

INTERIM BULLETIN # 109 – NOVEMBER 2 2011
GASFRAC – GFS:TSX; GSFVF-OTCBB
MARKET COMMENTS

GasFrac's third quarter is coming out Monday November 7 after market. This is probably the most owned stock by subscribers in the portfolio, so I want to give you my thoughts so you can make up your mind what you want to do.

There are several things rolling around in my mind right now on this stock. Most of them are a bit negative, but of course, in a bear market you look for reasons to sell and ignore good news; and vice versa in a bull market. And I have been guilty of being a little too bearish this month.

#1 –

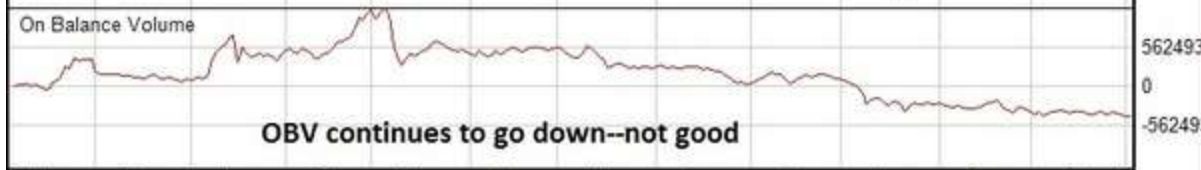
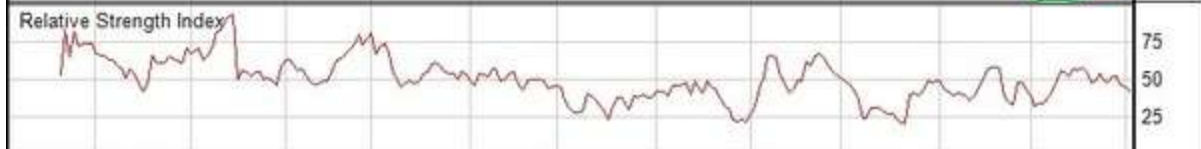
I REALLY don't like the stock chart since the early October lows in the market. Though the Street is not expecting a great quarter from GasFrac, the stock is saying it will likely be worse. This happened in Q2, though the stock actually did better than I expected afterwards.

Every other fracking company in Canada has a GREAT chart coming off the early October lows. (See charts of GasFrac, Canyon Energy Services and Calfrac below) GasFrac does not. That could be a simple factor that, like I said, The Street is not expecting much.

Management said in the Q2 conference call that their rigs only got active in Canada again on August 1, and one rig was not through customs into the US. Also, there was some small downtime with regards to the long term Husky contract. It didn't really start until October.

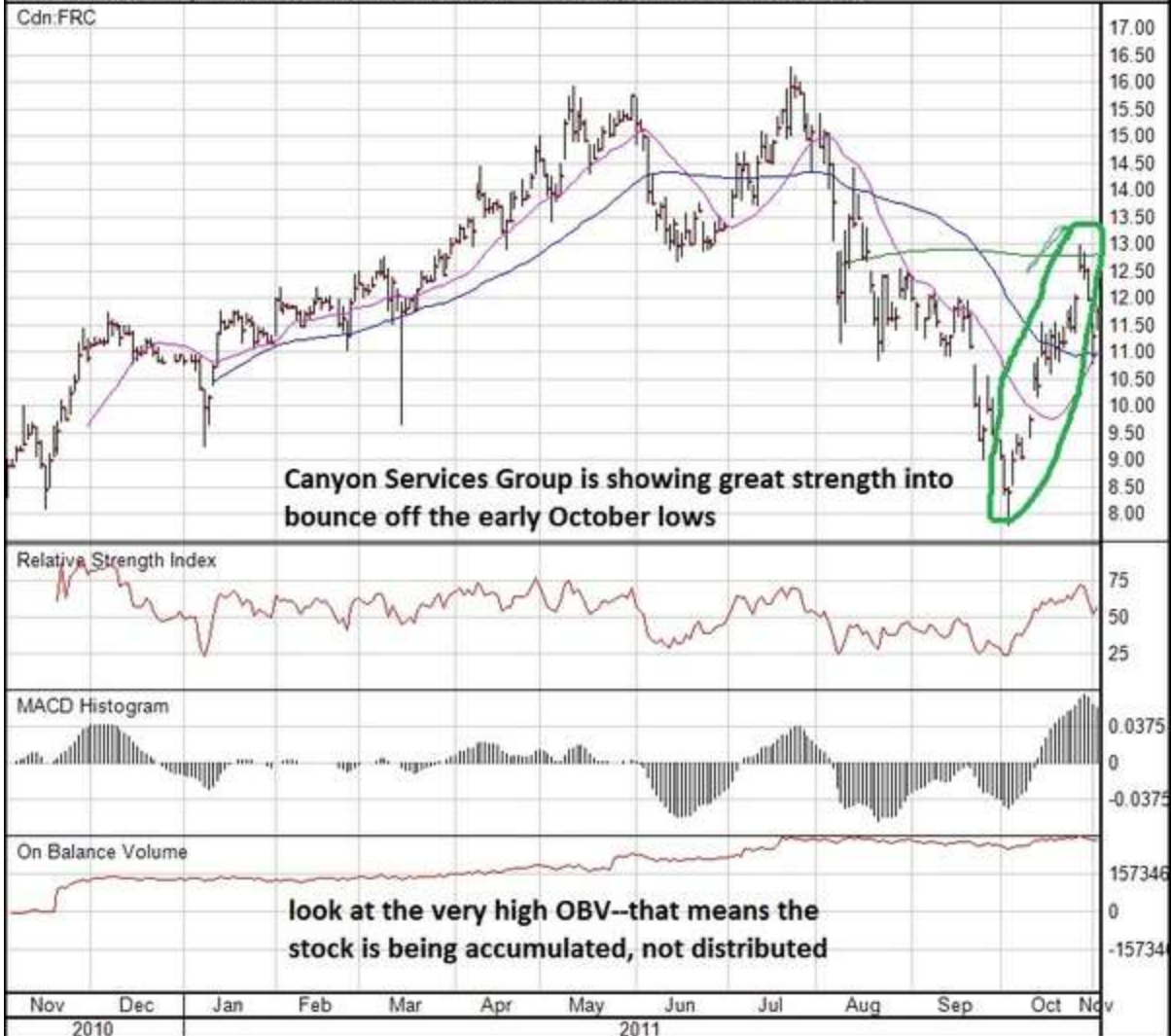
Of particular concern is the On Balance Volume (OBV), which shows if the stock is being accumulated (good) or distributed (bad). OBV has gone lower. The one positive here is that volume has been quite light over the last couple weeks.

