buyer of Torquay at this time.

SECURE ENERGY SERVICES – SES:TSX

I'm giving my 3 days notice that I will be selling the rest of my Secure Energy Services. The stock is not in an uptrend, but I'm still in a profit position and want to lock that in. Also, the shares issued for the two acquisitions will now be released and taken into account in analyst models, which will be slightly dilutive to per share calculations. In a bull market this would not be a big deal but I think in this type of market, despite this being a growth company, management has to prove they can make these acquisitions accretive and synergistic, and that could take a quarter or two.

Agreed, that's not a long time but in a downward market, investors punish high valuation growth stories that miss estimates (think GasFrac or Xtreme Coil **:-(**).

I like this company a lot. Secure is a company I will monitor closely and may re-establish a position in at a later date or if the valuation gets very cheap.

MARKET COMMENTS

I have been operating on the assumption that this recent mini-rally in the markets was a selling opportunity, and I am a small but regular seller of several of my smaller positions.

I sold all my Bowood (BWD-TSX) at 38 cents for a loss of 11%. I am happy with DeeThree being my call on the Canadian Alberta Bakken play.

I am still a big believer in DeeThree.

I have sold 10,000 of Canadian Overseas Petroleum (XOP-TSX) at 47 cents for a loss of 3 cents, and will continue to slowly exit that position.

I sold my remaining 10,000 shares of CGX Energy (OYL-TSX) at 51 cents for a 43% loss.

I am giving my regular **3 day notice** on stocks I can buy below market on financings that subscribers generally can't - that I am selling the remainder of my **Secure Energy (SES-TSX)** next week. The stock is in a downtrend, and is issuing its stock to recent acquires which will dilute per share data until the businesses show the market some decent organic growth—likely 2-3 quarters away.

I sold 10,000 shares of Torquay Oil Corp. at $1.42. I gave notice of this last week.

Technically I expect September to be a rough month for stocks. I will be using any extended weakness to increase my position in first, Open Range (ONR-TSX) and then possibly Canadian Energy Services (CEN-TSX) (barring any major fundamental developments in other OGIB stocks).

OGIB technical advisor Donald Dony sees the potential for another 10-12% drop in the overall market from here over the coming 4-9 months. Oil price and oil stocks are now following the market. He adds that fundamentally however he doesn't see oil going much below $77 on anything other than a short spike—and hey, I'll take that to mean energy could show some good relative strength through this downturn (Dony agreed). The percentage decline in commodities is lower than in the stocks, which says demand is still there, they're just cooling off. Dony suggests this is not an overall bear market but rather a pause in a bull market.

Fundamentally, a positive sign for the world economy this week was Brazil lowering interest rates. That could become a trend through the developing world where economies are booming and huge new middle classes (New Consumers! Fresh meat!) are still being created, and could/should cushion the blow that the fragile American economy may give us this fall.

DONALD DONY COMMENTS ON STOCK CHARTS OF SELECT OGIB STOCKS THAT I MAY BUY (in order of preference)

Here is how I use Mr. Doný's advice on the technical charting of OGIB stocks. Should the stocks hit one of his key technical levels, either in breaking out to the upside or breaking down, I don't just sell or buy. Now, I might do that, but often I call management and make sure I understand the company properly. Maybe I've missed something. Technical Analysis is important, and useful, but just like my overall service, it's not a Bible.

ONR: Primary trend remains up. 1st support at $5. Still consolidating under $7.

Recommendation: Hold. Short term weakness to $5.50.

CEU: Primary trend remains up. 1st main support level is at $10. Currently consolidating between $13 and $10. Recommendation: hold. Stops should be placed at $9.75. Some weakness expected in September. Likely retesting $10 at month end. Target is $14.25.

GLNG: Primary trend remains up. 1st support remains at $27.50. Currently still consolidating $27.50 (support) and $34.50 (resistance). Recommendation: Hold. Outlook appears to be improving. Likely breaking above resistance. $34 resistance but volume increasing--caution from market conditions--

WEE: Primary trend is still down. Outlook is improving. 1st support at $0.70. Recommendation: Start buying small amounts. May have bottomed out. Place stop at $0.65. rounded the corner--

CEN: Primary trend remains up. 1st support now at $8.25. Currently consolidating. Recommendation: Hold. Refer to last week for stops.

IAE: Primary trend is down. Outlook is improving. Testing resistance at $2.10. May have bottomed in early August. Recommendation: Start buying small amounts.

GFS: Primary trend is down. 1st support is at $7. Resistance at $9.

Recommendation: Sit on the sidelines. Do not buy. Wait until GFS trades over $9.

THE SUBSCRIBER INVESTMENT SUMMIT ON SEPTEMBER 26 IN VANCOUVER

We are now full, but we can still allow more people in just by removing one of the big room dividers. For those of you attending, our dinner following the Summit will be at a restaurant called JOEYS on Burrard Street downtown, only a 3 block walk from the Summit location. Reservations are at 6:30 pm under Oil and Gas Investments Bulletin.

Dinner is a pay your own way affair (can I say Dutch Treat in this politically correct age?), and the CEOs of Wavefront, Primary Petroleum and New Zealand Energy Corp will be attending for you to speak with. I am trying to get a couple more CEOs to attend as well.

I have a very heavy conference schedule this fall, and at most conferences I hold Subscriber-Only Sessions—very informal circles where you just pepper me with questions and I do my best to answer. These are my favourite parts of the shows, and now the main reason I do them. Often an hour just isn't enough time! Please come to these as they are a lot of fun, and sometimes the best questions get asked here—I always learn more than I expect.

- Keith