BULLETIN # 73—AUGUST 25 2011
BI-WEEKLY WRAP

Some quick housekeeping issues:

A quick note on some FUN before diving into boring company reports:

The 2nd Annual Subscriber Investment Summit is happening on Monday, September 26th at the Pan Pacific Hotel in Vancouver, B.C., Canada. Mark your calendars!

This was a FANTASTIC event last year—mining newsletter writers Eric and David Coffin of THE HARD ROCK ANALYST and Lawrence Roulston from RESOURCE OPPORTUNITIES and myself will be speaking, along with 8-10 company presentations. From the OGIB list there will be Primary Petroleum, Wavefront Technology and New Zealand Energy Corp. (NZEC is not an OGIB stock list but is a look alike to TAG and will be completing a well in the east coast Whangai shale before TAG).

It's one afternoon only with a gorgeous ocean and mountain view. I will be arranging dinner that evening as well (pay your own way) where OGIB subscribers can talk with me and the management teams.

We will be sending out formal invitations within the next few days with RSVP details. There is no cost to attend if you are already an Oil & Gas Investments Bulletin subscriber. THIS IS WORTH COMING IN FOR! (sorry for the short notice…)

I am very pleased to say I've retained Donald Dony, editor of the Technical Speculator (www.technicalspeculator.com) to assist me with selecting technical buy and sell points for my favourite OGIB stocks. This will introduce an entirely new level of technical analysis for me and subscribers that I am confident will increase my trading profits.

*On a weekly basis, he and I will be going over the macro oil and gas charts, along with the OGIB stocks that I think have the best fundamentals behind them, to help me make the most money possible. He has a GREAT track record, and I have read him off and on for a few months before subscribing (at only $105 a year you should too).*****

And now back to my regular channel...

GOLAR
LYNDEN ENERGY
XTREME COIL
DEETHREE/PRIMARY
PETROFRONTIER
TORQUAY OIL CORP
GASFRAC

THE MARKET

Since June I have been saying that oil has to get back to $80 before the junior oil stocks will run again. As oil moved past $105/barrel, junior oil stocks developed an INVERSE relationship with their underlying commodity (much the same way junior gold stocks have done this year as gold rocketed up and they didn't).

The junior oil stocks had huge runs from Sept 2010-April 2011, and the charts had to pause; the value reset button had to get pushed.

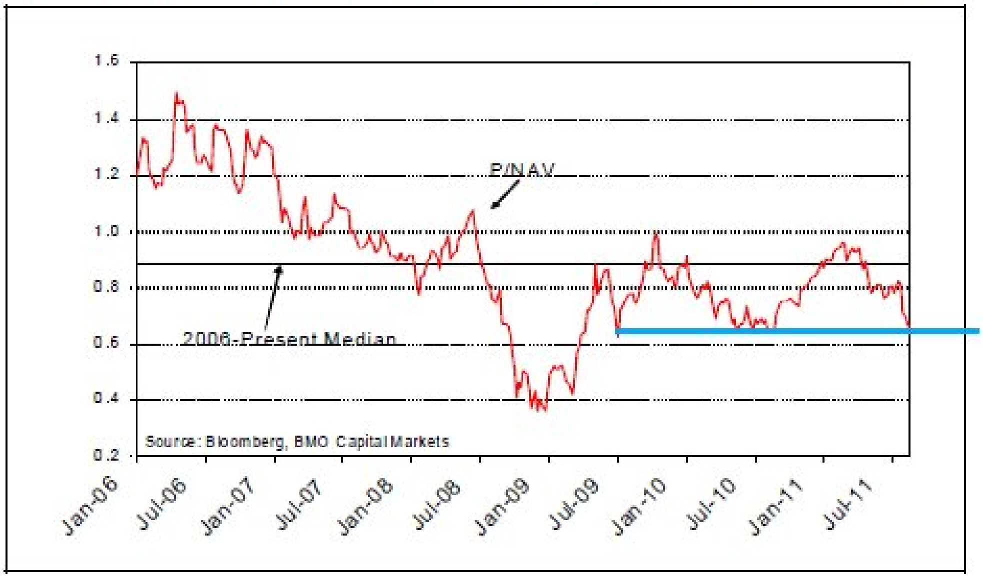
It's been pushed, but I think there is still more downside—though not much. Time is now the biggest enemy. Oil trades with the market and the market is likely going lower. I see downside of 6%-$10% in the oil price – some trading in high $70s/bbl with occasional fearful spikes to low 70s but not sustained there. (Equities generally move 3:1 to commodity prices so a 6% downward spike in oil prices will generally equal an 18% move in oil equities)

We are almost there now, though we are going to bounce along the bottom here until the end of October—and that could easily stretch out to January. It's unlikely to be a pretty 2-4 months. But I do intend to be a (fussy) buyer through this period, waiting for deep down days to buy Open Range, Golar, Coastal and possibly TAG Oil. As I discuss these stories in this issue I will tell you at what price I am willing to buy more and I will again summarize that data at the end of this mini-opus.

The weekly oil equities research from Canadian brokerage house BMO Nesbitt Burns shows that valuations on the integrated producers and senior producers are below historical median levels – currently trading at less than 5x cash flow and 0.8x Net Asset Value (NAV). These stocks are pricing in roughly $75 oil.

The juniors are now down to near historical lows on Price to NAV:

Chart 6: Intermediate/Junior Producers Historical P/NAV



I do expect that over the next two months that blue support line that I inserted will be breached...but that is my opportunity on select stocks. That's where I buy stock.

The next chart (price to cash flow valuations in the juniors) however says there is still some downside in valuations. You will see that there has been a huge spike in valuations over the last two years, well outside historical norms.