Historic Chart for Cdn:GFS by Stockwatch.com 604.687.1500 - (c) 2011
Wed Nov 2 2011 Op=7.61 Hi=7.81 Lo=7.48 Cl=7.50 Vol=162,890 Year hi=14.62 lo=6.15



Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov
2010 2011

Historic Chart for Cdn.FRC by Stockwatch.com 604.687.1500 - (c) 2011
Wed Nov 2 2011 Op=11.61 Hi=11.83 Lo=11.40 Cl=11.77 Vol=365,075 Year hi=16.26 lo=7.78





#2

Even though The Street is not looking for a big quarter on Monday, I think The Street did not ratchet down expectations for 2011 enough after the Q2 call—several are still seeing \$10-\$20 million EBITDA *plus*, and I'm expecting a flat 2011 EBITDA—unless Q4 really rocks. And that's a very realistic possibility.

So on one side, analyst models for 2011 likely still have downside, if the Q3 numbers come in as I expect, which is lower than expected. On the other side, this stock clearly has traded on 2012 expectations for the last quarter, or it would be lower.

TO BE FAIR—management has consistently said they had more confidence meeting The Street's 2012 expectations than 2011. They obviously had much more knowledge of the growing pains of a young company!

#3

The key on this quarterly for The Street will be management guidance on the timing of the delivery of the four new fracking rigs due this fall (investors are expecting 3 this fall and 1 in January) and more importantly, whether they have contracts for these rigs yet.

So the Q3 numbers themselves could be bad and yet, with management announcing firm contracts in place for 2012, the stock could easily jump up. And I hope that's the case!

With those four new fracking rigs contracted (especially if they were contracted in the US and would not be affected by Canadian spring break up), I see revenue doubling and cash flow going up \$80 million plus next year. Up until the last 3 weeks, The Street liked the company enough to give this stock credit on any glimmer of positive forward looking statements.

But without that....I don't know what the stock is going to do. While the stock chart is telling me different that's not happening, though *I am hearing 2 rigs are destined for the US and 2 for Canada*. If that is true and some there's some visibility on timing, then the stock should do fine and possibly even move up. (But this stock is still a 2012 story; I don't have big expectations for price performance this calendar year.)

Without some kind of guidance on some kind of contract for the first frack rig or two, I will be a seller of 10,000-20,000 shares at some point in the couple weeks following that news release. I'm giving my 3 days notice now.

However, even without some official guidance it's hard to believe in this kind of market for fracking, (which is busy; see how Calfrac (CFW-TSX) blew the doors off the market expectations today on their Q3) that GasFrac wouldn't have firm expressions of interest if not outright contracts for the first couple rigs yet. You can bet that the many sell-side analysts who cover this story will be pressing management for details on this issue on

the conference call Tuesday morning.

#4

I see despite Calfrac's great quarter announced today, their stock dropped. That could be because their US numbers were actually down. Their Canadian business did great because they are in the Horn River Basin in North East B.C., and they are the main if not only player up there of size.

