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WEEKLY WRAP

GASFRAC	**EXTREME COIL**	**IONA ENERGY**
DONNYCREEK	**BORDER PETROLEUM**	**CGX ENERGY**
BLACKPEARL	**WAVEFRONT**	**SECOND WAVE**

Just in advance of giving updates on GasFrac and Xtreme Coil, I want to fly up to 30,000 feet and give a slightly more broad overview on three energy service companies.

GasFrac, Xtreme Coil and Poseidon are all energy service companies, but they are also science experiments. GasFrac, from a technology point of view, is IMHO the most potentially disruptive, with Xtreme Coil next and then Poseidon being last. Poseidon is a low tech solution that is merely an improvement on existing water management systems.

HOWEVER, the market demand for Poseidon is clearly the greatest. It is the largest PULL technology of the three. The market can't order these units fast enough and I'm sure if Poseidon could double capacity they could stay at 100% utilization for the next 18 months. Xtreme would be next on the PULL scale. They do coil tube drilling for deeper longer horizontal wells, and their biggest unit, the 500 SDR, is clearly in big demand. Every rig of that model is contracted, and they are regularly announcing new builds for the 500 series. (Hopefull the 500 series service rigs are PULL technology.)

GasFrac's LPG fracking **as yet** has to show strong pull in the market, except for the Husky order. And the dilemma I have as an investor is...is that because of something inherently...wrong is the wrong word...is there something about this technology that is preventing it from being adopted by the market as fast as I think it should be, or was it management going through the typical start up stumbles that happen or a wrong direction for growth. As yet, I don't know. For sure the market is more price sensitive to their higher cost frack job.

After those idle thoughts, I would direct your attention to one of the reasons GasFrac likely had such a big week in the stock market—and it had nothing to do with new management or corporate performance. The New York Times mentioned GasFrac, and directed its readers to a long story on GasFrac done by the newspaper in Albany NY (Albany is the capital of NY State). Here are the two links:

http://dotearth.blogs.nytimes.com/2011/11/08/a-fracking-method-with-fewe-water-woes/?scp=1&sq=gasfrac&st=cse

http://www.timesunion.com/local/article/Cutting-waste-in-gas-drilling-2254667.php

There is little doubt IMHO that these articles had a real impact on the stock this week. Fundamentally, I didn't expect to see $9 in the stock again until partway through Q1, on the heels of a strong unaudited Q4 being released and some visibility on 2012 being the winner we all hope it will be.

So we'll see what kind of new speculative premium this new excitement over the technology can bring into the stock for how long. So this could be a good selling point for those with a large enough position they can still keep a good part of their position.

Onto the follow up to GasFrac's Q3 results-- which were well ahead of market expectations due to a one time pre-sale of $20 million worth of material to Husky, their big contract—here are some other thoughts and conclusions on the analyst coverage following the conference call.

-analysts were very encouraged by increasing US sales—last quarter US sales were double their estimates, and October was more than all of Q3

-new CEO Zeke Zeringue will be focused on US, and he is based out of the US, so analysts see this as positive for growth down there in 2012

-the mobile LPG recovery unit will only be used on big jobs like Husky; it will lower costs there where there is critical mass of work, but as yet it's too expensive for small jobs. This still leaves GasFrac almost twice the price of a water frack in many cases, and despite the increased production/reserves LPG can get out of the ground, the market is telling me directly they are more cost sensitive on fracking than me or GFS management would like them to be.

-several acknowledged how GasFrac has had utilization levels of their spreads (drillers have rigs; frackers have spreads) well below industry peers for most of the year; i.e. poor corporate performance

-with much of the back end products needed to get more efficient in place now, analysts are hoping for a full 45% utilization rate in 2012, which could translate into just over $60 million in revenue for each of the 10 spreads. However, these spreads are now not expected to arrive until Q1 2012—so in Q1 it's prudent to just model the current six spreads, eight at most. And it's not clear yet that that utilization rate can be achieved, as they haven't told the market that those rigs are contracted yet. I have to say that has really surprised me. The financing for these rigs was done in February.

