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PORTFOLIO PURCHASE – TRIANGLE PETROLEUM TPLM-AMEX (NYSE)

Dear Silver Investor Readers—

I am updating this report as of April 16, because this truly is one of my favourite junior oil producers for 2012—and I think the timing has worked out well for you. I am expecting a low to be put in the overall market in late April, and I am looking to add to my own position during this time.

The charts I follow are telling me to bid at \$5.50 down to \$5. I will be closer to \$5. The stock has a strong new catalyst, as the company begins fracking, or completing, its first four operated wells in the heart of the Bakken in western North Dakota in late April. The market will know the first results by mid-June. This is two months ahead of schedule. The area is surrounded by other wells; the chances of missing are slim.

This is already one of the most followed junior companies in the Bakken, so I'm confident that good results will get rewarded. And they have services lined up—both drill rigs and fracking spread—to continue with an aggressive program if they are as successful as they want to be.

TRIANGLE PETROLEUM TPLM-NYSE

Shares Issued	43.3 million
Fully Diluted	45.3 million
Share Price	\$6.25 (closing price Jan 3 2012)
Market Cap	\$270.6 million
Net CASH	\$95 million
Enterprise Value	\$175.6 million
Production	800 bopd
Price per flowing barrel	\$219,500

POSITIVES

- Big land position--29,000 net acres in core area of western North Dakota and 54,500 acres in eastern Montana (more risky)
- \$95 million cash
- Raised \$142 million at higher prices - \$7.50
- Starting to operate their own wells, which would give them a valuation boost beyond just production growth (the market gives a big discount for non-operators)
- Big production growth curve in 2012—the top end of management guidance on YE2013 (which is Jan 31 2013) production is now over 3000 bopd
- Highest leverage to the Bakken play (and that's what this service is about—finding the high rewards)

NEGATIVES

- This mgmt team as a group have not yet brought a Bakken well into production (but they have individually).
- small cap oil stock is going to be volatile
- it could be a long time to flow rates—think September 2011--they are going to drill several wells off one pad and then frack them all in a row
- 54,500 acre Montana asset (the Station Prospect) does not have a horizontal discovery well yet (but there are several multi-zone vertical producing wells ;-))

BACKGROUND

For my Canadian subscribers, the US Bakken is deeper than in Saskatchewan, and this gives it higher pressure—which gives higher flow rates. The productive geology is in two zones, the middle Bakken and now the Three Forks.

The market pays big for both raw Bakken acreage and production—because this play has been relatively consistent over a large area. Low risk, high growth companies get high valuations. And the economics on the wells are good—wells cost up to \$9 million, have 30 day IP rates of just under 600 bopd, produce a total of 600,000 barrels and have IRR's of 50%.

Now, remember this is an overall statistical snapshot. Individual wells can vary quite a bit from this. But at this stage in TPLMs young growth, this is the profile the market is willing to pay for. I will explain below how—around one of their properties—the actual well profile, or type curve, being found is actually 50% higher than this.

There have been many buyouts and asset sales among the juniors in this play, with the most recent big one—no, HUGE one—coming late last year as Norway's Statoil bought out Brigham

Exploration (BEXP-NYSE) for \$3.6 billion. Brigham went from \$2 - \$36 in two years as it developed its Bakken acreage. While TPLM doesn't have quite the same size land package, you get an idea of what The Prize is for this stock.

