

**BULLETIN # 79 OCTOBER 24 2011
WEEKLY WRAP--UPDATES**

**OPEN RANGE NEW ZEALAND ENERGY CORP
PETROFRONTIER SECOND WAVE
PRIMARY PETROLEUM DONNYBROOK ENERGY
EQUAL ENERGY ITHACA ENERGY**

Yes, this is a big update. But that's because there have been so much GOOD NEWS happening. I've picked some great stocks here and as long as I don't get nervous and trade myself out of them ;-)) I'll be a wealthier man in 2012. I didn't even have time or room for my management meetings with DeeThree and Legacy. I am off to New Orleans Tues-Friday, so I may not be speaking to you next weekend, and my stock chart/technical advisor Mr. Donald Dony is scuba diving in the Great Barrier Reef. Pay special attention to Open Range and Ithaca and Second Wave write ups. That's where I think I'm going to make some money in the next couple months.

OPEN RANGE – ONR:TSX; ONRGF:OTCBB

I met with a very youthful looking Lyle Michaluk on Thursday morning in Calgary. Lyle is the CFO of Open Range, and will be the new CEO of Poseidon Concepts, the energy services company spin out that stores water at well sites for oil and gas producers.

(For new subscribers, this has been my #1 pick since June, and while it has already doubled, it is still my #1 pick for 2012. It is the single most profitable company I have ever seen in the energy patch anywhere in the world.)

The most important item to come out of that hour long meeting was **confirmation the company is growing MUCH faster than what the market appreciates**. As a result, I expect the cash flow and stock price to do much better than I have previously believed.

One Canadian brokerage firm mentioned in its morning energy bulletin earlier this week that it had learned (as a result of Open Range presenting at its energy conference in Miami earlier this week) Poseidon was now selling 7-9 units a week, up from its previous guidance of 2 per week.

Michaluk confirmed this. This is huge. Of course, sales could stop on a dime tomorrow, but with roughly the same odds as the sun rising in the west tomorrow.

Open Range has given guidance of 210 units by year end 2011, which would intimate a new sale every 3 days between now and December 31. Their guidance for the first six months of 2012 is only 30 units total – or one every six days—half the rate they were previously doing. They are now selling more than one a day. And most of them are in the US. And they've never lost a US customer yet.

This story makes me giddy so please take everything with a grain of salt.

Before I get into my financial fantasyland of what my stock position could be worth by year end 2012, I want to revisit why this company is growing so fast:

1. These 41,000 barrel tanks are essentially above-ground-heated-swimming pools which are transported to a job site on just two trucks, and are installed in four hours—and can start getting filled with water immediately. This replaces DOZENS of 400 barrel water tanks—they're called tank FARMS for a reason—that takes dozens of trucks 2-3 days to bring in to a well site. They are removed in even less time.
2. The fracking companies love these things as there are now a lot less hoses/logistics to do their job.
3. They heat up much faster and take less energy to heat than steel tank farms.
4. They replace pits in the ground where producers normally store water—these pits can't be insulated, and as a result of leakage being hard to discover, they are environmentally being legislated out. Michaluk says

their research indicates that over 50% of all horizontal wells use pits.

5. Even with 80% gross margin (plus), they save producers 30% and up to 40% on the old tank farm method—trucking costs and heating costs are THAT much. In fact, just operating a tank farm sometimes costs more money than Poseidon—even after a company has already rented/paid for the tank farm, they could, in some cases, still use Poseidon and save money because heating costs for the tanks can be so high.

On September 6 they had 170 units in the field. That left 110 days roughly in 2011. 60 unit sales for the rest of 2011 – that would be a little better than 1 every two days – puts them at 230 for year end December 2011.

If I assume 3 sales a week through all of 2012 (and it should start to slow down after that) that's another 156 units for a total of 386 by December 31 2012. One analyst estimated that Open Range averages about \$1 million per Poseidon unit per year at 85% gross margin, so each unit therefore creates \$850,000 in EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization—think of it as a rough approximation of cash flow).