(Very) Cautious optimism would be the best summary. Despite the huge move in the stock over the next two days, analysts were still holding steady or downgrading expectations for revenue and cash flow in 2012. This is a typical excerpt:

"we notice that GasFrac's field efficiencies have been stubbornly low. We are accordingly lowering our 2012E outlook to a more achievable $97 mln EBITDA from $119 mln, previously."

In another note, one brokerage firm lowered every financial number possible for GasFrac, but left their price target intact and Outperform rating. ***;-)*** Uh-huh.

The market wants to see some proof of higher utilizations and higher margins that go along with that before getting super excited about the stock again. Fair enough. The stock still has a big premium based on 2011 financials.

So what does this mean for the stock? Well, after Q2 2011's bad numbers I said GasFrac was now a 2012 story. Now it's realistically a second half 2012 story—I see the stock hanging around the $8 level for another quarter or two, barring any major move in the markets.

Though there are a couple things that could happen that could change that:

-they could start getting US contracts—clearly this business is on the upswing

-Q2 will clearly be MUCH better than last year, for two main reasons—one is more US business where spring break up is not an issue, and the other is that Husky will be setting them up to do pad fracking, so GasFrac won't have to move spread around during the Q2 road bans in western Canada.

-their waterless fracking really does catch some public imagination, as it has with the two recent articles in the mainstream media

So I am confident that investors will see MUCH improved corporate performance next year. But for investors the issue is that the stock is actually still very expensive on any 2011 metric you throw at it. The growth prospect for 2012 is holding the stock up. So IMHO at $8.75-$9/share, a lot of that growth is already priced in. And unless management can show this is a pull technology the market is demanding to get, then the premium here could get reduced.

The new CEO, Zeringue, made reference to this on the call when he said people have to understand the unique technology here, and that **the US will use 83 billion litres of water in fracking next year**. Waterless fracking may be the future, but they're clearly having to sell it harder than I thought they would when it went public 16 months ago. Again, this idea of selling the technology benefits is what the news media articles spoke to.

In short, I don't see (nor do any of the analysts) any big capital gains in the stock until Q1 2012 results come out in May—I see the stock treading water and moving with the market during the meantime. Unless the environmentalists buy the stock. (Note to all investment bankers reading this: Ethical Fund managers are ideological and never sell—this stock is perfect for them!)

I would like to see them start announcing contracts—right now they have a policy of not announcing them, which IMHO is NOT how a start up attracts investor interest. This is still a junior company.

XTREME COIL—XDC-TSX

I bought Xtreme Coil this spring, because it's a very fast growing drilling company specializing in the biggest coil tube drilling in the business. I see horizontal wells going longer and deeper and this company is one of the leaders in pro-actively designing new equipment that will meet this trend. Coil tubing drills a well much faster than conventional drilling.

They're going from 16-29 rigs during this very fast build up of new equipment. At quarter end there were 17 and they now have 18 rigs. They are growing so fast they have had to renegotiate (read: increase) their debt line in each of the last two quarters – up to $90 then last week $150 million.

However, the market has expected to see stronger financials from all this activity, and between that and a 35-50% decline in all energy services stocks through Q3, the stock has gone from $5-$3 this year. Again, they are growing so fast that they were capital constrained until the new debt line was installed last week, and the possibility of an equity raise from that had kept a lid on the stock.

Q3 numbers came out Thursday aftermarket, but most of the important data was released in an operational update in early October. At that time the company said its number of operating days was down quarter over quarter (QoQ), that their light (shallow) 200 series rigs weren't being utilized very much (not a shocker as the market is going deeper and longer; the trend is to bigger rigs) and warned of possible delays in getting some of their rigs into the field on their timeline.

That caused analysts to cut back on revenue and cash flow projections for 2011 and 2012. Analysts also lowered their target prices but that really didn't affect the stock.