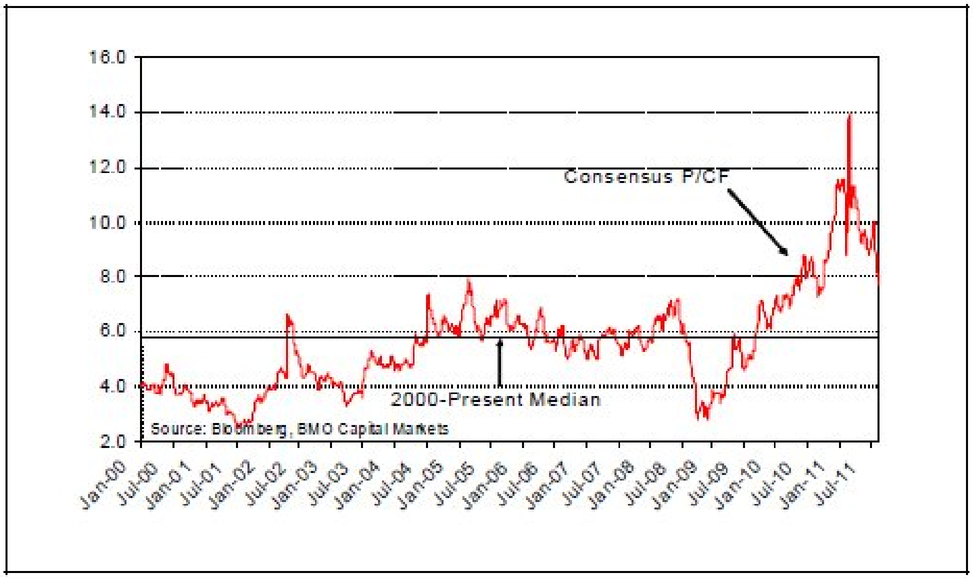
This brings up an interesting discussion. I see two reasons for this jump in valuation. One is fundamental, in that the shale revolution means a well costs twice as much but brings in 4-7x the amount of hydrocarbons. Also, a good shale play like the Bakken is spread over a very large area, which (SOMETIMES) creates a drilling inventory of several years of low risk production. The market is willing to pay BIG for certainty.

The second reason is investor hype. We all love these shale plays for the reasons outlined above. Investors start thinking...wow I wonder how far this shale play goes out...and we all pile into these things, regardless of valuation. The brokers get a good team and a tightly structured stock and can get the distribution through us retail guys to support these valuations. In a hard charging bull market like we had Sept 2010-April 2011 you can do that.

<u>Most shale plays actually don't have great profitability as measured by the Recycle Ratio</u> – which is profit per barrel (netback) over cost per barrel. I want to qualify that by saying I don't have any hard stats to give you right now, but in reading the copious amount of research I do, I am comfortable saying that.

So BMO's Price to Cash Flow chart tells me there is still some downside.

Chart 5: Intermediate/Junior Producers Historical P/CF



Oil follows the market, and because I believe the market is going lower over the next four months, so will the oil price and oil stocks. That's why I intend to be very disciplined in when I buy my SEVEN favourites over the coming four months.

I see this week as a pause in the downtrend, not as any bottoming just yet. So be prepared for lower prices almost across the board. SMART INVESTORS USE THIS OPPORTUNITY TO MAKE MONEY. I hope that I can help you be smarter.

Interestingly, I'm seeing the oil services sector doing better...their charts are better overall (despite GasFrac and Xtreme Coil)—this applies more broadly to the Canadian senior services stocks. They have the technology to drive profits for a couple more years I think before capacity catches up to demand. Stocks like CEU and ONR have not gone below their trend line, nor Calfrac CFW-TSX for example.

Should the oil price slump become prolonged (which, to me means staying below $80/bbl for longer than four months) then producers may cut spending, which would potentially carve deep grooves into these valuations—right now they are the last guys standing in the charts of the energy sector. But right now they are staying above basic trend lines—though I am seeing greatly increased volatility in their charts, which can signify a top or change in direction.

GOLAR LNG – GLNG:NASD

Original report Feb 9 2011

Golar LNG is the institutional crowd's favourite stock for the Liquid Natural Gas (LNG) tanker industry. Golar announced its Q2 financials the week I was chasing salmon in the north Pacific. The big news for me was that they increased their dividend 10%, from 25 cents per quarter to 27.5 cents. Golar is a long term dividend play—management, headed by the legendary John Fredricksen, owns almost 50% of the stock. So his interests are aligned with the rest of us shareholders.

Golar revenues were up 9% over Q1 2011 to $74 million, due to continually higher day rates for LNG tankers around the world. Net income was down however to $6.3 million, vs. $20.11 million in Q1, due to derivatives trading in their subsidiary, Golar Commodities.

This part of the business is actually, IMHO, almost opposite to their main business. The investment thesis of the main business is that there is a VERY tight tanker market, driving up day rates, revenue and profitability.

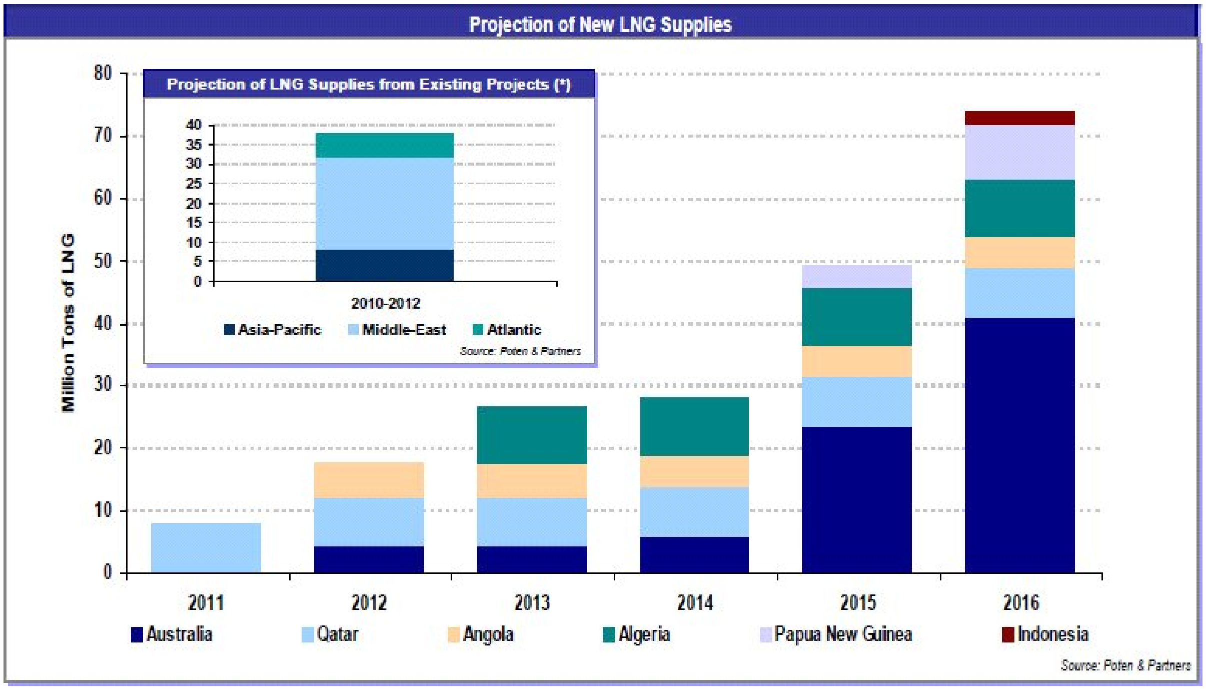
But the goal of Golar Commodities is to buy and sell LNG around the world and arrange shipping to get it there. It's a very entrepreneurial mission, but it needs a loose tanker market so it can take advantage of buying LNG low and selling it high.