$386 \times \$850,000 = \328.1 million annualized run rate by Year End 2012. And remember; right now they are selling TWICE as much as this informal guesstimate on 2012 cash flow.

The spin-out gets voted on next Monday, October 31. The two stocks should start to trade separately on Nov 3 or 4 – one being Poseidon, one being the old Open Range that is the second lowest gas producer in the Deep Basin, after Peyto.

Management has given guidance of \$1.08 annual dividend, with the first day of record being November 30 and payout date being December 15—9 cents each month.

(For my non-Canadian subscribers, paying monthly became the fashion in the old income trust game. Investors loved it and I doubt you will ever see a management team in the Canadian energy patch go to quarter or semi-

annual dividends.)

With 74.7 million shares out, that will equal \$80.676 million in payouts on \$130 million estimated EBITDA. But at even half the current run rate of 7-9 sales per week, I would expect 2012 EBITDA to be closer to \$200 million.

So what does that mean for the stock? The one other item I wanted confirmation on from Michaluk was the payout ratio that management intended to keep—he said 70%. They can do that because of their high gross margin. (By the way, management owns 8.8 million of the 74.7 million Poseidon shares.)

$\$200 \text{ M} \times 70\% = \$140 \text{ million} / 74.7 \text{ million shares} = \1.87 a share potential (IMHO, realistic) payout for 2012. Ok that does sound a bit much. This does assume a very high growth rate in 2012. But for now the numbers are backing it up.

Everyone wonders about competition. When will it happen and how much will it impact margins. Analysts are guessing a 60% gross margin in the future. I don't expect to see competition for 2-3 years, and the reasons are:

- the oilpatch is conservative and a new product from a junior company just won't get accepted quickly once there is already a well working product in the field
- majors like Schlumberger and Halliburton are VERY busy
- Poseidon's proven product saves so much money and logistical planning—and can be delivered to a job site in 7 days from being ordered--that I see it as unrealistic that end users are going to compare prices over small price differences between competing products.

So what does that mean for the stock? I think it will mean a lower yield than I previously thought—the higher the perceived risk, the higher the yield.

What's a 9% yield on \$1.87 dividend payout equal to? \$20.77 per share. (And if you buy the stock this week you also get the natural gas producer, which I think will trade \$2.50-\$3.)

Customers are ordering an average of 2 Poseidon tanks per job. One can be used for centralized water storage, and one used for well site frack jobs. Now that experienced fracking crews are hard to get, more producers are drilling 4-8 wells on a pad into multi-zone formations, but not fracking them until all the wells are drilled. Then they get the frack crew under contract for a year to drill them all consecutively.

That means Poseidon must be on site for the same time, so that's why they're getting 1 year contracts plus for a business that is usually 3-4 week contracts.

Michaluk said that non-fracking uses for the Poseidon tanks are increasing all the time. In the north, companies use them for heating, and in the south like Texas, the producers are using them to prevent evaporation in the heat.

And he added that they have now hired a VP of GLOBAL development; that would be for sales outside North America. I think the market would react quite positively to the first overseas sales.

A 1000 share purchase of the stock today will throw off enough dividends--even at the continued low guidance--to pay for your next year's OGIB subscription ;-).

ITHACA ENERGY – IAE-TSX

The stock broke out Friday above its \$2.10 resistance, both as part of the overall market but also because management did a deal to increase its percentage interest in its next big play, the Stella gas play in the North Sea.

The THREE news releases helped cement in investors minds that this team is active and moving forward to get Stella online, ontime in 2013. They re-arranged some working interests in the acquisition of Challenger Minerals and the disposition of interests in the play to their silent but large

Dutch private partner Dyas Minerals—Ithaca now has a 54.66% interest in each of the three plays that will be surrounding the Stella hub – Stella, Harrier and Hurricane.