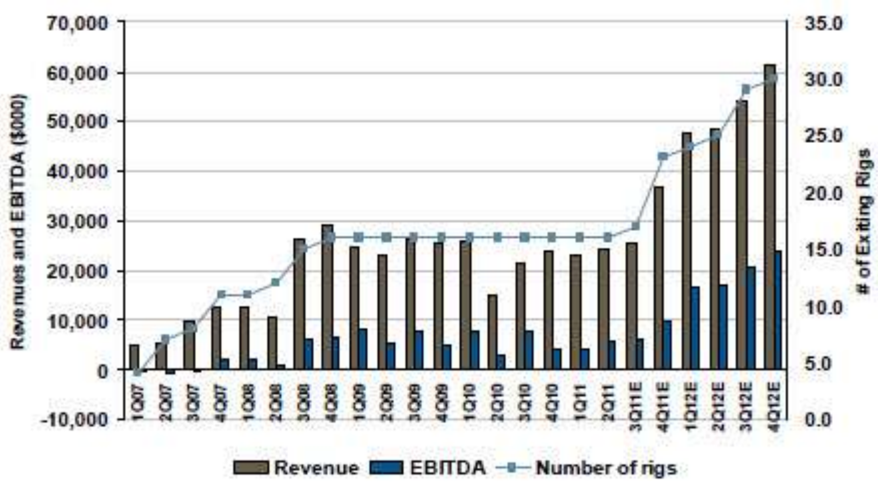
So in this quarterly, the market will weigh positive notes such as
-increased revenue (despite reduced utilization) due to higher revenue per operating day
-word that three 200 series drills have been contracted to Canada (where they currently have NO business; though their rigs are made up here)

against mild negatives

-slightly lower margins,
-no new business in middle east yet
-delays in big service rig deployment –the SXR 500s which should have 50% margins
-mining rig still being tweaked

There is a chance analysts may downgrade 2012 cash flow again slightly against these delays. 2012 will be huge growth year for the company, and obviously I hope for the stock as well. Here is how one analyst sees their growth through 2012 (always remember these guys get paid to be bullish)

Figure 1: Stellar growth path continues



Source: Company reports, Canaccord Genuity

I like the fact that the drilling rigs they're building are contracted—that shows me they have a "pull" technology; they're not having to sell it or push it. I would like to see higher profitability. And while growth costs money, the Canadian frackers (Trican, Calfrac and Canyon Energy Services) are growing huge and staying very profitable. I can't understand why a company like Xtreme can't do that. They have roughly the same capital needs.

The loss this quarter they said was due to a foreign exchange loss of over $3 million as they moved their debt from US denominated to Canadian. We'll see what colour they give that on the conference call Monday.

To me there was nothing hugely positive or negative about the quarterly;

most of the important data had already been broadcast last month.

But I can see The Street not liking more delays. Even at $3.70 the stock is expensive on 2011 financials, but cheap on 2012 pro forma cash flows—if they meet their aggressive growth projections. So any delay in equipment delivery that affects 2012 cash flow could make them a little nervous.

The big news was that CEO Rod Uchytil resigned and is being replaced on an interim basis by executive chairman Thomas Wood. Wood was a founder of Xtreme, and is a former CEO of the company. He was also a founder of Savannah Energy Services—so he has experience and pedigree. We will see what colour is provided on the conf call on Monday morning.

I like the way this company organizes and words its quarterlies—one of the best I have ever seen! It's very easy to get a sense of where the company is at. It is one of the very few company documents I can actually cut and paste and not interpret/translate:

At September 30, 2011, of the 17 completed rigs:
• 10 drilling rigs were operating under long-term contracts in the US with four US
customers
• two coil service rigs were operating under a long-term contract in Saudi Arabia with a major
diversified oilfield services company;
• one drilling rig was operating under a multi-well contract in the US
• one coil service rig was being field tested; and
• three drilling rigs were in the United States awaiting redeployment.

Following construction of the announced new-build rigs and upgrade to the coil service rigs, the
Company's rig fleet will consist of:
• 29 rigs in total, consisting of 21 drilling and 8 coil service;
• 21 drilling rigs - 10 XDR 500, 3 XDR 400, 4 XDR 300, and 4 XDR 200;
• two coil service rigs in Saudi Arabia;
• one coil service rig as a conversion of an XDC 200 rig; and
• five upgraded coil service rigs.