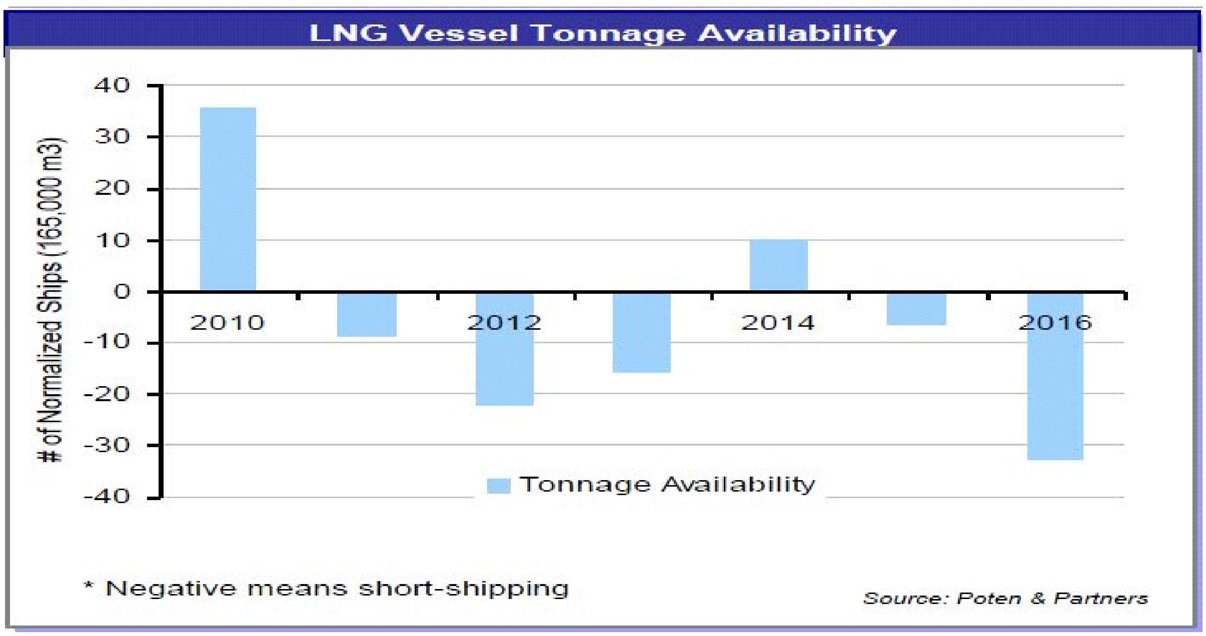
After this quarter's loss in Golar Commodities, management said they intend to curtail activities in this division. In the quarterly conference call they said they would likely use this division to offer risk management options to any new FSRU customers they get.

FSRU stands for Floating Storage and Regasification Unit. These are ships that turn LNG back into regular usable natural as for your home. These $275 million vessels replace $2 billion land based LNG terminals, and IMHO, are the future for huge global natural gas usage. They're portable, and can be parked offshore just over the horizon to do their thing and flex-pipe the gas into shore.

Oh yes, and they're generally twice as profitable as LNG tankers.

If you haven't read the original report on Golar in January 2011, please do. It's one of my favourite stories right now and I think this could be one of the few *Big Theme*, buy-and-hold-for-5-year stocks. Global LNG supplies are growing very fast (and not just because of shale gas in the US – Australia Indonesia and Qatar are rapidly growing reserves) and there just isn't enough ships in the world to handle all this cheap new supply (for Qatar anyway) for at least five years. *This equals pricing power for Golar and other LNG shippers.*





Day rates for Golar's LNG tankers were $91,666, up from $80,694 in Q4 2010 and about $30,000 in 2009. Rates have been over $100,000 pre-2008 crash. Fleet utilization was at 97% vs. 91% in Q1. Customers are now booking 1-2 years in advance of their needs and securing deals 5-10 years long—creating stable long term cash flows for Golar et al.

A couple things came up either in the quarterly, on the call or in the research that followed that got me excited. Golar is re-activating an old ship called GIMI, which will be an operational LNG tanker in late September—so that will be new revenue. Second, four ships are coming off charter contracts in Q1 2012, so they will be able to re-contract at the new higher rates.

Just as the world uses about 4 million more barrels of oil in the northern hemisphere's winter (Q4 and Q1), the world uses more natural gas then as well, and that is reflected in the spot day rates for LNG tankers – they're sometimes up as much as 50% over other times of the year. So it will be interesting to see what rate Golar gets. $$$$$$$$$$$$

Golar announced two more LNG tanker builds with Samsung of South Korea, bringing the number of ships they are having built to EIGHT now. Four will be delivered in 2013 and two in 2014. Few companies can build these LNG tankers—that construction market is so tight and analysts are actually asking what time-slot the builders have for Golar ships.

(Fortunately, Golar announced they were building most of those ships BEFORE the Japanese earthquake – the tipping point that sent LNG stocks to the moon and the industry to the forefront of the mainstream investment market. Costs for ships built after that have gone up markedly, but it was never said on the conference call just how much.)

They also announced that they expected to lose the latest Brazilian FSRU tender. They now have two Brazilian FSRUs. They are bidding on four other FSRUs right now and expect at least three more tenders in 2012.

Golar has also decided to build an FSRU on spec, which is something completely different. The lead time for them to convert one of their LNG tankers into an FSRU vessel is just over one year, so that could be a competitive advantage in one of the 2012 FSRU tenders. So that's 8 LNG tankers and 1 FSRU getting built.

The last FSRU contract Golar won was in Indonesia, and that ship is called KHANNUR. Golar expects that to be operational in Q1 2012—ahead of schedule. This will be the fourth FSRU for Golar.

Golar is not always an easy company to follow. Previously they had a subsidiary called Golar Energy, which traded on the Oslo Stock Exchange, symbol GOLE. GOLE was going to be the public vehicle that would be able to take advantage of the high shipping rates in the short term LNG tanker market, and then as they signed long term deals, would send the contract on to Golar LNG. Golar owned 66% of GOLE, and now owns 65%of GMLP.