The most important deal however was the one with Petrofac. Ithaca, as operator and majority partner, has now signed on a services company with a contract that gives them part of the field but also makes them responsible for costs on the Floating Production, Storage and Offloading facility (FPSO). This adds a lot of cost certainty for Ithaca—in advance of, during and at the ending of production. (The analysts should like that.)

Investors should remember that Ithaca does NOT have to raise money to put Stella into production--they have the cash, cash flow and debt available to do that.

As long as Europe doesn't kill us, this company is estimated to generate \$1 a share in cash flow in 2012. A 4x multiple is a \$4 stock. (Offshore oil producers with high capital needs and short reserve lives trade at lower multiples, despite the growth here.) I hope this news is enough to tide the stock over to when Athena starts production in December. I'll pick my spot next couple days to buy back my stock.

CANADIAN ENERGY SERVICES – CEU:TSX

(I would urge all subscribers to read my original report on this company. While it isn't growing as fast as Open Range/Poseidon, this is a low capital, high cash flow creation company that is doing very well corporately due to a disciplined management team with high ownership stake (and the shale revolution).

They make drilling fluids, which are required in every oil and gas well drilled and are pumped down a wellbore to avoid uncontrolled oil/gas flow in the well (i.e., a blow-out) as well as to circulate drill cuttings to maintain a cleaner drill hole. Use the new alphabetical company index in the

Members Centre. I have been and continue to be a regular buyer on dips in stock price.)

I sat down with CFO Craig Nieboer two Fridays ago in Calgary, and our talk was more a congenial catch up than business.

Key investor points included:

CEU has been very successful lately, taking market share from 2% in the US to 6% organically. Both their US acquisitions, Fluids Management (active in the Marcellus and Eagle Ford) and Champion (Midwest) have grown their business strongly in the last year.

Nieboer said there have been several contributing factors to this growth. The primary one was management of the two private companies—they were entrepreneurial, and responded well to taking stock in CEU and being incentivized by cash flow targets in their division.

He added that the head of all three companies – CEU, Fluids Management and Champion – ALL have their own clients, and run the mud for top customers. Senior management in each division is still technically involved at the bottom end of the business.

Nieboer said that they were able to add some technology to Champion's product offerings. And there was a learning curve for the Canadians, he added, saying that they have been shown how procedures where the mud is mixed right in the drill hole between the spud rig and the drill rig.

"Markets are very regional; each has different styles of operators."

Another factor is that public companies think differently than privates, and aren't as concerned as taking money off the table as private companies. And while there have been some minor synergies with purchasing and management, Nieboer says that would never be a reason for them to do an acquisition.

The other big factor in their success, he says, is that they are an intermediate producer and marketer of fluids in a market dominated by majors and small operators.

"We are big enough to create scale. We can compete on price but we can be more nimble. That's what keeps us one step ahead. Can we be the first mover in the Utica (the new shale play developing in Ohio, just to the east of the Marcellus in Pennsylvania)? Yes."

He added that the Utica and the Duvernay are the most exciting new plays in which they are involved.

That nimble nature will also serve them well in the event of a downturn—they will be able to react quickly and because of their low capital needs, won't be left holding a bunch of idle assets. He adds there is no downturn yet ;-).

He says that philosophy has them now moving into production chemicals. Their core business, drilling muds/fluids, is obviously used for drilling, which usually takes 2-4 weeks per job. But production chemicals are used over the life of the well—years.

"It's like the mud business 10 years ago," Nieboer says. "It's just big guys and mom and pops. We can be the same intermediate producer over time. It's stickier revenue, and better margins over time. It's like building up an annuity.

I asked him my regular question—what does he think that the research analysts on the sell side (those who work for stock brokerage firms) under-appreciate about your company?

"It's our business model. We don't have to re-invest our EBITDA into iron (like the drillers and frackers do). So our multiple should be higher."

