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PORTFOLIO PURCHASE - GOLAR LNG
UPDATES - GAS FRAC, RIDGELINE ENVIRONMENTAL SYSTEMS
SUBSCRIBER SUMMIT - WHAT I LEARNED

GOLAR LNG

Today I bought 500 shares of Golar (GLNG-NASD) at $33.47. The reason for the purchase is that I now believe the low of the market has been set for a while, and the market will be more positive moving forward. While the stock is technically trading in no man’s land still, it's a stock I want to own more of, and if the market goes up it should take Golar with it.

Also, they do have several bids out on new FSRU contracts and an announcement on any of them would be a boost to the stock. One research report I have read is suggesting this stock is $100 in 3-4 years based on increasing dividends as the eight new LNG tankers it has ordered.

This fits my theme of continually buying small positions in good companies at market lows. Don't overcommit too much capital at any one time...just dollar cost average into my favourites in a small way.

What I really like about this company is that management puts their money where their mouth is—they own almost half the stock. They want the company to perform and pay out their free cash flow in dividends. Chairman John Fredriksen has done this with all his companies. I wish all management teams were like this! Sadly, many companies prefer share buybacks that do more to help management stock options than shareholder wallets.

I believe yield will be the largest determinant on price for this stock moving forward.

If the stock doesn't move through $34 on some volume, and stay there, I may trade the stock out but I want to be long this stock.

GASFRAC

Management announced a 3 year contract with Husky (HSE-TSX) for its Liquid Petroleum Gas (LPG, or propane) fracking equipment. This confirms what I saw creeping into the stock that last few weeks, with the run $8.50 and research analysts saying hey, buy the stock, we think it's cheap here, with no news or catalysts from the company.

This is good news on a couple fronts. While Husky is already the biggest client at 30%, the fact they were willing to enter a long term deal after the January 2011 industrial accident is a sign that Husky believes in the process strongly.

Analyst reports after the news revealed that in recent weeks, majors such as Chevron, Shell and Marathon have also successfully completed approval processes with GasFrac and are either using LPG now or about to start.

There are some big cash flow and price targets for the stock for 2012.

Altacorp suggests $493 million revenue and $1.06 EPS-Earnings per share. They have a $12 target.

ScotiaCapital Inc. lowered their target price from $13.25 - $12; estimating 2012 revenue to be $363 million, EBITDA (Earnings Before Interest Taxes Depreciation and Amortization; a rough equivalent to cash flow) of $114 million, cash flow per share of $1.83 and earnings of $1.03.

Haywood Securities has 2012 targets of $448 million revenue, $93.3 million EBITDA and 76 cents EPS. BMO kept their target price at $17 (they must really want a piece of the next financing!)

GasFrac management also downgraded 2011 expectations due to wet weather in Q2 and Q3—which I had already factored in. Q4 will need to be a barnburner to meet even The Street's reduced expectations now. But The Street no longer cares about 2011 numbers now—unless Q4 is really horrible. Everyone is looking at

2012.

A subscriber at our conference yesterday commented how rotten GFS trades...I replied I couldn't disagree more. The fact the stock wasn't at $6 after the first 7 months of this year impressed me—showed The Street's respect & belief in the company.

To me, the most important thing for the stock now is...with this release, The Street is likely willing to reward the company from here on out. My guess is that the market will now be pre-disposed to bidding up the stock on future contract news. I don't see this news breaking the stock out of its current trading range. However, a second longer term deal will likely have the effect—whenever that happens.

RIDGELINE ENVIRONMENTAL SYSTEMS—RLE:TSXv

I bought into this very early stage water purification story because I believe—and I have said this repeatedly for months—the next Big Thing in oil and gas is WATER. That's why I bought Secure Energy Services as well.

CEO Tony Ker (who was out to dinner last night to meet subscribers) announced a "test" contract today with their early adopter client, this time down in Texas.

Ridgeline will use their proprietary water purification system to recycle frack water. I have also said many times that the fuss about the QUALITY of water that fracking uses is a non-issue but the QUANTITY of water is. Ridgeline will allow producers to re-use frack water over and over. This will have an economic impact in the future as I see that producers will be charged for their water usage by states and counties in the next few years. That's coming.

This particular client is a US listed, large intermediate/major company that Ker says has a large landholding in Texas, and could roll out to dozens of sites. It's not clear yet how long this unit will get tested before the clients says, ok leave it here it works thank you...and when can we try more?

He was willing to say these single train units cost less than $1 million. They can put up to 4 trains in their water purification system, each one costing more obviously, but also taking the water to a greater purity.