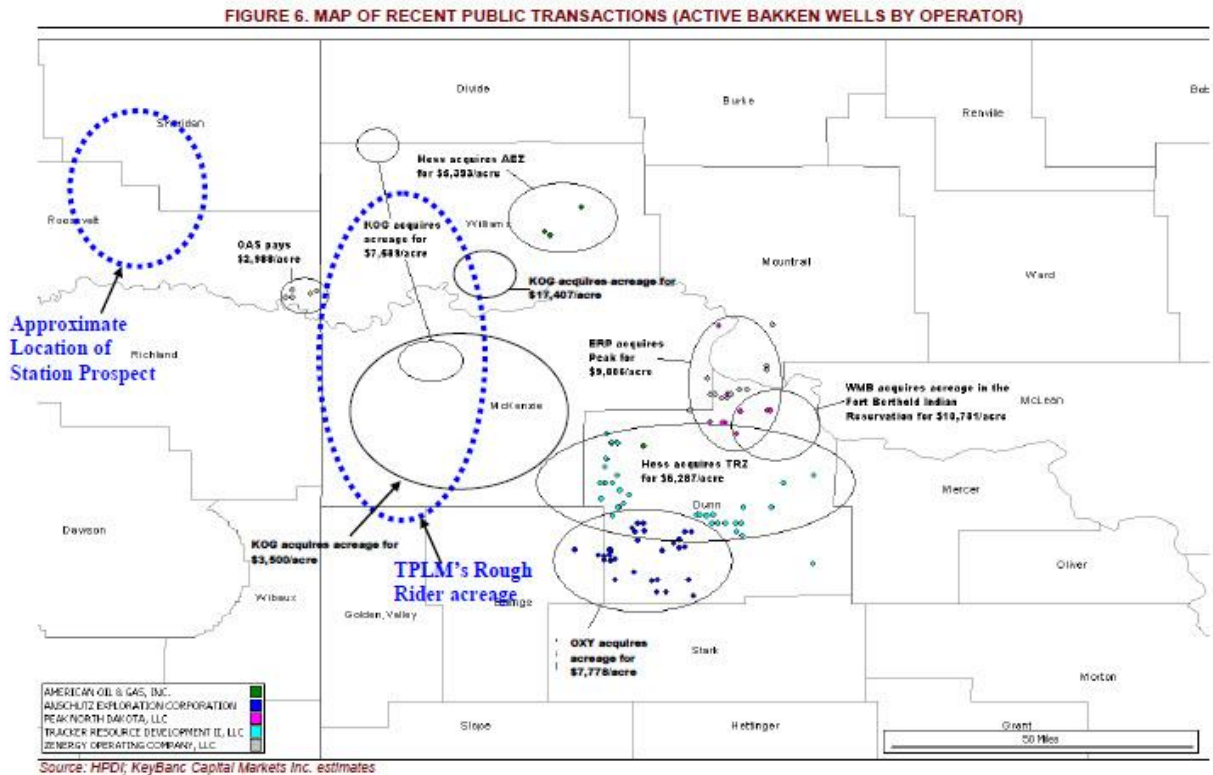
This buyout gave other juniors in the play a lift—especially Kodiak Oil and Gas (KOG-NYSE). It focused A LOT of investor attention on the Baby Bakkens like TPLM.

Then TPLM announced a strong quarter in October, with production ahead of schedule thanks to some great wells – over 3000 bopd IP rate on one and over 2300 on another—that they had roughly 13% and 23% working interest in.

So that brought even more attention to TPLM. The stock had been trading \$5.20-\$6.00 since August (minus the dip to \$3 in early October, but it snapped back fast) so I'm happy to buy it at \$6.25 on the breakout.

PROPERTIES

Triangle has 29,000 net acres in the heart of the Bakken in Williams and McKenzie County—called Rough Rider, and 54,500 net acres just across the border in Montana—called the Station Prospect.



Most of the drilling in the Bakken is just east of Rough Rider and south of Station Prospect.

ROUGH RIDER

Triangle started off getting very small interests in a large number of wells in the Bakken—they now have interests in over 100 wells. They started getting those interests before, but were able to increase this via a relationship that the banking firm Oppenheimer had with Triangle CEO Peter Hill. The background here is that the Bakken has a very fragmented ownership situation—lots of farmers and other people/groups held small interests, and could not afford to pay for their drilling costs.

So instead of getting cut out of the well, a group like Triangle—with JV partner Oppenheimer—would act as their bank, and pay for their interest in exchange for some (most) of their equity. It has done them well, as they have been able to watch the Bakken get drilled by some of the best operators in the play.

As time has progressed and the company was able to increase their own land position, and raise more money, they were able to get larger pieces of these wells—moving up from less than 1% net working interest in some cases to as much as 13% or more on recent wells).

The Oppenheimer relationship is not as strategic as before, since Triangle has now raised \$140 million and has all the money they need. I suspect that JV will reach its funding limit in the near term and Triangle will likely to continue to do this on their own; without Oppenheimer.

When it comes to valuation however, The Street values the operator a lot more—because they're in control of their own destiny and all the minority shareholders are at their whim. So non-operated interests like Triangle get valued a lot less.

But they do have 29,000 net acres in the heart of the North Dakota Bakken, of which 13,000 acres of that is operated. TPLM is unique in that they are a hybrid company, doing both non-ops and operated acreage. Usually—in fact everybody else—is one (Northern Oil and Gas) or the other (Continental etc.) Triangle is now drilling two big horizontal wells, 20,000 foot wells with a planned 31 stage frack in McKenzie County.

In their January powerpoint just posted to their website today, they say they have 168 operated drill locations at Rough Rider and 952 non-operated locations. I'm not sure how The Street will value that.

Triangle expects to have 6-8 of their own wells drilled by July 2012, all in a de-risked area surrounded by production. Then their own fracking spread will be built, and it will come in and frack all those wells one after another.

Again, the only negative here is that the market won't have flow rates on their operated wells until late spring potentially. But nearby wells will impact the stock, and this is not raw exploration, it's more like development. A blanked out map on their powerpoint shows almost 50 wells licensed within 5 miles of the first two wells that TPLM is operating.

Now, one interesting thing about these other wells is that they are producing at rates higher than the guidance Triangle management is giving out.

TPLM provides a generic "type curve" (which says what the Initial Production rate will be, how fast production declines and how many overall barrels the company expects to recover per well) for a Middle Bakken well with a 575 boe/d 30-day IP and have an Estimated Ultimate Recovery (EUR) of 350,000-750,000 barrels.