While CES does generally trade at the highest level of its peer group, the

fact is, analysts do consider its peer group to be the drillers and frackers that are much more capital intensive. CES doesn't require a lot of capital to buy the components of its mud. And it runs a very steady 30% margin in good times and bad.

And that has allowed them to pay out just under 50% of their free cash flow in the form of dividend. They had an 83% payout ratio when they were a trust.

Nieboer suggests CES should trade at multiple like Core Laboratories, (CLB-NYSE) which is 19x EBITDA, or Carbo Ceramics (CRR-NYSE), which is 14x EBITDA. CES trades at 8.2x EBITDA.

There are 54.8 million shares out after a 3:1 split this year. They'll do about \$85-\$90 million EBITDA on over \$400 million revenue and they have \$59 million debt. After an 80% growth rate this year, The Street is looking about 20% growth next year. I do expect a dividend increase sometime in 2012 (currently 4 cents a month).

PRIMARY PETROLEUM – PIE-TSXv: PETEF:OTCBB

This week Primary announced a deal to farm out 50% of their Alberta Bakken land package in Montana for \$89.5 million to an anonymous, US-listed energy company (one brokerage firm has identified as Occidental Petroleum –OXY-NYSE).

What a deal! And a couple other pieces of news made it even more interesting. But first, the deal:

Primary is one of the few if not only company with a large land position in the play that has no large underlying royalties to First Nations or other companies; it's a clean play that way.

Primary has 291,000 net acres, located just south of the Newfield (NFX-

Here is what Clarus Securities, based out of Toronto, said:

"We estimate that the Western Montana Bakken play alone has the potential to produce up to 59 mmbbls and generate \$7.48 per FDS in risked NPV10 value. Factoring in Primary's other core assets, we believe the Company has potential worth \$8.13 per FDS on an NPV10 basis."

There were two other interesting bits of news come into this play this week. On the same day as Primary announced their deal, Newfield, the leader in the play on the Montana side, announced good news/bad news in their first public IP rates (Initial Production):

"To date, the Company has drilled seven vertical wells, two horizontal wells and is in the process of testing several vertical completions.

The Company's first horizontal well had initial gross production of approximately 225 BOEPD with less than one-third of the lateral producing. The second horizontal well was not fracture stimulated.

Newfield's average working interest is approximately 85%.

To date, three of the vertical wells have been tested and flowed low volumes of oil. Newfield's work program to date satisfies about 80% of its commitments to hold its 340,000 acre position for a five year period."

So one horizontal well was good—possibly very good. Newfield didn't say if that 225 boe/d was a 1 day test, 7 day or 30 day. Nor did they say how long the horizontal was, or what the oil/gas ratio was—a lot more questions than answers.

The other well appears to have been deemed not commercial. Vertical wells flowing oil is a good sign—even low volumes. I thought the market would have seen more transparency from Newfield on this play by now, but we still have to wait—until when or why, we're not sure.

But the point is, the market can now relax a bit more while it waits for Primary to drill, knowing that at least one well hit in the area. The play may end up being variable and patchy, but with 291,000 acres, PIE will likely get a statistical profile of a successful well.

The other piece of news was the Bowood (BWD-TSX) announced their first well in the Alberta Bakken up on the Canadian side of the play. BWD is joint ventured with Legacy Oil and Gas (LEG-TSX). Their first well, on Freehold land (not the Blood First Nation lands) hit 225 boe/d oil, with a 65% oil cut after a 15 day test. The second well—which is on the Blood lands--has been completed and will be fracked end of October.

These wells will be in the western part of the Alberta Bakken fairway, as compared to DeeThree on the east.

DONNYBROOK ENERGY – DEI:TSXv

Their Bigstone well in the Montney came in...well...big. The well, after cleanup, produced natural gas and condensate over the last 24 hours of a four-day test at roughly 4.3 million cubic feet per day of natural gas (mmcf/d) and 295 barrels per day of condensate -- 1,011 barrels of oil equivalent per day (boe/d).