But the tight shipping market made that difficult. So they floated another public company recently, Golar LNG Partners, (GMLP-NASD) which will be where the FSRU contracts get put. The money from this IPO paid to buy out the GOLE minority shareholders and take it private again. Golar owns a majority stake in GMLP.

So now when Golar (GLNG-NASD) gets an FSRU contract or long term LNG tanker contract, it gets sent down to GMLP. This makes GMLP a near pure play on the hot new FSRU industry.

The market sees the global growth of Liquid Natural Gas – especially with new shale plays greatly increasing supply—as a Big Theme. The market loves this new set up Golar has, as you can see by the volume and volatility of the share price.

Golar (GLNG) expects to send two FSRUs down to GMLP near term – the Golar Freeze in late 2011 (now operational and the Dubai Supply Authority (DUSUP)) and the new Khannur in Indonesia in 2012. Analysts are estimating a rough 30% increase in dividends by Q4 2012 because of these two additions.

Brokerage firm Raymond James had a good summary of the opportunity for investors here: "The GMLP vessels are all contracted under long-term (average duration of nine years), firm agreements with a diversified set of counterparties. As the ships have no direct commodity price exposure, limited foreign exchange rate exposure, and are subject to inflation escalators on certain costs, cash flows are highly visible and stable....Also, the ability to purchase additional converted LNG to FSRU vessels and leverage a lower cost of equity capital to pursue strategic third-party acquisitions will facilitate future DCF growth."

GMLP pays dividends, 65% of which goes up to GLNG. GLNG pays dividends as well. So it's a bit confusing sometimes. Just remember management owns almost 50% of GLNG—that's where their interests are; in getting THAT dividend up. This management team is all about dividends, and the stock is all about yield.

OK, this write up is pretty bullish on Golar, and I do like the story. Please read the original report. What could go wrong?

- Construction delays for their ships.
- They don't win anymore FSRU contracts.
- This company always carries a HUGE debt load – now sitting at $1.2 billion. That's what pays for the ship construction—but that is secured against the long term cash flows of the ships they are paying for. I confess I don't know what the terms of the debts are.
- Higher global interest rates will create competition for yield stocks like Golar, but I humbly suggest the world is a couple years away from that.
- And of course there's always an incredibly slim chance one of these things blows up.

As you can read, I'm really stretching it here.

Just as the Fukushima nuclear disaster in Japan was a (temporary) Black Swan for the nuclear industry, something completely unknown could do the same for the natural gas market—but right now the whole world is seeing it as a clean, cheap fuel with multiple sources that is going global. And Golar is one of if not the world leader in moving that fuel around the world.

Where will I buy it—first support is $27.50 so I will be watching the stock to see if it can hold there. If it can't, I may sell it to try and trade it. But I want to own this stock long term.

This is such a fun company to write about!

OPEN RANGE ENERGY – ONR:TSX

Sorry no report yet but in the last 2 months I have written lots!

I want to re-iterate, especially to new subscribers, this is my top pick right now. Low cost product, high margin, high growth rate, low market penetration (1% in the US and 4% in Canada). This stock should pay for several years of OGIB subscription fees ;-).

The world does not NEED many companies, but it needs this. Their frack fluid handling system –called "Poseidon"--replaces the in-ground pits that energy producers use to temporarily store water used in drilling, both fresh (before drilling) and contaminated (after drilling).

Pits are being banned by some states in the US, CFO Lyle Michaluk told me in a brief interview this week.

"Several states are moving to ban pits. We're helping them; they see us as a viable alternative. North Dakota came out with proposed legislation in June (banning pits) and our phones rang off the hook 2 hours later."

"Some states have had 18 month permitting delays on pits. There's a big opportunity." Michaluk said that conservatively, 50% of US wells use pits. And as winter nears and producers are scrambling for solutions, Open Range can have it there in one week—from scratch--and set up in 4-6 hours.

He said word-of-mouth referral sales were "pretty phenomenal. Word travels quick and soon we get multiple orders".

One of the most valuable questions to ask management, IMHO, is – what are the questions The Street is asking. When you are doing your one-on-one institutional meetings, what are they most excited about and where do you get pushback on your story. I find this question illuminating on several fronts.

One is that because I'm not technical in either a geological, engineering or accounting sense, I get a sense of what guys smarter than me in those areas are thinking. Second, I find that management, for whatever reason, tends to give me a long answer on that question, which brings up lots of other questions that I likely didn't think of.

Michaluk said the buyside is (and these are my words now) trying to determine the blue-sky appeal of Open Range – What is size of the market and what market share do you have now and what could you get.

That's when he gave me some good statistical background. He said there were more than 13,000 horizontal wells drilled in the US (I think he meant in the last year but my notes are fuzzy here), and Open Range's Poseidon frack fluid tanks were on 110 jobs – not even 1%. He said Canada has had 3,000 horizontal wells (again, I think he meant in the last year) and ONR was there for 135 wells—so market penetration of 4-5%.

There's a lot of blue sky there.

He said they were getting larger customers in the US who were giving them larger contracts – up to a year or more. Companies will drill 8-12 wells off one pad, and then frack them all in a row, which can take up to a year. In cases like this, Poseidon, because it's heated water storage, can act as a central holding tank for water that can be shipped to individual tanks on smaller jobs that the client may have. So Poseidon has multiple uses; not just storing frack water before a job.

Subscribers should understand there really is no barrier to entry for this product. Any major or intermediate services company could come into this business lightning fast and scoop market share. But, I would suggest with the services sector basically running flat out as it is, everybody's plate is full. I do expect competition to come, and I do expect profit margins to fall from the 80-90% level to....who knows. But anything above 40% will give it a premium to its peer group. Few companies (like Secure Energy SES-TSX) have gross margins over 40%. Almost all are 25%-33%.

Michaluk said he hopes that in four years he's fighting with competitors over shaving points off each other's 20% market share in the US. That would be a big company.

I also asked him if their experience with Poseidon has opened their eyes to any new market opportunities in the services sector. "Yes, but we're not going into any details on that. We do like the fracking space." Whatever that means. I guess that means they're thinking.

The other question I always ask management is...what do you think is the most under-appreciated thing about your company by the analysts who follow you. Michaluk suggested that while everyone is focused on Poseidon, the low cost structure they have been able to develop for their natural gas plays in the Deep Basin of Alberta is underappreciated. Only Peyto and possibly Tourmaline have lower costs, he said, and their Notikewan gas play is doing very, very well.

