

## **INTERIM BULLETIN # 108 - OCTOBER 31, 2011**

### **PORTFOLIO PURCHASE - OPEN RANGE OVERALL MARKET COMMENTS UPDATES - CGX ENERGY, TAG OIL, WAVEFRONT**

I bought another 5000 shares of Open Range today at \$11.43. This will have a cost base of \$13.01 on the new company ( $\$11.43/0.8839$ ).

The vote on the split (separating Open Range as it is now into Open Range the gas producer and Poseidon Concepts the frack water handling system) is today, which will pass for sure.

I expect the two stocks to trade separately by Friday. Phoning around today to several sources close to the company, I think there's a good chance the Poseidon stock will see an immediate bump for two reasons:

1. Income funds who can't buy the stock until the split has taken effect
2. Shareholders turf the gas producer & roll the proceeds—which most investors just consider free money—into Poseidon

I had thought management would up guidance on this news, but I doubt that will happen—I doubt they will even up publicly up their guidance when they report their Q3 numbers in early November. But they will at some point. There is no question in my mind they will be within just a few units of their mid-2012 guidance (240 units) by year end—and they continue to lease out 9 units a week. There is visibility on that production pace until early 2012.

It wouldn't surprise me to see 400-500 units in total by Year End 2012.

### **OVERALL MARKET COMMENTS/OTHER OGIB STOCKS**

The S&P 500 broke through its 200 day moving average last week—a

bullish sign and not one I expected. But today it has fallen through it again, and if it cannot sustain 1278 then it's going lower. Lower may mean sideways; only history will tell. The two major forces here are European debt drama—it's become a nightly vaudeville show—and the slow but steady economic GROWTH in the US. It's not enough growth to dent unemployment, but not bad enough to cause stocks to collapse.

My goal is to pick stocks that are growing so fast and profitably I take the market out of the equation as much as possible. But the reality is 75-80% of all stocks trade with the market. So I watch DeeThree now with interest (DTX-TSX). I expect 50% increase in production and cash flow next year—bullish, a reason to be long. But the stock hit its resistance level at \$2.80 and doesn't seem to be able to hold it—bearish, a reason to trade out and see where the dust settles. I sure loved how it broke through \$2.80 on huge volume last week, and the fact it is settling back here on very low volume is also technically a good sign.

### **CGX Energy—OYL-TSX**

The stock is breaking out today on great volume. I suspect this buying is coming from the shareholder list at Pacific Rubiales, who have bought a big chunk of the company. How rare and beautiful it is to see a speculative premium creep into a junior oil stock in this market!

### **TAG OIL—TAO: TSX**

The 3.2 million TAG Oil warrants expire Nov 5—this Friday. There is not very many of them, and the stock now seems to be absorbing any selling pressure associated with exercising them quite easily. Of course it's impossible to know if this week will be the bottom for the stock in this kind of market, but there is an argument that with these warrants gone the stock could see some lift.

Catalysts over the next few weeks/months would be the drill results of more Taranaki drilling. Then by March April 2012, we will hopefully be getting

flow rates from the first horizontal wells in the Waipawa and Whangia (pronounced FUN-GUY) shales—the Big Prize for which I own the stock.

### **WAVEFRONT—WEE:TSXv**

As November rolls in tomorrow I will be buying another 10,000 shares at some point in the next week, whenever the stock is having a bad day. I'm still a believer that management can close enough business for this company to show some positive cash flow by the end of Q1 2012. I'm not going to put out a bulletin on just that trade; but that is going to happen sometime soon.

- Keith