

## **SUBSCRIBER ALERT - updated**

### **OGIB INTERIM BULLETIN # 63 SUNDAY JANUARY 16**

#### **GASFRAC ENERGY SERVICES - GFS-TSX**

GasFrac announced today, Sunday January 16, 2011, that they had an industrial accident on Friday in which three people experienced second and third degree burns from propane. At this time we don't know what caused the accident, but GasFrac has decided to suspend all operations until they have determined the root cause of this mishap.

Needless to say, this will not be good news for the stock on Monday morning. While it is likely to be an isolated incident, it will rattle shareholders who have now created a big speculative run in the stock. As I said in my big article on GasFrac today, any mishap in growth will likely eliminate the current premium the stock enjoys.

This is definitely a mishap. The chances of the company meeting the aggressive earnings estimates that analysts have had for the stock are not gone, but they're not great.

There has been a lot of hot money come into this stock so Monday opening could be...unpleasant. I may be a seller tomorrow but over \$9 but I'll see how the market opens. You can bet management will want this fixed ASAP and will have lots of technical people on this 24/7.

Tunisian political unrest and propane industrial accidents. It's always humbling to experience the risks of the junior markets.

Update:

Here is an update on GasFrac's situation from their main underwriter Raymond James. The stock is locked at \$9.80 in the pre-open, a bit higher than I expected.

#### **GasFrac Energy Services (GFS-T)**

##### **Event**

On Friday afternoon a propane leak at one of GasFrac's wellsites ignited. While the propane fire was extinguished quickly, secondary fires began on two pumper trucks' tires causing damage to pump-end of the units. Three employees sustained minor injuries, one with second degree burns on his hands.

GasFrac has voluntarily suspended all of its operations pending the outcome of its own forensic investigation.

##### **Key Points**

With the information we have today, we do not consider that this incident should have a material impact on GasFrac's value.

- Over the years, we have collected anecdotes of numerous wellsite fires and other incidents, few of which have ever made it into the investment headlines (or influenced the stocks of the companies involved for that matter). As far as they go, this one is extremely minor - no serious injuries, damage contained to two pieces of equipment out of 37 parked on the wellsite.
- However with GasFrac, there is probably a heightened sensitivity to incidents such as these. As such, the stock will likely come under some pressure.
- GasFrac has hired third party fire investigators to pinpoint the exact cause of the incident and has suspended its own operations pending the results of this investigation. To there extent that some systemic factor or procedure gave rise to this incident, GasFrac needs to identify it to minimize the risk of recurrence. This is similar to grounding a fleet of aircraft when one incurs an engine failure – a prudent course that ultimately reduces the risk of flying.
- We aren't aware of any other oilfield service provider similarly suspending operations, even when the damage has been far more extensive.

- The results from this investigation should be available to GasFrac early this week. Operations should resume at that point. We don't expect operations will be suspended for more than a couple more days.