At this time, 13 of 18 available rigs operate under term contracts and six of

11 rigs under construction are also under term contracts. The five XSR rigs under construction and the four XDR 200 rigs are the main rigs in the fleet not currently under term contracts.

Mgmt uses simple bullet points that say not only where the company is at now but where it expects to be in a year.

BORDER PETROLEUM—BOR:TSXv

Border announced a $20 million financing at 21 cents, after they received approval from the Canadian federal government on their deal with the Loon Lake First Nations band. Border has acquired 27 sections of land in this area of Alberta where the Slave Point Formation is.

The big Slave Point player is Pinecrest (PRY-TSX) and it has, IMHO, the single largest valuation of any junior in Canada right now—even more per barrel than PXX—Black Pearl. All this says is that the market LOVES this play.

Then Border was able to upsize the deal to $23 million, and add in a $2.5 million over-allotment. The deal opened and closed immediately—institutions had clearly put their hands up beforehand—this means it was oversubscribed, and a Hot Deal.

The reason the company was able to do this was because of the technical similarities between their land position and Pinecrest—same depth, same geology etc.

So this will add 81 million regular shares, 24 million flow through shares and 12.15 million over allotment shares (which, unless Europe sends the world into the stone age, will get exercised). This means the new number of issued shares will be 225 million shares, give or take, with net cash of about $20 million.

That may sound like a lot, and it is, but I would think that if one Slave Point well comes in positive for Border, that Pinecrest will look at how they can take them out accretively. They have the big valuation that should allow us Border shareholders to do well—if the land package holds out.

There is enough money here for four wells, and if the first one is successful and can be tied in quickly, maybe 5-6 before they have to get financed again.

It's rumoured that Pinecrest paid over $5 million per section for some of their ground (that had no production on them). Apply that valuation to Border's lands you get a potential takeout value of 27 x $5 million=$135 million/225 million=60 cents a share plus whatever cash is in the company at the time.

The federal permits were the real delay here. Now that they are in place, the company is ready to go and the stock is trading very very well. There are always big bids right at the financing price, even on days this week when the market was down 350 points. That's a good sign.

IONA ENERGY – INA:TSXv

Iona announced they are paying $8.6 million for 100% of the Staffa project, an asset in the North Sea that is right beside their 35% WI at Orlando (which has now been spud).

I like this acquisition a lot, as it give Iona more critical mass in this area, and this well will actually be in production sooner than Orlando. It fits their philosophy perfectly, as this is a proven asset and is not exploration.

The Staffa Field is a three-way fault closed structure, about 4 km long by 2 km wide and has a 489ft (true vertical thickness) oil column in the Upper Brent sandstone reservoirs. The Staffa field produced at rates of between 10,000 and 5,800 barrels of oil per day ("**bopd**") between the years 1992 and 1994 and ceased production when the Brent crude oil price was approximately $13 to $15 per Barrel.

It still needs some permitting but this asset will be a producer.

So now the market needs to see how Iona is going to finance Orlando, Staffa, upping its Working Interest at Trent and Tyne, and getting Westwick into the fold. Westwick is an oil asset, big and sexy, but high cost—likely $140 million net to Iona.

I like the way they are putting the pieces of the puzzle together. Right now banks are only lending on production, not so much reserves (when they're lending at all) so getting some more production up and running quickly is important to Iona.

As this financial mess in Europe continues, debt to oil and gas companies I suspect will become tougher to get, so high capex needs like Iona could suffer from this. Oilexco was a highly successful company, but their bank, the Royal Bank of Scotland, got caught in the credit crunch of 2008, had to call in loans and Oilexco went bankrupt as a result through no real fault of its own.

Iona will have to be good and lucky to succeed, but I like what's happening there with what is in their control.

DONNYBROOK/DONNYCREEK ---DEI:TSXv; DCK:TSXv

Donnycreek is trading under symbol DCK and there is no stock available. It's ridiculously thin. I'm waiting to see more details on their land position. They will need to raise more money very quickly, as their current amount wouldn't even get them one well.

BLACK PEARL – PXX – TSX

I sold my 1500 shares at $5.01. The position wasn't big enough for me to monitor with enthusiasm, and cost pressures in the oilsands will favour service companies over producers, I believe.

