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PORTFOLIO UPDATE

GASFRAC

PAINTED PONY

ITHACA ENERGY

EQUAL ENERGY

GASFRAC

There could be weakness in the shares of GasFrac (GFS-TSX) tomorrow, Tuesday March 8, 2011. One of the Canadian news networks, CBC, has reported (accurately) that an explosion at a well site operated by Husky, one of the GasFrac's largest customers, injured 14 people. Seven of those injured were GasFrac employees, GasFrac CFO Jim Hill confirmed.

But the accident was not due to anything done by GasFrac, said CEO Reid MacDonald.

"I also heard the CBC story. Not informed and incorrect. Husky, not us, had a well bore release at the well head which resulted in a fire and injuries.

"We were to frac this well later in the day and that is why we were there."

While the CBC story did not specifically say it was a GasFrac accident, the story did intimate that – and that may create some nervous selling tomorrow. That was incorrect, and depending on the size of the dip in the morning, I may be a buyer.

Twelve people are now reported injured in an explosion and fire Monday at a sweet gas lease site outside of Edson, Alta.

The explosion occurred around 11:45 a.m. MT at a Husky Energy site near the hamlet of Robb, 37 km southwest of Edson.

Three people have been taken to a burn unit in Edmonton, but police say none of the injuries are life threatening.

No one was killed in the blast.

An ambulance believed to be transporting injured workers drives away from the site of the explosion Monday. CBC

The Edson Fire Department was called to the scene and quickly put out the fire.

Alberta Occupational Health and Safety investigators arrived at the scene late Monday afternoon.

Jim Hill, chief financial officer for GasFrac, told CBC News that seven of his employees were injured. All were treated and released at the scene.

Hill said the employees were preparing to "frac," which is a process used to fracture rocks, so that gas can be extracted from the ground. But the process hadn't started yet.

OTHER OGIB STOCKS

Painted Pony Petroleum (PPY.A-TSX) issued an operational update in which they announced that production has averaged roughly 4000 boe/d so far in 2011, and was 52% oil/liquids. (I really don't like when companies report production that way – because if there is no condensate, I think they should just call it gas. I always ask how much is just straight oil, and how much of the liquids is condensate.)

Painted Pony also announced they were able to acquire a 9.4 net section block of contiguous land (just over 6000 acres) that is adjacent to their current Flat Lake property down on the Saskatchewan/North Dakota border. PPY has announced one successful well of 208 bopd from Flat Lake, and this land package will likely host about another 20 net drilling locations.

Cost for the land and 45 bopd production was $7.7 million. Competition for this type of land package is intense and kudos to CEO Pat Ward – a true gentleman - for being able to land a fish this big. With good geology being a given now in the new age of shale/tight resource plays, the real mark of management is being able to secure land packages; acreage.

Subscribers should know Painted Pony is one of the most expensive stocks on the board, trading at close to 3x NAV- Net Asset Value - according to one analyst. I am seeing more and more companies trade above NAV, and the odd one 2x, but rarely 3x. And on a cash flow basis it's twice as expensive as its peer group.

This makes issuing equity (shares) accretive (increases value per share) – if you issue new stock when it's trading below NAV it's dilutive (decreases value/share). And Pat has regularly issued equity, kept a high cash balance and not touched his Line Of Credit (LOC). When I look at the valuations in the junior and intermediate sector, stocks with lots of cash trade at a significant premium to those with lots of debt – despite the fact that debt is very cheap.