This is great news for the company, but not a big revenue generator just yet. I asked Ker what capital needs they have this year and he said $10-$15 million, and they are looking at all kinds of ways to raise that money, i.e. not just equity. If The Street thinks the company will raise equity, that will act as a cap on the stock.

(Perhaps this client would be willing to fund them in exchange for exclusivity on the next few units. The water issue is pressing enough for the industry in the US—especially in drought stricken Texas where landowners are truly angry at the industry for draining their water aquifers—that's not out of the realm of possibility.)

Ridgeline is hoping to charge on a usage metric—meaning they get paid either by the gallon, barrel or cubic metre of water processed. That could be a GREAT business model, but is unproven and tough to say if the industry will go for that.

There is 62 million shares out and 116 million fully diluted—a lot. That includes 34 million for the founder of the technology getting his stock. But the stock is very tight for the amount issued. REMEMBER THIS IS AN EARLY STAGE, VERY THINLY TRADED STOCK.

THE SUBSCRIBER SUMMIT—WHAT I LEARNED

Wavefront (WEE-TSXv) CEO Brett Davidson presented and joined us for dinner. While there is nothing new on this story, he said there was about 20 current clients that are big enough to order 20-70 units. So the question is, when will they? His presentation re-iterated the very compelling value proposition Wavefront has to its customers, and that is the essence of my investment in Wavefront. It works; it's cheap and the return on investment to clients is stellar.

The stock says the market doesn't believe management can sell this product. However, Brett is being asked to present to a lot of market players now...so I do believe there are a lot of eyeballs on the stock.

There is clearly no active institutional interest in the stock, nor do I expect there to be until they are cash flow positive, which I expect late Q1 2012. (I could be wrong though—my wife says it's happened a couple times.)

But business is improving slowly, so this stock won't be a rocket ship, (though I didn't expect the stock to do this poorly) and I'm dollar cost averaging into a larger position, because I don't know when any of these customers might order another 50. The company no longer gives discounts or incentives to customers either in the monthly fee or in installation charges.

Primary Petroleum (PIE-TSXv) expects to have their JV deal fully closed in a couple weeks. That stock is strong. Great chart. No Canadians have been buying any junior oil stocks the last month so their support is all coming from the US—even better. PIE is the purest play in the Alberta Bakken—no underlying royalties on its massive land position.

The Americans are willing to give bigger valuations to smaller acreages than Canadians, so we'll see what happens with this stock. PIE will have more than 75,000 net acres in the Alberta Bakken in Montana. I don't expect any flow rates off horizontals until next year.

However, Primary CEO Mike Marrandino did expect results from a couple other players shortly—Arkanova (AKVA-OTC US) and FX Energy (FXEN-NASD).

Marrandino said that one of the two leaders in the play, Rosetta Resources (ROSE-NASD) is showing a well profile for its Alberta Bakken lands that are similar to what the Saskatchewan Bakken started with –250 bopd IP rate, 180,000 barrels recoverable (EUR, or Estimated Ultimate Recovery) with 4 wells per section and a $4 million cost per well.

The Alberta Bakken is one of many new plays being developed in North America right now, with the sexy ones being Swan Hills, where IP rates are 3x the Alberta Bakken or more, the Montney gas play, the Duvernay gas play, the Eagle Ford gas play...you get the picture.

The Alberta Bakken gives great returns—about 75% IRR—but other plays with better returns are stealing the investor spotlight, which is why DeeThree's stock is not holding up well.

Yet I see DeeThree having great production growth over 2012, especially with 2 joint venture partners spending most of the money in the Alberta Bakken, while they develop their Belly River in west central Alberta and the new surprising Sunburst pool in southern Alberta near Lethbridge. So I am not a seller, but this play is not seen as one of the super sexy plays right now in Canada.

To be fair, results to date have been spotty—for every good well there has been a mediocre to bad one. DeeThree has had two positive developments this year outside the Alberta Bakken—they used their premium valuation to buy the Brazeau (Belly River) play off Fairborne (FEL-TSX) and have a bona fide discovery at Sunburst that could hold 12-20 wells.

Last comment—natural gas stocks have been holding up very, very well during this last downturn. The junior/intermediate oil stock leaders—like Legacy—LEG-TSX (that stock is at the top of everyone's buy list right now) have been dogs but the corresponding gas stocks—like Celtic (CLT-TSX) were hardly dented at all. Serious outperformance and relative strength. Interesting—though not so interesting to get me to buy anything gas related.

- Keith