I like to hear that because it tells me the team has financial discipline, and that as Poseidon grows so quickly, they will do it in a way that maximizes shareholder value.

Where will I buy it – between $5.50 - $5.75. (Though I did buy another 1000 shares at $5.95 this week) Any significant volume below $5.50 could cause me to throw all my love for this company out the window and I may sell it in the hopes of buying it back cheaper.

GASFRAC – GFS:TSX original report Aug 25 2010

The stock had a big pop on Tuesday, the day Altacorp, a new brokerage firm out of Calgary, initiated coverage with a $12 target. There was nothing new in the report, other than to read what I hear whispered a bit on the street about GasFrac – that its LPG process is not a ubiquitous product; it's a niche product best suited for underbalanced drilling (UBD—this is where the pressure in the well bore is less than the pressure in the formation—this is a bit riskier as it increases the potential for a well blow out).

That really is not a big concern for me, as there is enough fracking business to go around even in that sector.

Speaking with analysts and customers and former customers of GasFrac, the cost of an LPG frack is an issue.

For some, the cost is worth it. One customer says they have increased reserves 20% per well that uses LPG vs. surrounding wells that used oil or water. Other customers have said they would only use it again for UBD situations. When I asked GFS management about this they said on a per barrel recovered basis, they are confident they are very competitive in the market.

That also helps to confirm my thoughts that the new propane recycling system, when available in 2012, will not increase GasFrac's profit margins—at least for a year or two. Any savings made there will likely be used to increase the competitiveness of the company and the savings will go to the customer.

Getting back to the new Altacorp research report on GasFrac--my experience is that these reports are written and then sit on the shelf until the firm decides it's a good time to release them – perhaps they've got a sense of something happening at the client company or they have a big order lined up on the buyside where they can tell The Street – see how influential my research is! But that's just conjecture.

The last time GFS had a big spike up like this, to $9 last month, it got crushed by a slew of institutional selling. But there was no sell-side volume at the end of the day Tuesday. Interesting. It closed up mildly on Wednesday—a good sign.

At some point this fall I may increase my position in GasFrac, but I think the market will give me more opportunity to do that later this fall at a lower price (though holding $8/share would be technically significant).

Where do I buy it next – first support is $7. If the stock goes to $9 and fails I may sell some and try to trade it. If it goes through $9 I would probably add to my position.

PETROFRONTIER – PFC-TSX original report March 2011

After a lengthy delay – partially due to weather and partially due to bureaucracy – Petrofrontier is drilling the Arthur Creek Shale play in southern part of the Northern Territory in Australia.

Management is expecting to hit Total Depth (TD) on the first well (Baldwin) in 10 days, and after the horizontal well has been drilled out they will move the rig over to drill the McIntyre well, which will take 3-4 weeks. They then bring in Schlumberger, using the Packers Plus open hole system, to frack first the McIntyre and then Baldwin—so investors will still have to wait for at least two months for official results.

The sheer size of this play – 11.6 million net acres – has me excited. But I have to remember a few things about this type of drill punt:

- There is no infrastructure or services around, which means that even if the well is successful, the oil needs to be trucked – a long way. It also means that when things break down, it's usually a couple days before they're operational again, vs. a few hours in Alberta if something goes down.
- Few companies get the right completion method (fracking) on the first well or two. The market gets excited about these types of plays, but it is often several wells and $20 million in before economic oil flows.
- There is a seasonality to this play. The rainy season is October-February during which there is no drilling; and no real news to stimulate investor interest. If I had a big position, I wouldn't really want to be holding all of it through that period.

There could be early news if they are able to get un-stimulated flow rates from either of the first two wells. That's not something I would necessarily expect, but it would be a partial validation of the geology and potential productivity of the play.

Getting any oil to flow to surface, even at an uneconomic rate 40-50 bopd would be a technical success they could build on. From there they could likely just spend the time and money needed to figure out how to make the play economic.

There will be $30 M cash left over after these two wells. Hopefully they complete them both and can drill a third well, a vertical, into the Thorntonian formation below the Arthur Creek shales in the Ross #1 well.

Where do I buy it – at 3000 shares I own enough for now. I want to get a better handle on what news there could be through the winter. Heritage Oil's 10% interest says that PFC is a takeover target. It's one of the better charts in the energy market.

XTREME COIL XDC:TSX

Xtreme's stock was hammered hard the week I was away fishing. It's an illiquid stock so a little bit of buying or selling can have a big impact. The market is still pricing in an equity raise sometime in the future.

The operational update the company gave in a release on Tuesday Aug 23 shows <u>they have made excellent progress operationally</u>—18 of the 20 drilling rigs are now under contract. Should the new service rigs perform as we all hope, then within several months Xtreme should be firing on all cylinders and have an amazing quarterly financials. Plus they have a $100 million backlog on that new order they obtained last month!

It was clear in my communication with them that management is a bit annoyed that the market took the attitude an equity raise is coming. They're right in that they didn't say there was one coming, they just said current cash flow and debt capacity wouldn't be enough to fund the new $100 million contract.

Of course, there are other unconventional ways to finance this – mezzanine financing, or a form of subordinated debt, or provide some incentive to the customer to assist with financing, among others. And then they may not need to raise that money for six months, either.

With the great operations that are now happening at the company, any hint that Xtreme actually doesn't have to raise equity would be a big and immediate positive for the stock.

If I wasn't already wearing deep sea scuba gear in this stock I would be dipping my toes in here, for a small initial position, once I see *a volume bottom*. There hasn't been one yet. My strategy would be to buy more on the equity raise (if there is one).

DEETHREE EXPLORATION-DTX:TSX/PRIMARY PETROLEUM-PIE:TSXv

See DeeThree report at top of Members Centre in black box

These are my two picks for the emerging Alberta Bakken play that straddles the Montana-Alberta border. It looks like it could be another big play—though smaller geographically than the original Bakken a few hundred miles east.

While there are no drilling results yet, I have come across one piece of information on this play recently that has me understanding the trading around DeeThree better: royalties. DeeThree optioned their land from Encana, (ECA-NYSE; ECA-TSX) and under the terms of their deal, DTX could end up (likely will with oil at these prices, says management) paying Encana a royalty of as much as 30%. With that, management is modelling the netback on this play at $45/barrel. This is still (very) good, better than any gas play and most mid grade oil plays, but it doesn't put it up in the Top 10% like I thought it was going to be.