Donnybrook has brought in two smaller JV partners to spend the lion's share of the money on these wells—DEI only pays 25% to get 50% (after payout) in seven sections at Bigstone. DEI has given its two partners notice it intends to drill another well in Q4 2011 or Q1 2012.

In the few miles between where Bigstone lies and Cequence is, Encana paid \$300 million for Duvernay rights—Duvernay being the new source rock play at the bottom of the Montney that is a very high risk high reward play.

And it was great to see the stock respond. Their next well, with Cequence at Simonette, has been drilled and will be completed shortly. DEI's first

well with Celtic at Resthaven has not been flow tested yet because of capacity constraints at the pipeline. DEI expects the Bigstone well to be online in 60 days.

Once these four wells are online (Bigstone, Resthaven and Simonette x 2) DEI should be flowing 1000 boe/d. But they will still need to raise money this fall to drill all that they want to.

Reminder: the Donnycreek spinout will happen in early November. I am participating in that initial financing to the maximum \$10,000 I am allowed. This team of Malcolm Todd, Murray Scalfe and Dave Patterson have shown they are ahead of the curve in the industry and can add a lot of shareholder value—and now they can do it in a tight shell. As listing date draws near I will give everybody an update. But for every 40 shares of DEI you own, you will have one share of Donnycreek. It will have 10.8 million shares out.

SECOND WAVE PETROLEUM—SCS:TSX

Second Wave appears to have the sweet spot in the single most profitable oil play in the Western Canadian Sedimentary Basin (WCSB) right now—the Beaverhill Lake play (BHL).

Crescent Point Energy (CPG-TSX; CSCTF:OTCBB), the Canadian super-intermediate producer, has made the BHL their next big play. They have bought land themselves, and joint ventured land with all the juniors in the play—Second Wave, Arcan (ARN-TSX) and private company Coral Hill, as well as buying 19% of Arcan.

(Second Wave only has to spend 15% to earn 40% on the first eight BHL wells with CPG, and then it's a straight up 40/60 deal for CPG.)

The prize? Day 1 IP rates of 2000 bopd + sometimes, 85-90% of it oil and EURs (Estimated Ultimate Recovery) of 2 million barrels per section (1 section=1 square mile=640 acres). First month IP rates are often 600

bopdplus—well above the norm of WCSB wells, and better than 90% of Bakken wells (in Canada). BHL wells have been known to flow over 2000 bopd for the first three weeks, resulting in payback in 5-11 months.

The reason for this is that the three producing zones in the BHL are only 25 m from the top of the top to the bottom of the bottom, and there is no water in between, so they can put BIG fracks into these wells (water displaces oil up the well bore).

After four months however, producers are forced to reduce production by law. Production usually starts at 200-250 bopd at this time, and Second Wave is modelling then that those wells will decline 70% from there in the first year to 60-70 bopd.

(However, that modelling is not based on any real well control—wells in that area have only been producing for 5 months. And one of those wells is STILL producing 260 bopd—so that decline rate may have to get remodelled (dramatically, to the good) with time.)

Arcan developed the BHL play originally, just to the north of where Second Wave is (this play is about 300 km NW of Edmonton) and their stock ran from \$1-\$6 last year.

I got onto this story as nearby Second Wave began developing its Pekisko play, which is about 1000 m above the BHL. Pekisko is a mid-grade oil play with 35% gas, so it has a low netback—but it's large. There is probably about 1 billion barrels of OOIP—Original Oil in Place.

So as Arcan developed the underlying BHL, Second Wave waited as the play came to it—they have 50,000 gross acres of BHL mineral rights in their CPG joint venture. Second Wave also holds or has an option on an additional 10,300 acres of Beaverhill Lake mineral rights in Judy Creek at 100% working interest outside of the joint venture agreement area—roughly 15 sections.