WAVEFRONT – WEE-TSXv

I purchased another 20,500 shares at 50 cents to hold an even 100,000 shares. I still believe this science experiment is on the verge of becoming a pull technology. (Please Lord....)

SECOND WAVE PETROLEUM – SCS-TSXv

Watch this one this week. The stock trades REALLY well. Look at the chart—came up strong out of early October panic and held steady at the high of the bounce. The moving averages are converging, often a sign that a price move is coming.

They are due to announce several wells, including one or two 100% owned wells.

MARKET COMMENTS

I still have no idea where the markets are going in the short to medium term. The equity markets are reacting to every little thing, while the bond markets are warning us of more dire straights. The DOW is strangely correlated to Italian bond rates, which is completely counter-intuitive. They should have an inverse relationship, as higher bond rates means more crisis and fear.

I look at the technical analysts for whom I have respect and follow. Donald Dony says the charts are telling him the bear market rally is over and the market is going lower into late December. Don Vialoux and Avner Mendelman say there is two more weeks of volatility before the markets have their seasonally strong run into February-March. They have conflicting opinions.

Some of my best personal contacts/mentors are 100% invested now. I'm still 20% cash and happy to be there. I said I would buy back Ithaca if it went over $2.10. Here it is $2.30 and I can't bring myself to do it. I want the money. I want the cash. It's my cash. Mine mine mine. It's a good sign the market is going higher. ***;-)***

I knew Tuesday was the top of the market. How? I felt smug. GasFrac and Poseidon and Open Range, my three largest positions, were having powerhouse days. I'm not so stupid, I said to myself, I know how to pick good companies/stocks. WHEN YOU HEAR YOURSELF SAY THAT YOU HAVE TO SELL!! It's true!

Here is a story on CGX Energy written by Dave Pescod of Canaccord Capital in Edmonton. I consider Dave to be one of the best junior oil and gas stockpickers in the business and we promote each other on our favourite deals almost every day. One of several common companies we cover is CGX. He interviewed one of the management team at CGX a couple weeks ago and I want to share it with you here.

DAVID PESCOD'S LATE EDITION (OCT. 28TH)
AN INTERVIEW WITH JOHN CLARKE: VP BUSINESS DEVELOPMENT FOR CGX ENERGY

John Clarke was for two years one of Canada's top-ranked oil and gas analysts. He took an interesting position two years ago with CGX Energy as Vice President, Business Development. We have been following the CGX story for 13 years and it looks like in the next couple of months, finally, we will know whether it was worth the wait and the excitement.

David Pescod: John, can you tell us the background of the two plays that you will be looking at shortly and how big they might be?

John Clarke: Certainly David. The first play that we will be drilling is the Jaguar prospect, which is on our Georgetown Block in which we hold 25%. This is operated by Repsol and our other partners are Tullow and YPF. The target in this case is the Turonian sea floor fan, which is analogous to the Jubilee field offshore Ghana, and more recently has been migrated to the other side of the Atlantic with Tullow's successful Zaedyus well in French Guiana. That is the number one target and it is a billion barrel prospect. This is a 700 mmboe prospect according to Angus Mccoss from Tullow, and since the discovery in French Guiana he likens Jaguar to Zaedyus as a super-fan, very similar in size and potential. So, you can look at 700 mmboe to a 1,000 mmboe as a P50 case.

The second well that we will be drilling now we have completed our financing, will be a shallower well on our 100%-owned Corentyne Block that we call Eagle Shallow. It has two prospective targets, the primary Eocene, which is a tertiary turbidite fan and a secondary Maastrichtian target. The Eocene turbidite looks good on seismic but is higher up in the section than the Turonian which is a Cretaceous play. Below the Eocene, we have a Maastrichtian prospect that we plan to drill also, and if you remember your history from CGX Energy, this was shown to be a productive horizon in 1975 when Shell drilled the Abary well and lost control of it in the Maastrichtian, but recovered light oil (37 degree API).

So, those are the two wells that we will be drilling and the second one is 100% interest and the Eocene target is in the hundreds of millions of barrels range. So not quite as big as the Turonian, but still very important as we have 100% of it.