I still believe this will be a commercial play. There is still a remarkable amount of blue sky here with the number of wells. But rough valuation will likely run in the $65K-$70k, vs the $110,000 per flowing barrel most good shale oil plays get with netbacks over $55. If DTX gets to 3300 boe at year end 2011, that would mean an Enterprise Value of $214,500,000, or $3.40 a share. Add 25 cents a share cash for $3.65.

(DeeThree should have A LOT of momentum on their big land position by year end with 2 joint venture rigs and one 100% owned rig active in the Alberta Bakken, along with rigs at Sundance, Belly River and Montney.)

Rosetta (ROSE-NASD) is going through the same issue on their 300,000 acres with the Blackfeet Indian Reserve. Their OverRiding Royalty (ORR) to the tribe or its members could be 30%.

Interestingly, Primary Petroleum has NO ORR on their lands. There is no underlying landowner. See that stock chart – very strong lately. If this stock can hold an 85 cent bid with volume that's a breakout and I will incrementally add to my position.

Where will I buy DeeThree--$2.75. The stock has been there twice and held. With the overall markets going lower, I see that as a realistic target price for me to find support for the stock.

CANADIAN OVERSEAS PETROLEUM - XOP:TSX (original report: Bulletin 55, April 16 2011)

XOP's first well is at least a partial success, with the Fulla prospect in the North Sea (XOP 50%) hitting an oil column of 133 feet gross and 45 feet net (within that 133 feet there was 45 feet of pay). Porosity was 23%, which they say was better than they were expecting.

This is not a huge surprise, as there is a discovery well from 1980 at Fulla that encountered a 145m oil column. The Clair Field just to the SW along the same structural ridge produced almost 49,000 bopd in 2010.

So it wasn't raw exploration, but they still had to hit. (After recent exploration misses by Ithaca (small) and Sterling (bigger), and a miss on reserves by Xcite, this is welcome news for investors in North Sea assets!)

The Original Oil in Place (OOIP) for the project has been estimated as: Low--143 million barrels (MMbbl); Mid--260 MMbbl, and High--407 MMbbl. This is a BIG target.

As quick background, this is the geological team that discovered a lot of oil in the North Sea as the group behind Oilexco. They have a specialty in being able to accurately decipher a particular exploration method called AVO seismic (please read the original report - http://oilandgas-investments.com/wp-content/uploads/2011/01/ISSUE-55-border-petroleum-cdn-overseas1.pdf)

Their other specialty is being able to raise money. CEO Arthur Milholland has a great track record in being able to sell his team and their vision to the capital markets.

All six of their North Sea targets could use AVO seismic, and their ability to pay a small promote on these plays, along with their technical expertise, got them in.

There was not a flow test on this well, partly because XOP is not the operator. Faroe is – they have about $130 million cash and 9300 boed of production. Faroe actually did have a bump in share price on the news, from roughly 130-160 pence on the AIM market in London UK. And I guess XOP did too, up 20% from 40 to 48 cents. In this market that's a victory.

Management is now examining the data from the well—gravity of oil, pressure, porosity at different levels, logs etc and a development plan will be formulated from all this data.

It's very difficult to say what this will mean for the stock. There are a lot of shares out, this is clearly not a bull market for junior oils, and there is no firm development plan to get the oil into production just yet. And all of XOP's cash is committed to other prospects, and then some. There are 180 million warrants with a 65 cent strike price that would be the easiest financing, but they are not callable until the stock trades $1.20 for a time.

There will likely be a lot of resistance at the 50 cent financing mark. The stock will need to trade millions of shares. Volume will be the key for the next couple weeks – I want to see at least 1 million a day and today (Thursday) for sure I am NOT seeing that.

The next step for XOP is to drill the Esperenza target in the North Sea, starting in late September, about 4-6 weeks later than expected. The well will take roughly 30-45 days. XOP is spending $19.7 million – the entire cost of the well – to earn 50% of BG Group's equity interest. If that well hits, then XOP can buy 50% of the already discovered reserves on this property for another $20 million. There is a discovery at the other end of Esperenza to where XOP will be drilling – it's called BANKS. Banks was 1080 bopd + 12 mmcf/d – a GREAT well. XOP sees Esperenza as being similar to the Huntington discovery that the XOP team made at Oilexco.

Then is Bluebell in November. Unlike Freya, there is no previous discovery on this property. XOP management believes that the AVO signature is very similar to nearby proven oil pools at the Brenda field that XOP developed as Oilexco. XOP is paying 66.67% of the first exploration well costs, which is $8.33 million, to earn 40% of Bluebell. The contingent recoverable source has been estimated up to 41 million barrels.

I can see this stock being in a holding period until at least Christmas. Will the market reward exploration success between now and then? The wild card here could actually be Liberia, where XOP is looking to close on an offshore property package. Other, much larger players are drilling there now and any success could see some very quick deal making there.

XOP could farm down on these successful drill punts, or one strategy would be to drill these prospects, get resource reports on the successful ones, and get some debt financing on that to put them into production.

Where will I buy the stock—I won't. I have enough. A breakthrough 50 cents with volume would tempt me but not much. The market is not rewarding exploration success enough right now to warrant adding to my position.

Here's my thinking here:

- I want my life and OGIB to be more simple—more money in fewer stocks.
- It takes a lot of effort to keep track of all these XOP assets
- The market has changed- the market is not rewarding exploration success
- I think the market will grind lower in September
- A lot of time, equity, debt and deal making is needed to make this stock a winner

But mostly #3 says this stock could be sold from the OGIB portfolio at any time next week. This is your 3 days notice I give on stocks that I buy below what subscribers can. I want more cash to increase positions in ONR and CEU and this stock is a candidate for that.

I will still monitor progress on the company for subscribers.

LYNDEN ENERGY – LVL:TSXv

Lynden has done two great deals recently that takes a big lid off the stock:

- Farming out a portion of their Mitchell Ranch property to a senior producer, that paid for the underlying property option
- Lining up a debt deal worth up to $50 million

But I still want to see a more aggressive development plan around the Spade 17 well on the western edge of the Mitchell Ranch property. They have said the well is economic, producing from (mostly) the upper conventional zone and the lower unconventional play. The market is due an production update on this well.

Once their debt package is actually finalized, they may have some more freedom with their "capex"; how much money they can spend drilling and building infrastructure. Lynden has 35,000 net acres at Mitchell Ranch, which has multizone potential. A good play can have as low as 20 acre spacings for drill locations in Texas, which can make a lot of wells. I'm not saying Lynden's play will be like that, but that's the speculative prize we're hoping for.