Is this the market saying that fracking is now peaking? Or is it just an overbought move off the lows settling down. I mean, Calfrac and Canyon did jump 50% off their lows in just over two weeks.

#5

Lastly, in talking to GasFrac customers, (what I think is) a relatively new type of fracking, "foam fracks" keep popping up. I'm not technical but my understanding is these foam fracks are much cheaper, and use a lot less water—up to 80% less—than regular water fracks. Customers are telling me that they are often more pre-disposed to use these foam fracks over GasFrac because of cost. One customer said above \$80/bbl oil, they use GasFrac, but under that they use foam fracks. I do need to learn a bit more about this.

#6

The Street has always supported this stock very well. After a much worse than expected Q2, the stock performed better through August & September better than I would have thought.

The points above are obviously a bit more skewed to the negative; that has as much to do with my psychology being rocked over the last month as it does with the Company.

I also believe that waterless fracking is potentially (likely) the future of this business. Water will become expensive to frack with; all companies will eventually get charged for their water.

The bad chart just brought up for me all these reasons to be cautious on the stock now. Like I said, that's just the market we're in. And as much as I

love this company, I'm here to make money. After the quarterly I will have a better idea how much is likely to be made here in the coming six months.

ROUGH VALUATION

The latest round of analyst mentions on GasFrac came just after their contract with Husky. In those mentions, their 2012 cash flow (EBITDA) estimates are roughly \$100-\$125 million; a couple are a little less, a couple a little more. At 6.5x cash flow, that's a market cap of \$650-\$812.5 million market cap. I expect Net cash will be close to zero most of the year; maybe a small bit of debt. So I'm going to take market cap as Enterprise Value (EV=market cap + debt or -cash).

With 61.5 million shares out, that means The Street is giving a range of price targets from \$10.56 to \$13.21 for 2012.

I'll report back after the quarterly conference call next Tuesday

MARKET COMMENTS

Market action has some positive points to it—the US indices, the Dow and the S&P, got up to and broke the 200 day moving average (dma) and came down to the short term moving average and bounced up off it.

I see this as constructive, but anyone who says they know where the market will be 2 months from now has as good a guess as mine. Donald Dony's longer term charts expects this bear to potentially be as long as the end of 2012. I see market action right now as mixed—the S&P is trading between 1340 and 1120, with the short, medium and long term averages starting to converge—when they do, that's usually when the index—and therefore all stocks—should make a big move. God only knows in which direction. I think that if it consolidates in the top half of its range, between 1230-1340, that's a good sign it's likely to be higher. Below 1230 it's likely to be lower.

I am getting tired of waking up before market every single day to see if the economic system upon which my livelihood depends has been wiped out or not. The hourly volatility is now annoying. I want to sleep in one day a week (markets open 630 am here). But I don't feel I can do that. (The

problems of the white collar middle class...)

We used to have bull and bear markets; up and down markets. Now we have relief rallies and lean-over-and-look-down-the-abyss attacks. In down markets we are all actually afraid the entire system will collapse. And because everybody is so interconnected through HUGE leverage, one small country in the underbelly of Europe threatens to unravel everything. Or so we're told, and so we believe.

I was nervous enough today I actually printed off every single account I have this morning (and I have a lot!) and saw that I had 20% cash, which was more than I expected. But this market still makes me nervous—due to Europe. But the market shrugs off Europe's problems quite well, I must say. That resiliency has my market mentors telling me this market is stronger than I'm giving it credit for (pardon the pun).

The market had lots of reason to be down today, the day after the Greek referendum was announced. But it was up

The mental imagery that comes to mind on our debt problem reminds me of a bunch of prisoners in a chain gang walking along a narrow steep path at the edge of a huge cliff. (That would be us working plebes). The guards – economic elites, politicians – are saying to us --Don't worry folks, we'll all be fine walking along this leveraged economic walkway if NOBODY LOOKS DOWN. Do we all agree? OK, nobody look down! But in 2007, people, for the first time in 30 years, started to look down. And every few months, a few more people look down to see what they can see. And we're all chained together; no prisoner can escape and there are even a few people who are innocent and were wrongly convicted!

MISCELLANEOUS

Waiting for news on Wind River! (WVR—TSXv). The market sure traded well today, though that might be the new IR team announced today showing their stuff. But I do expect news on their first well any day (I thought I would have seen something by now) which should have news on both the targeted Nisku formation and any uphole Bakken sightings.

OPEN RANGE stock split takes effect FRIDAY

For every share of Open Range held, shareholders will receive 0.8839 share of a new company named Poseidon Concepts Corp. Poseidon Concepts will trade on the Toronto Stock Exchange for the first time (the ex date of the spinoff) on Nov. 4, 2011, under the **ticker symbol *PSN* and Cusip No.73731R 10 3.**

Can't wait to see how it trades! (I am at the high end of analyst expectations)