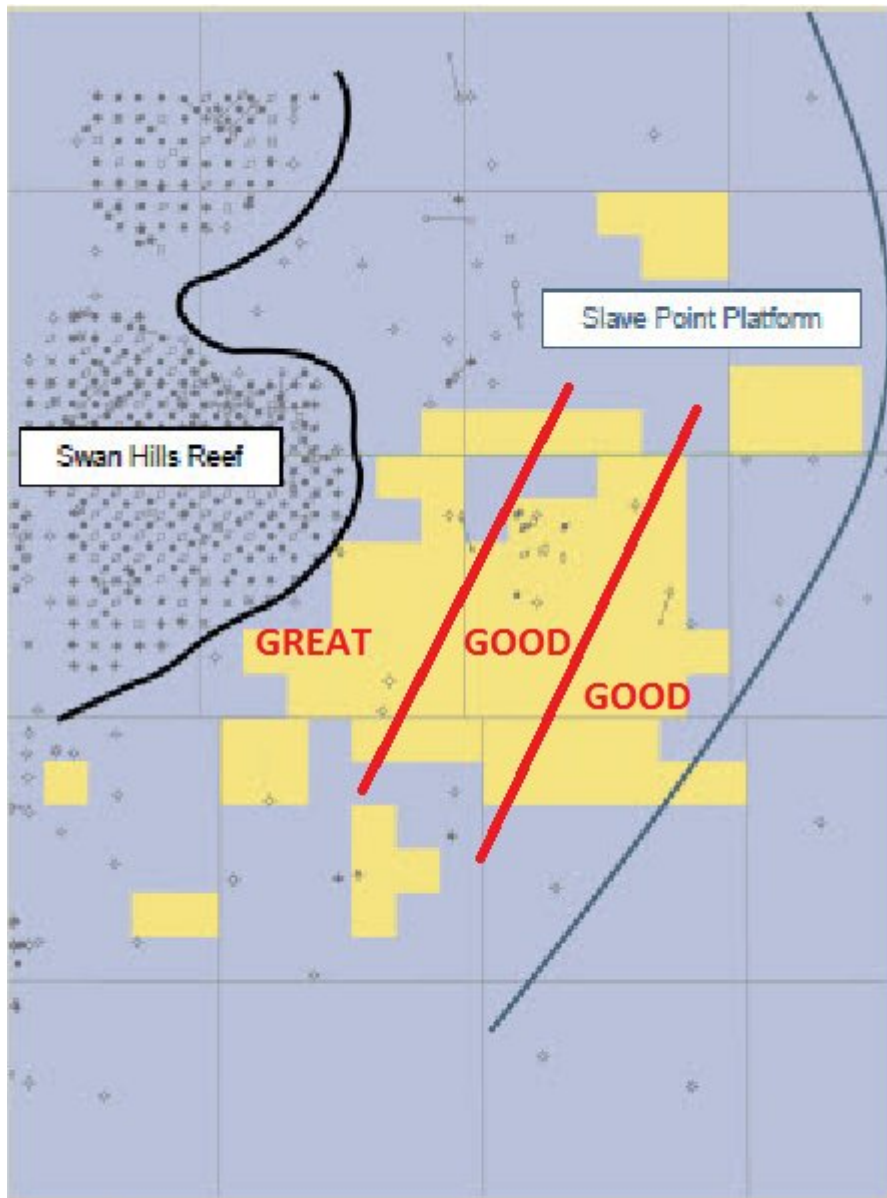
President Colin Witwer told me in an interview in his Calgary office on Friday that this is likely the only play in the WCSB where two major oil plays sit stacked on top of each other. With gas, this has become normal in western Canada—in fact, five-to-eight zones are normal in some gas plays.

Second Wave now has 3 rigs drilling their BHL lands, and Witwer says that means a frack is getting done every 10 days for them. They are drilling three wells a month, and that includes one well per quarter on their 100% owned land.