There is no word from management on what the development plan is by the unnamed farmee. Management is tight-lipped but industry sources have indicated that it's Chesapeake (CHK-NYSE). They are after the basement Mississippian play, which is a very hot play across Oklahoma and Texas right now. I've heard from other sources that CHK is buying up every bit of acreage they can in the Oklahoma Mississippian; and that they'll beat any competitor's price.

Lynden has 35,000 net acres of Mississippian rights at Mitchell Ranch.

The company is now up to 15 producing wells at Wolfberry and will have 20 by year end. A new reserve estimate is coming this fall. That could be a big deal as it will include more wells, more PUDs (Proven Undeveloped Locations), more acreage etc. The 2P or P50 number (Proven + Probable Reserves) should have a big jump. It will be interesting to compare that to the current market cap. A story like this would trade 0.6x-0.7x NAV in this market.

Catalysts for share price include:

- Any results from farmee (Chesapeake) at Mitchell Ranch
- the debt deal being finalized
- development plan for the area around Spade 17
- reserve report this fall

Where do I buy the stock—I have my position here and will not be increasing it.

TAG OIL CORP - TAO:TSX

Tag has been one of my favourite stories for 18 months. While their big Whangai shale play on the east coast of the north island of New Zealand has taken (MUCH) longer than expected, management has delivered in spades both technically, increasing production from 500-5000 boe come October, and with the stock.

Investors should be aware that a recent IPO, New Zealand Energy Corp., (NZEC) will be drilling a well called Ranui-1 in the Whangai shale this fall as well-likely before TAG drills their first well.

This well is partially completed; it's partway through the Whangai already. *Once NZEC drills this well and announces results, I expect TAG's stock to have at least a $1 move.* In this kind of market the downside move would be greater on bad news than the upside would be on good news.

Even though I own 200,000 shares of NZEC at cheaper prices, it is NOT an OGIB stock. They did hit a 1,000 bopd oil well in the Taranaki Basin, just south of TAG's properties, which shows they are technically competent. So that's good.

But the point here is for all shareholders here is that TAG doesn't control its own destiny with the stock, for a brief time anyway. <u>TAG's stock will be impacted by this NZEC well, depending on its timing</u>. Let's hope they hit. There is no public timing on the drilling of Ranui-1 yet.

TORQUAY OIL CORP. TOC.A:TSX

I was originally attracted to Torquay because of its tight share structure and large undeveloped land package in the Bakken, just north of the Canada-US border. The property name is Lake Alma, and after various deals and cancelling of deals, the company has about 86 net, contiguous sections of land.

Results have been mixed in the Bakken wells to date; management hasn't found the right way to frack the Bakken on this property yet to get typical Bakken flow rates (150-250 bopd). Horizontal Bakken wells are expensive and the company has had to raise money a couple times now so there is now over 50 million shares out fully diluted.

As a result of these mixed results, they have purchased other small land packages dotted around southeast Saskatchewan. Q2 was very very wet in this area so it's likely that drilling activity came to a near standstill for three months and has just restarted this month. The only well they have reported from these lands was a miss.

So the company has been very quiet recently, but the market is waiting on results from at least two wells – one horizontal Bakken well and one vertical well targeting the uphole Ratcliffe pools. The Ratcliffe has returned some excellent results for neighbouring NAL.

I don't expect any news on these wells, despite the fact they are now complete and fracked, until the end of October when a new land sale in the area is done.

Now, what I'm about to say next is just my thinking (but that's what you pay me for): That tells me that at least one of the wells hit, and my guess is it's likely the Ratcliffe. I think if the Bakken well hit, and they had decided they truly had figured out the right completion (fracking) method, the stock would be higher. But that's just my conjecture.

However, the stock has held in very well during this downturn; though it's mostly one buyer – the same NY hedge fund called Elliott Management Corporation, which now owns roughly 8.2 million shares or 17.3% of the company. They will likely stop buying at 19.9% as I believe TSX rules say that at 20% ownership they have to make a takeover bid for the company.

(By the way, this same group just announced they own 10% of TAG Oil.)

One other oblique bit of good news is that the Bakken in the US, in North Dakota, is stretching up to the northwest and the fastest rising land prices are in the area just south of Lake Alma on the US side. So there is a recognition this area of Bakken, which is a bit west of the main area, can be productive.

So the stock is likely in a holding pattern until November, though a lower overall market could grind the stock lower. There is still great leverage here if they can make this play work. Analyst targets are for more than a double. I'm holding my stock--but a little impatiently—I am giving notice that I may sell the last 10,000 shares I bought at $1.40, which still leaves me with 20,000 shares. This is more market related and money management than company related.

DONNYBROOK ENERGY INC – DEI-TSXV

Just as I was sending this to you all did Donnybrook issue TWO news releases: One is that they have just spud their first Bigstone well, in which DEI is paying 25% for 25% Before Payout interest and 50% after payout interest. The well is 8 km from a well that hit 2800 boe/d. This is the first well that the new Donnybrook team has operated since they came into the company last year. In the same release they said Cequence will be drilling their next well with Donnybrook on Aug. 28.

MORE IMPORTANTLY—they announced they were creating a spin out company of some assets that were not in the immediate Montney/Resthaven/Simonette area. This will leave

Donnybrook as a pure play for this area, and should increase its chances of getting bought out. (Acquisitors hate having to pay for "noise"; non core assets from what they want; one of the reasons we haven't seen anymore Cardium play buyouts)

I have included the press release below for easy reference. Current DEI shareholders will get one share of Newco, to be called DonnyCreek, for every 40 shares of DEI that you own – 40:1 will make this a very tight public company.

At the end of the day, this Newco will have 10 million shares out, which will include a financing that I assume the management of Donnybrook will be taking themselves along with their investment bankers to get themselves positioned.

And while the name doesn't impress me, management does. They have done a great job taking DEI from a dead in the box five cent mining shell into a $100 million market cap company.

So I will be doing my best to participate in the new financing. This team knows how to get positioned ahead of the crowd.

This two bits of news may bring some buyers into Donnybrook – so the trader in me says that while the long term future of the company is a buyout in the 80 cent range, I've said that won't happen until next spring likely. A rally here could provide a liquidity event.

Here is the news:

August 25, 2011 18:15 ET

Donnybrook to Reorganize into Two Companies: Donnybrook Energy Inc. and Donnycreek Energy Inc.

