

BULLETIN # 110 NOVEMBER 6 2011
WEEKLY WRAP
XTREME COIL, POSEIDON, TAG OIL, DONNYBROOK AND
DONNYCREEK

Just a quick update on several OGIB stocks this weekend. The company most likely to see a jump in share price early this week could be **Xtreme Coil Drilling (XDC-TSX)**.

Xtreme is a leader in coil tube drilling—please read the original report on the company (now very easy to do with the alphabetical index in the Members Centre). Xtreme announced a \$100 million contract this summer; great news obviously but they didn't have the capital to fund it all. This has caused The Street to wait before buying the stock up—in case there was an equity raise, and they could buy the stock cheap and in bulk.

But management announced an increase in their debt line on Friday to \$150 million, from \$90 million. Brokerage firms I spoke with estimated the company needed \$30-\$40 million extra capital. If that's true then this is enough capital.

Management has done a great job in getting their rigs into the field into longer term contracts. On their August 23 update, they said 12 of 20 were under contract, and by the end of their current build out (which is a lot) they expect to have 18 of 20 drilling rigs under longer term deals. And it's the smaller rigs that aren't under contract—not surprising as Xtreme is all about going deeper and longer with larger diameter tubing in their coil tubing than their competitors.

The only overhang on the stock has been this financing issue. With this now out of the way, I see the stock opening higher on Monday morning—potentially a lot higher.

The company will be announcing their Q3 results this Thursday, Nov 10, aftermarket. Strangely, they're not having their conference call until next Monday (they're usually held next day, mid-morning).

What I'm looking for in the quarterly is for sure an update on their drilling rigs, but more important for me is the new big service rigs, the XSR 500s—how are they doing? Service rigs don't get long term contracts as much (if at all) but management thinks they can have significantly higher margins than drill rigs – 50% vs 30%. Keeping those big service rigs busy could have a material impact on their top and bottom lines.

Luckily the four drilling rigs headed to the Niobrara were under 3 year contracts---results in this western USA play, centred mostly around Denver, haven't been near as positive as other shale plays. There have been several reports of companies pulling back from the Niobrara.

I share with subscribers my joys of the big wins and angst of the...uh...*patient* investments I make. While this is one investment that turned out to be more patient than I expected I NEVER worried for a moment about this team or company.

However, I do own enough of this stock and in this market I'm reluctant to add to any position.

In conclusion, this could be a great week for the stock if management is able to show a continued high utilization rate in their drilling rig fleet and some positive uptake on their large service rigs.

Donnybrook (DEI-TSXv) has now completed the arrangements for its spin out, **Donnycreek**, which will trade one day late this week under the symbol **DCK-TSXv**. I own 27,027 shares at 37 cents for a \$10,000 investment. It will be an official OGIB portfolio stock. They really haven't said anything about the assets here yet, but love the team, love the share structure. Being as they're still acquiring land, there aren't any details yet. I have no idea what the stock will trade at. We only got 1 share for every 40 of Donnybrook we own; my 200,000 shares give me 5000 Donnycreek. Woohoo. So my total position is 32,027 shares. I wait for more details.

Poseidon Concepts, symbol PSN-TSX is officially trading now, and the stock will show up in your accounts this week. The combined stocks of the two new companies were about \$1 higher, post-split.

Haywood Securities, who has was the lucky firm that ONR management selected to market them, put out research on Friday calling for a \$25 target on much the same math as I showed to you in my 23 page opus. Haywood had the highest target on The Street prior to the split as well.

TAG OIL – TAO:TSX has announced they hit oil pay and free oil in both their first two wells in their Taranaki Basin play, which is on the west side of the North Island of New Zealand. This is positive news. The stock is trading better, putting in a base here at \$6 and momentum is moving up steadily. The RSI, or Relative Strength Index, is down a bit but still positive. I like the way the stock is acting here. They have lots of cash, significant production behind pipe and all the warrants are out of the way. (The production behind pipe is \$25 netback gas, not \$55 netback oil).

The next BIG market moving news for TAG will come when New Zealand Energy (NZ-TSXv) drills their first hole into the Waipawa and Whangai shale on the east coast. This has been the Big Prize all along, and TAG has done an EXCELLENT job of developing their Taranaki properties, and keeping the market excited about the east coast play, despite not drilling it for two years. I can tell you after 20 years watching junior stocks, this has been Masterful.

If the Waipawa/Whangai shales aren't economic, TAG's stock will still get hit, as their Taranaki land position isn't big enough to give the share price a lot of running room. But at least it won't get obliterated like it would have a year ago had they tested it and found it didn't work.

I like the play—though the historical data used to get everyone excited about the play comes from just a few holes. Always remember that. New Zealand Energy will be doing some vertical tests first to get confirmation on much of the historical data from old drill holes before they go horizontal anywhere. So it is possible that the two companies drill their first horizontals at roughly the same time in (my guess) mid to late Q1 2012.

But with only 50 million shares out, \$68 million cash and fast growing production on another

play, the leverage TAG has to this east coast shale play could make the stock a multi-bagger even from here if it works. That's why I'm sticking around.

What is TAG worth without the east coast play? Good question. I'll formulate my math for you in my next update.

If there is no news from the GasFrac quarterly (being released Monday after the close) that will have any major impact on share price, I will likely wait until the Xtreme Coil quarterly is released to update everyone. We'll see. Otherwise you will hear from me again tomorrow after the news is out.