<u>DP</u>: For those who have been following this play for 13 years, other developments in the next week or two might make a difference. Right beside you Inpex, the Japanese firm, is drilling in Suriname. What do we know and what is their timetable?

<u>JC:</u> As you know, the rig they are using, the Atwood Beacon, is to come to Georgetown as soon as it's finished drilling in Suriname. The interesting thing in the Inpex case is that their target is neither the shallow Eocene nor the deeper Turonian, but is in fact an Albian carbonate prospect that has been very successful for OGX in the Campos basin offshore Brazil. This is an 18,000 foot well, and it's behind schedule, but to the best of our knowledge it should TD early in November. If it is successful, Inpex will have a testing program that could go from two to four weeks and then with that finished, the rig will move over to Guyana from Suriname. So we expect we will be able to spud the well before year-end.

<u>DP:</u> Now if Inpex is successful, does that mean the odds are better for CGX Energy?

<u>JC:</u> Well, it opens up another play in the Albian, and we have two prospects on our 100% Corentyne PPL and two leads on our 25% Georgetown PPL. So we have the potential for four such Albian accumulations if Inpex is successful. This year we engaged DeGolyer and MacNaughton to do a resource report and the P50 case that they put just on our Corentyne prospects only was a 325 million barrels best estimate.

<u>DP:</u> The one thing we are learning about drilling in these waters is that

these are not cheap wells and they don't get done quickly.

JC: That has been the experience thus far, although Murphy did drill two wells on time but delays due to waiting on weather delayed moving the rig. It was drilling in the early part of the year and sea conditions were such that the rig could not be moved to the next location. The 70 days of extra time held the rig back before it could be moved to Inpex. Subsequently, Inpex have had delays in drilling, not weather related, but mechanical in nature and they have been drilling rather slowly. We believe they are approaching their primary Albian target having drilled through their secondary Maastrichtian target and should TD soon.

DP: How long do you think it's going to take to drill these two wells for CGX Energy?

JC: The CGX well on Corentyne will is the Eagle Shallow well. It will not go down to the high temp, high pressure Turonian zone that we are anticipating on the Jaguar well. Thus, we are planning a 40-day well to approximately 15,000 ft and if we can get a rig into there and spud the well before the end of the year, the results from the Eagle Shallow should come before Jaguar. The Jaguar well is anticipated to take 180 days for the deeper test to approximately 22,500 ft level.

DP: And the budget for that well?

JC: The budget for the Jaguar well is around $160 million for the deep, HTHP well and approximately $40 million for the Eagle Shallow well.

DP: You know it's amazing when you give numbers like this, that all this money can be spent and yet the oil and gas guys can produce gas for only $1.20 a litre or thereabouts.

JC: That comparison gets a little muddy, because the crack spread between crude and the products that are made is hard to predict but usually not terribly healthy - it's a volume business. Especially in Canada and Europe, product prices are not 100% related to the crack spread, it is more related to the government taxation in whatever zone you are in. So if you go driving in the U.K. or Europe, you will be paying about twice as much for gasoline as you would in Canada, which is a little more than you pay in America. You are not dealing with apples and apples here, so I don't want to comment on the downstream section of the business. However, with oil prices where they are now (especially if you can get the Brent pricing as opposed to WTI) I think you will get very healthy returns almost everywhere if you are drilling for light sweet crude.

Lastly, I want to pay tribute to my 86 year old father in law Bud, who lied about his age to get into WWII in 1944, and spent 18 months in the Pacific theatre fighting for the freedom that we all enjoy today. He's quick of mind, light of heart and still going strong. Five years ago he dusted off his old notebooks from the war--he had to keep a daily log book--and started putting them into notes. He then bought some voice recognition software and dictated his notes into the computer; he can't type. He then found an editor of military books who would take his project on, and he self published his war memoirs three years ago, called A Midshipman's Story. His adventurous tale almost makes you forget about the hell that war must be for those so directly involved.

Thank you Bud and all veterans for the comparatively peaceful life we all take so much for granted today. I love your spirit.