CALGARY, ALBERTA--(Marketwire - Aug. 25, 2011) - Donnybrook Energy Inc. ("**Donnybrook**" or the "**Company**") (TSX VENTURE:DEI) reports that it intends to complete a proposed reorganization of its business components into two separately listed public corporations by the spin-out of certain non-core oil and gas assets to a new corporation, Donnycreek Energy Inc. ("**Newco**"), by means of a plan of arrangement pursuant to the *Business Corporations Act* (Alberta) (the "**Arrangement**"). The objective of the Arrangement is to maximize shareholder value of the retained oil and gas assets and the oil and gas assets of the Company being transferred to Newco.

Newco will hold the following key assets (the "**Assets**"):

- 4,864 gross (4,864 net) hectares of petroleum and natural gas rights prospective for Montney, Wilrich, Bluesky and Falher liquid rich natural gas resource development in the Deep Basin area of west central Alberta, consisting of Donnybrook's interests in the

Prairie Creek, Gold Creek, Ansell Creek, Grand Prairie, Valhalla Creek and Leland Creek areas of Alberta;

- 1,920 gross (465 net) hectares of Mannville petroleum and natural gas rights in the Delia-Michichi area of eastern Alberta, including an interest in 2 gross (0.82 net) producing natural gas wells and 2 gross (0.32 net) non-producing wells in this area; and
- $300,000 in cash.

The remaining assets, including Donnybrook's interests in its core areas of Simonette, Resthaven and Bigstone in the Deep Basin area of west central Alberta will remain in Donnybrook along with the remaining cash to fund Donnybrook's ongoing exploration and development program.

Transaction Terms

Under the proposed Arrangement, it is intended that the Company will transfer the Assets to Newco in return for common shares of Newco ("**Newco Shares**") and the issuance by Newco to Donnybrook of a promissory note in the principal amount of approximately $2.19 million (the "**Promissory Note**"). Pursuant to the Arrangement, shareholders of Donnybrook will be entitled to receive 0.025 of a Newco Share for each common share of the Company outstanding as of the effective date of the Arrangement. It is currently contemplated that the plan of arrangement will be structured as a return of capital for Donnybrook shareholders.

Upon closing of the Arrangement, the directors of Newco are expected to be the current directors of the Company namely: Malcolm Todd, Murray Scalf, Randy Kwasnicia, David Patterson, Ken Stephenson and Colin Watt. Additionally, it is currently expected that the officers of Newco are expected to be the current officers of the Company, namely: Malcolm Todd as the President and Chief Executive Officer of Newco, Robert Todd as the Chief Financial Officer of Newco and Murray Scalf as the Vice President of Business Development of Newco.

It is anticipated that the Arrangement will be completed in mid October, 2011. The implementation of the Arrangement is subject to, among other things: further board of directors approval by each of the Company and Newco of the final structure and terms and the arrangement agreement to be entered into between the Company and Newco, shareholder, court and regulatory approvals, including TSX Venture Exchange acceptance of the Arrangement, the continued listing of the Company's common shares on the TSX Venture Exchange and conditional listing approval of Newco Shares. No application for listing has been made and there is no assurance that if made that approval will be granted. The TSX Venture Exchange has not approved or disapproved the Arrangement and there is no assurance that the TSX Venture Exchange will approve the Arrangement.

The Company will hold a special meeting of shareholders to approve the Arrangement. Further particulars, including the record and meeting dates, will be announced in due course and a complete description of the Arrangement will be set forth in a management information circular to be sent to shareholders of the Company in connection with the special meeting to approve the Arrangement.

In connection with the Arrangement, it is expected that certain directors and officers of the Company will be among the participants in a private placement for Newco Shares at a purchase price per share equivalent to the deemed issue price per Newco Share issued pursuant to the Arrangement, for aggregate gross proceeds of approximately $2.4 million (the "**Private**

Placement"). The proceeds of the Private Placement will be used to repay the Promissory Note and to provide Newco with additional working capital. The Arrangement will be conditional upon the completion of the Private Placement.

Assuming no convertible securities of the Company are exercised prior to the Arrangement, on completion of the Arrangement, including the Private Placement, it is anticipated that Newco will have approximately 10.8 million Newco Shares outstanding.

Further information relating to the Company is also available on its website at www.donnybrookenergy.ca.

ON BEHALF OF THE BOARD OF DONNYBROOK ENERGY INC.

Malcolm F.W. Todd, Chief Executive Officer

WHERE WILL I BUY (with my favourite stocks in order)

Mr. Donald Dony of www.technicalspeculator.com and I have arrived at some key support and resistance levels for stocks that I would still consider buying more of in the OGIB portfolio:

ONR: primary trend is up. 1st support $4.50-$5.00. Currently consolidating between $5.00 and $7.00. Recommendation: Hold. If ONR declines below $4.50 - sell. Stop is placed at $4.50.

CEU: primary trend is up. Short term back to consolidation—well defined support at $10. Stop $9.75. Breakout is around $12.50 and then technical target $14.25 based on equal level advance.

GLNG: primary trend is still up. 1st support level is at $27.5.
Currently consolidating between $27.50 and $34. If GLNG declines below $27.50, Dony says it's a technical sell. Stop is placed at $27.00

CEN: primary trend is up. 1st main support: $8.00. Currently consolidating between $8.00 and $11. If CEN declines below $8.00 Dony says it's a technical sell. Stop is placed at $7.75.

IAE: primary trend is down. 1st support is at $1.70. Recommendation:
sit on the side lines. If IAE advances over $2.00-$2.10 then I would start buying/

GFS: primary trend is down. 1st support is at $7.00. Currently oversold. Minor signs of strength returning. Too early to buy. $9.00 is resistance. If GFS advances over $9.00, that's a breakout.

TAO: primary trend is flat, indicating prolonged weakness. Currently consolidating between $5.50 and $7.00. Monitor closer. If TAO declines below $5.40 that's a technical sell. Stop is placed at $5.40.

WEE: primary trend is down. 1st support level is at $0.60? Breakout is $1. Very little strength right now.

FINAL NOTE—please consider coming to the Subscriber Summit—I love meeting subscribers and hearing your stories. Registration is free but it's limited to about 350 people, and two other newsletter writers also have their subscribers coming.

YOU WILL RECEIVE THE OFFICIAL INVITE ON SATURDAY—ACT FAST!! Once you commit, please DO attend.

I am away Fri and Monday kayaking with my son on the west coast of Vancouver Island. I had no intentions of making this bi-weekly report so long – 23 pages - it just crept up on me!

I'm going to get it down to 10!