(Early this year the company had a fire at their facilities, which reduced production and had obvious costs associated with it, so they joint ventured out their BHL play and were stuck in a high debt, low netback situation until these wells starting coming in at high rates. Until their net debt is down—and it will be 1:1 debt to cash flow by Year End and 0.8:1 by Q1 2012—they are only drilling one well per quarter on their own. This should mean however the company will NEVER have to raise money again for either Pekisko or BHL.)

Netback on the oil is \$50 on \$90 oil.

Witwer said there are three North-South corridors of production on their grounds—the farthest west one is Great, and the other two are Very Good.



Second Wave Joint Venture land

By year end they will have 18 BHL wells drilled that will be spread out over their acreage so that basically all of it will be de-risked. This means a producing well is close enough to every little corner of their land package that an acquiring company will have complete confidence that the typical BHL well profile is good for all of it.

And just what might that acquiring company pay? Well, CPG has said there is an NPV¹⁰ value of \$60 million per section in this play. Witwer is

being more conservative at \$30 million.

(Think of NPV 10, the Net Present Value, as the money left over to Second Wave after it has paid all of its costs on these wells, assuming they average out to the type curve of the play, then that money gets discounted 10% per year.)

SCS has 48 net sections. $48 \times \$30 \text{ million} = \1.44 billion . This is what is called an *unrisked* number, and assumes that 100% of the lands is productive. Now, nobody is going to pay that for Second Wave; that is the value they would hope to realize out of Second Wave's lands. If somebody paid that it wouldn't be accretive to them. But they could get half that, or \$720 million.

Subtract Year End debt of \$70 million to get a possible takeout value of \$650 million.

On 91 million shares fully diluted that's a value of \$7.14, and that doesn't take into account the \$16 million all the stock options would bring in. Management has said the company is for sale; their largest shareholder, Brookfield Asset Management (BAM-TSX, which is the Montreal based Bronfman family) is said to be open to a bid.

This would be the perfect time for someone to come in for a buy-out—BHL light oil production is now proven across the property package but little of it is developed.

The company will have drill results from the next five BHL wells included in their quarterly results the end of the first week of November.

PETROFRONTIER—PFC-TSX

The quick takeaways I had after meeting Sue Showers, Investor Relations for PetroFrontier, were these:

1. Transportation infrastructure in the area is worse than I thought—all

roads are dirt and rain even 50 miles away can mean your property gets flash flooded. So the likelihood of any work getting done in the rainy season is remote with serious spending on some raised paved highways.

2. LNG netbacks at Darwin, 1000 km north, are \$8.50-\$10/mcf, so if this Arthur Creek shale play does end up being gas, economics on it would be much better than I would have thought. Gas pipelines are only (roughly) 300 km away, vs 1000 km for oil pipelines. But there are rail lines only (roughly) 250 km.

3. The Baldwin well was over budget, more like \$8 million vs. \$5 million and there is still \$2.5 million needed to frack.

4. There is no water on either side of the Arthur Creek shales so they can make these fracks big.

5. They expect to have \$20 million cash at Year End, and not raise money until Q3 2012.

I'm going to watch the stock chart on this one closely—lots of resistance at \$2.60-\$2.80. PFC should get the McIntyre well spud on time at the first week of November, and hopefully both wells fracked before wet weather. I would think that the first sign of these two wells NOT getting fracked before weather would kill the stock.

If they do frack them both, will two (hopefully) successful tests be enough to keep this stock afloat through the rainy season? I don't know. Will Heritage Oil's ever increasing interest in PFC keep the stock afloat? They're at 14% ownership now. I don't know.

But those are the challenges that face PFC. There's a VERY big prize here if this works. We'll see if new operational management can speed up the process and get the job done on time.

