

## **INTERIM BULLETIN # 85 – JUNE 27 2011 GASFRAC GFS-TSX; DEETHREE DTX:TSX**

There are two new reports posted to the Members Centre today, in addition to the one on Iona Energy. One is an updated and collated report on DeeThree (DTX-TSX) my favourite Alberta Bakken play. The second is the second monthly Technical Analysis report by my colleague Richard Reinhard.

Again, he is an independent outsider from OGIB who makes his living trading in the markets. I sat beside him for several years, watching his trades and listening to his comments on technical analysis. He's a Chartered Accountant, former stockbroker and a member of the Market Technicians Association of New York. He has his own newsletter [www.gsweekly.com](http://www.gsweekly.com), for Growth Stocks Weekly.

Reinhard and I both use MetaStock software for our charting, and I mentioned this to MetaStock when I met them at a recent investment conference. That has turned into a special trial offer for my subscribers, which you can find at the bottom of this email, and access anytime. (I have no financial incentive in you signing up for this-I'm starting to use it, I like it, it's something useful and educational for subscribers I can lend my name to.)

### **GASFRAC – GFS:TSX**

On to GasFrac – definitely the single most owned name in the OGIB portfolio by subscribers. They are the only company to frack with propane, which not only uses no water or chemicals, actually gets more oil & gas out of a well than standard oil or water fracks. I think it has the potential to be a \$30 stock in 2-3 years, and more importantly, one that I don't have to watch daily (one of my measures of success is how little time I have to spend monitoring stocks).

As the stock was dropping 64 cents to close at \$8.93 today I called CFO Jim Hill. Spring break up in Canada usually lasts 4-6 weeks, when large equipment is not allowed on the roads as they thaw. So Q2 (April – June) is always the slowest quarter for service companies, and often producers as well.

This year, he said, exceptionally cold and wet weather has increased spring break up to 11 weeks, and GasFrac has not been able to complete several jobs, which will definitely have an impact on their Q2 numbers. Other larger fracking companies like Trican and Calfrac have more diversified areas (the US) they are working in that mitigate that spring break up effect. (They were both up today.)

Hill also said the 6<sup>th</sup> fracking rig – destined for the US – was built had not yet been deployed. He said (as Wavefront has) that the US is much a tougher nut to crack than Canada.

I wasn't excited to hear that. That would raise some knee-jerk questions about

blockbuster demand for the product.

Management has been clear that they could give all their rigs to one or two customers and be at 100% capacity for the next 2-3 years. But that wouldn't get the product known.

They had at one time mentioned to me that they don't announce new contracts, and Hill clarified this for me. Because they have purposefully spread the rigs around to many customers, they haven't had many big jobs. That he said, is now changing, and they have good interest from several larger customers – in both Canada AND the US – that would give them reason to announce larger, longer term deals.

The big issue here is that The Street had very aggressive targets in revenue and cashflow for GasFrac this year. (GasFrac doesn't give official guidance on revenue/profits, though they do expect to double revenue from quarter billion to half-billion to \$1billion in the next 3 years.) Hill says that he is much more convinced they will be able to meet 2012 estimates vs. 2011 – i.e. some growing pains in the high growth rate were still more evident to him than The Street. So I still like the company A LOT medium to long term.

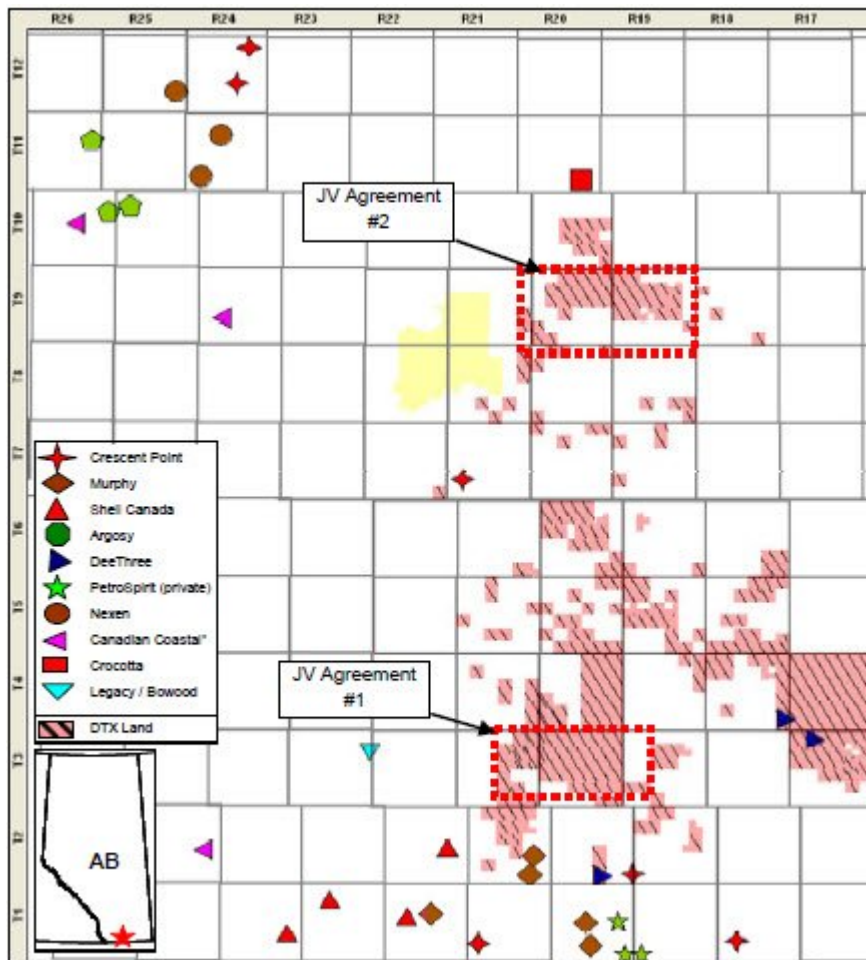
But short term, after Q2, all those high brokerage firm targets will be reduced. The stock could still have a short term decline. But we are already halfway through 2011, and 2012 estimates will come into more focus for the institutional crowd by Labour Day.

This has been a very humbling month for your editor!

## **DEETHREE – DTX:TSX**

The second joint venture (JV) announced today was, IMHO, a very savvy move on DeeThree's part. An unnamed partner will drill 8 wells at their 100% cost to earn 60% (with NO payout provision, which means DeeThree gets paid for their 40% Day 1 – these JV deals are usually done so the group farming in gets to recoup their costs) AND – get this – pays DeeThree \$5 million cash for the privilege of having to spend their own money. I have never heard of that before.

But if you look at this map below, you will see that JV #1 is drilling the southwest corner of DeeThree lands. This JV is drilling the north. DeeThree themselves is drilling the east. So the 13 wells that those three companies will be drilling this year will prove up the three corners of DeeThree's 280 gross sections – leading the rest of the world to strongly believe that all the stuff in between is productive. This should speed up dramatically the process of getting DeeThree sold to a major or at least restoring its premium valuation.



Source: Company Reports, Dundee Securities, GEOscout

DeeThree still only has 63 million shares out and 2250 boe/d production, \$20 M net cash and an untapped \$40 M debt line available to them.

BACK TO METASTOCK – I'm happy they're willing to offer a free trial their stock charting software to OGIB subscribers to see if it can help you on your path to prosperity.

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