

INTERIM BULLETIN # 99 - SEPTEMBER 28 2011
PARTIAL PORTFOLIO SALE - TAG OIL
UPDATES ON DEETHREE (DTX-TSX), PAINTED PONY
(PPY.A-TSX)

I sold 5000 shares of TAG Oil at \$6.79—only a portion of my position and really a technical trade. The bounce this week in the markets only trickled down to the leaders in the junior sector. TAG has good profits for me and I am crystallizing part of them now.

I will be looking to buy back this position, but only after the right catalyst—perhaps the Ranui-1 well being spud by New Zealand Energy, or more success for TAG in the Taranaki. And I might sell more before I buy it back.

But right now my thinking is that the valuation has already priced in this coming jump in production—which is only \$25 netback (profit per barrel).

Management from both TAG and New Zealand Energy have said that natural gas contracts are being done at roughly \$6-\$6.25 per mcf, not the \$7 you read about in the sell side brokerage firm reports.

I'm just not sure what catalyst TAG will have until late this year to keep it from swimming against the tide that's going out on the junior producers. Apache is unlikely to have an IP rate on a Whangai shale horizontal before March-April 2012.

While I may sell a bit more from time to time, this is a stock I always want to be long SOME, but I will let the chart tell me how much. Usually after a win like this I sell one of my losers, and I just haven't decided which one that will be.

This other information I would normally save for the weekend wrap but once I start typing I just can't stop sometimes and it frees up my weekend (so I can do more research on this new yield play that I think will double if not triple its dividend next year).

DeeThree (DTX-TSX) announced drill results today from three plays.

In the Alberta Bakken, they said their first well had an IP30 rate of 175 boe/d, of which 80% was oil and liquids, and 20% gas. IP30 means the Initial Production rate over 30 days. The fourth well was 173 boe/d at 73% oil and liquids.

These are good numbers—especially to start. Tweaking the fracking may increase them over time. But they are not such good numbers the market gets excited about. This stock had a premium valuation over the last year and so far the Alberta Bakken is a (somewhat) solid but journeyman play.

So I see investors leaving the stock, despite strong growth in production and cash flow in 2012 (one analyst says up 53%) in the Alberta Bakken and Brazeau/Belly River. That will likely put a damper on the stock for awhile. But at some point it sets up an opportunity, and I'll be watching for it.

DeeThree said they were increasing their capex by \$15 million—but none of it to the Alberta Bakken. One of their JV partners has also delayed drilling some of their wells that were supposed to get done this year into Q1 2012.

Only time will tell if the play has sweet spots on DTX ground, or if there really is a difference in production between the overpressured west part and the normally pressured eastern half, where DTX has almost all their ground. Crescent Point (CPG-TSX) spent almost \$100 million for their ground here and now, exactly a year after they said they thought it could double the company, they are all but ignoring their land here, preferring the Swan Hills, Beaverhill Lake (BHL) play where Arcan (ARN-TSX) and OGIB portfolio stock Second Wave (SCS-TSXv) are. (I am speaking with Second Wave CEO Colin Witwer tomorrow, Thursday.)

DeeThree's Sunburst play looks great—horizontal wells that do not need to be fracked (read: low cost, likely just over \$1 million) giving 160 boe/d oil (69% oil and liquids, 31% gas). These will be highly profitable wells but relatively low impact/low NPV wells. Deethree

has 20-50 well locations here, depending on what seismic shows-- again, this is good, but not great. The Street wants more for a premium valuation.

All of DeeThree's plays appear to have roughly 30% gas, which will lower their netback vs. a straight oil play. It will be interesting to see what their financials show for this quarter. The good news is that their well costs are way down in the mid \$2 million range or even a bit less.

The Brazeau Belly River play out by Rocky Mountain House (yes that's the name of a town, googlemap it) is turning into a great play, with the first two horizontal wells (89% WI) tested at 275 boe/d (85% liquids) and 100 boe/d (60% liquids). They own the infrastructure and have an 89% Working Interest in 42 sections there. Each section has a VERY respectable 48 million barrels of oil in place so any increase in Recovery Factor here would add significant barrels of reserves.

DeeThree Marty Cheyne says they have learned a lot drilling the first couple wells and expects a lot higher IP rates out of the next few wells. We'll see. But the six stacked sands there SHOULD lend themselves to high flow rates, just like in the Montney.

The market thought DTX overpaid for that asset, but they used their premium valuation to do it so it is actually looking very cheap now!

Their first Montney oil well had too much water and will not be a producer.

So despite good production growth in the forecast for 2012, the market was counting on DeeThree to make the Alberta Bakken a low risk, high growth *Resource Play* worthy of its premium valuation. That has yet to happen, and as a result I expect that disappointment to weigh on the stock until either the Alberta Bakken surprises to the upside (DeeThree's northern JV partner spuds their first well any day) or just based on valuation is too cheap for its (still very strong) growth rate.

PAINTED PONY (PPY.A-TSX)

Pat Ward's company continues to show great operational success, with their latest Montney wells coming onstream at 24 million cubic feet a day at the end of a five day test. It's very rare to see that, and speaks to what I have been saying in my speech at all these conferences this fall: we have not hit the limits of what fracking can deliver. The industry is tweaking the technology to get bigger and better IP rates out of wells. This is not great news for the gas price—but it is for service companies.

They reported two other non-operated wells that flowed 10.9 mmcf/d after 18 days and 10.8 mmcf/d over 10 days. Both are great. No NGL count, or Natural Gas Liquids count was given, e.g. 40 barrels of butane, or condensate or propane etc., per million cubic feet of gas. (Pat doesn't do that and not sure why, as they have good numbers).

Great company--truly one of the best--but the fact the stock closed down on this good news is bearish on the chart. It's a traders market, and nothing wrong with the company, but it's an illiquid stock in a tough market so I am likely take profits on at least part of this (and anything else) at any time. *Both TAG and Painted Pony would be one of the first juniors to bounce back once investor sentiment*

Historic Chart for Cdn.PPY.A by Stockwatch.com 604.687.1500 - (c) 2011
 Wed Sep 28 2011 Op=11.60 Hi=11.94 Lo=11.36 Cl=11.36 Vol=391,317 Year hi=14.30 lo=5.77