NEW ZEALAND ENERGY CORP – NZ:TSXv—for TAG Oil (TAO-TSX)

While New Zealand Energy is not an OGIB pick, they will be drilling the Waipawa and Whangai (pronounced FUN-GUY) shale on the east coast of New Zealand before competitors TAG Oil and Apache do. I do own

200,000 shares of NZ, but at 25 cent cost base; the company recently IPO'd at \$1.

NZ is a competitor, but in the eyes of the market, a sister company to TAG in that they both have roughly 1.5 million acres in the big blue sky shale play on the east coast of the north Island, and successful wells in the Taranaki on the west side of the North Island.

I had a quick coffee with COO Ian Brown, up from New Zealand, and President Bruce McIntyre, as we were both in Calgary for meetings.

My main question was—when will this east coast shale play get drilled? McIntyre suggested it would be December 2011, and that they would start a new well, not finish the Ranui-1 well that is already through the Waipawa.

So that means no drill results until mid-late Q1 2012 unless a frack crew is already set. So really, TAG won't have any market moving news that will be drill results--until February. Meantime, they are drilling two vertical wells to core the two stacked shale formations. The core will be sent off to a lab where they will test rock chemistry to help determine the best way to frack it.

NZ will have roughly \$5 million cash at the end of 2011, so they will have to do another equity raise—this will likely act as a cap on the stock in early 2012 (though the stock has traded better than I expected). A chunk of the seed stock—like I said, 25 cent cost base—comes free trading near the end of the first week of November, so I expect to see some weakness in the stock then.

TAG Oil has their warrants (TAO.wt-TSX) expiring on November 5, so I also expect some weakness in that stock as people exercise their warrants, and sell their stock to pay for some or all of it. Depending on the dip that the stock takes, I may be a buyer then. (But I might let the market scare me away. I am still a believer the market will see another early October like low in Dec-Jan timeframe.)

Lastly, NZ expects their Moki-1 well in the Taranaki Basin to produce at 500 bopd, possibly as high as 700 bopd.

EQUAL ENERGY (EQU-NYSE; EQU-TSX)

While I am not long now, this is a former OGIB stock pick I successfully traded in the last 12 months. While in Calgary last week I stopped in to meet with CEO Don Klapko and CFO Dell Chapman. This is one of the few fully US listed stocks I have put in the OGIB portfolio. It's a tight stock with only 34 million shares out so it has a lot of leverage, though high debt (3.5x cash flow) dilutes that a bit.

Equal has 3 plays; the Cardium and Viking in Canada (oil) and the Hunton in northern Oklahoma, which is a wet gas play and the largest production area. However, none of their wet gas is the higher value added condensate; it's ethane and propane. As a result, Equal is a low netback producer, about \$20.

But I wanted to stop in briefly and get an update on two things: One is their potential Mississippian oil play on their Oklahoma grounds. Chesapeake (CHK:NYSE) and Sandridge (SD-NYSE) are active in this play and getting some love for their growing oil production here.

The Mississippian formation in Oklahoma, they say, is quite variable but the prize is a well that costs \$3.5-\$4 million, and has an EUR (Estimated Ultimate Recovery) of 300,000-400,000 barrels with Finding and Development costs (F&D) of \$10-\$15 per barrel. Those are great economics.

And I also wanted to hear how the gas play there was doing. They were in litigation with another company for almost two years over ownership—the lawsuit was really a cry for help as it was going bankrupt, and Equal answered the call by buying them out. But it meant a two year drilling hiatus at Hunton.

The good news is that the gas hasn't gone anywhere and new wells since the spring of 2011 have mirrored production prior to the legal proceedings.

And each of their Canadian plays is doing well—they are 8 for 8 on their last several Cardium wells. But the catalyst for me to get involved again is when they start to get active in the Mississippian oil play at Hunton; they will either Joint-Venture (JV) it out or drill it themselves. However, these are not cheap wells and with debt levels as high as they are, a JV sounds like the most realistic option.