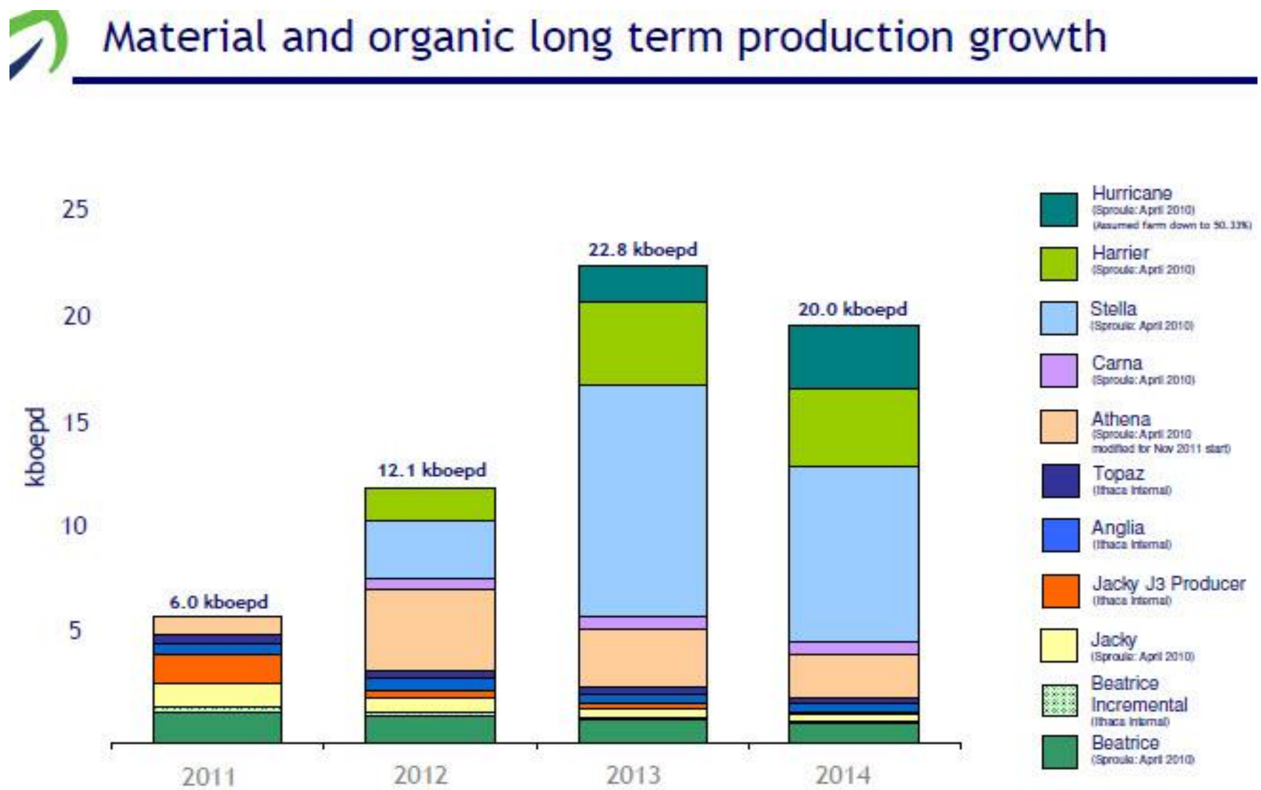
And as I've said before, I WANT to own expensive stocks. That means the market is rewarding management early and often and more richly for increases in land/reserves/production. It takes A LOT for a management team/company to change the opinion/valuation of the market. Bellatrix (BXE-TSX) did it this year, but it's rare.

EQUAL ENERGY – EQU – TSX – could be one of those companies, but a few things have to happen first. The has moved up in share price very nicely, as management has been on the road telling the story to institutional shareholders in eastern Canada. And they are clearly finding an audience. Because of their low production growth this year – essentially flat - and low profitability ($15 netback last year, $18 this year), my personal target for the stock is lower than any analyst report I see.

IMHO, for the market to change its opinion on Equal, management will have to get lucky and find a Mississippian light oil play develop at their Hunton OK property, and how much CEO Don Klapko is increasing their land position there. Equal does have liquid rich gas, but is it NOT condensate, which, as I said, is by far the most valuable NGL (natural gas liquid).

ITHACA ENERGY – IAE-TSX – the company has recently drilled and completed the water injection well and one of the wells in their developing Athena field in the North Sea, in which they have a 22.5% interest and is the operator.

Production is expected from Athena in Q4 2011. Net production to Ithaca is expected to be at least 4000 bopd. New subscribers should realize this company has discovered all the oil and gas it can get into production for the next three years that would take it to 22,000 bopd from the current 5000. All the money has been raised to get this oil and gas into production. There is no geological or financial risk; your only real enemy is your own patience.



Since I started my ranking system in the portfolio spreadsheet, Ithaca has always been a "1" in terms of the certainty/low risk Best Long Term Potential. It continues to be a Top Pick – it doesn't get as much ink as some other plays in the portfolio because it is so steady and boring, but production should almost quadruple in two years. And the market is pre-disposed favourably to this team/stock; it will get rewarded.

WIND RIVER ENERGY (WVR-TSXV) has no news, but they are clearly finding an audience for their story, as the stock is hitting new highs at 70 cents. Until management is able to announce they have secured some acreage under their special legal waiver, I am in the dark as much as anyone – but very hopeful. There are very few free trading shares outstanding until the 4 month hold period on the recent 25 cent financings expires. This is a high risk stock – a land play with no land - yet. I urge subscribers to read the initial report Bulletin 42 dated January 25 2011. The stock is up 25-50% - from 40-60 cents – for most subscribers.

The four month hold period for the first financing ends June 10, 2011 so I expect a lot of shorting against that stock starting June 1. The month of May could be an opportune time to sell some stock, and I will revisit the stock (no matter how many times in between) mid-May. Should management not have any substantive land package tied up and announced by early May, I expect the stock to start trending towards the financing price as the hold period ends.

3P International Energy – DOH-TSXv – As I watch the stock trade, (I hope) I see the key supporters/institutions in the stock strategically placing other players. So now a larger group of shareholders will have incentive to see the stock go higher when the company announces its next milestone – which is likely to be the first round of results from the shallow coalbed methane on their original property. Management recently completed a property tour in Ukraine with a large group of current prospective institutional shareholders.