However, a detailed study by one of the sell side analysts covering the company indicates that nearby 30-day IP rates (Initial Production averaged over the first 30 days the well is online) are 900 boe/d, (barrels of oil equivalent; includes any gas associated with the oil and converts it into oil production at a 6:1 ratio) *about 50% higher than the Triangle type curve.*

A survey of 17 wells in McKenzie County, township 149-150, Range 98-102 had average IP-30 rates of 825 boe/d and IP-60 rates of 660 boe/d. In Williams County, Township 154 & 157, Range 101 to 102, IP-30 rates are 1000 boe/d and IP-60 are 750 boe/d.

The point here is that there is (strong) potential upside from management's production guidance.

By year end 2012, Triangle hopes to have 12-14 wells producing with IP-30 rates of 600-700 bopd. They will certainly have that many drilled, but in the Bakken where services are hard to get, it's impossible for management to say how many will be fracked and online. If they are able to do this, however, their current guidance is very conservative.

The Triangle website has a very cursory explanation of the assets, and the maps are poor--that's almost certainly due to competitive reasons. Even the maps on the powerpoint are...not exact, as everyone is trying to get more land, and horse-trade with all the other operators to get a **contiguous** land block—one that is all together. And they want to negotiate being the operator.

A contiguous land block allows you to do a lot more **pad drilling**, where costs can be lowered dramatically because you can drill 4-8 wells from one pad. When that's done, you can frack them one after another in a row, which means you get to keep all your equipment in one place for many months—and keep a hard-to-get frack spread to stay under contract.

One of the big issues in the Bakken (and this is affecting the shale gas plays around the US as well) is lease expiry. Companies have spent tens of millions buying large land positions in the Bakken, but under US law they have to drill on those leases within a certain time frame—usually 3-5 years. If they don't drill, they lose that land—so there is a race to get a certain amount of drilling done before that happens.

Triangle has some minor lease expires in 2012, and they will probably bring in a second rig for a 2-3 well program to hold the leases. Aside from that, their regular program will hold it all. Because these wells cost \$9 million, they don't want to pull their main rig off the pad—those wells will be their bread and butter production increases in 2012, and it's important they show the market they know how to operate a well there. Triangle has said publicly they want to

operate 70% of their wells, but they didn't want to commit that would happen by Year End 2012.

(In fact, that's the key to their valuation this year—because not only is the number of barrels produced going to increase, but the value per barrel The Street will give Triangle should also go up now that they are operating their program.)

Management is guiding that Rough Rider and non-operated production will total 3000-3200 boe/d at Year End 2012. Flush production could make it higher—flush production is the high amount of initial production these shale/tight oil plays get; the 3000 bopd numbers you see—that declines very quickly in the first year before these wells start to decline at a much more traditional rate of 20% per year (this is called the "long tail").

(I think analysts should regularly report a flush production and a baseline production in their reports on tight oil plays.)

STATION PROSPECT--MONTANA

Activity in the Bakken is spreading northwest up into Montana, near where Triangle's large 54,500 acre Station Prospect is located, which straddles Roosevelt and Sheridan counties. The company says they have 324 operated drill locations there—enough to keep them busy for a few years.

A company called Samson Oil and Gas (SSN-AMEX) is drilling a nearby short horizontal called Australia 1. They have already drilled another well right next to Station Prospect, and will be completing (fracking) it in March or April. So the "de-risking" is starting. Triangle is lucky in that this property is a five year lease and time is on their side. They can watch other people drill around them and figure out the best fracking methods before they drill. I expect Samson to yell from the rooftops if they have an economic well, as they have a large land position and it could give them a premium valuation.

They paid \$400 per acre and just sold some of their acreage here for \$750/acre.

ROCK PILE—Their Own Energy Services Company

Rock Pile is the name of their 83% owned services company. Triangle is not the first producer to respond to the acute shortage of fracking services, or pressure pumping as it's also called, by starting their own company. The first frack spread, or pumper, will be ready by July 2012 and it is Triangle's to use. However, as the fleet size increases, Triangle will have a call on 50% of the rigs. Rock Pile does expect to grow enough that it will get third party customers.

FINANCES

Triangle has roughly \$95 million cash and no debt—thanks to a financing done in May 2011 where they issued 18,975,000 shares at \$7.50 for \$142.3 million. But they will spend all that and possibly more in 2012.

That's enough to fully fund one rig right through the year (about \$65 million), and meet their commitments to get RockPile going in H2 2012, and pay their partners on the non-operated wells (\$30 million)—and develop their own infrastructure (pipelines, gathering systems etc.) which will be \$30 million.

Of course they're going to have cash flow, but if they really want to ramp up production this year and bring in TWO more rigs, they will find a joint venture (JV) partner (easy in this market for such high quality ground), get a reserve based credit line or do some mezzanine debt with light covenants. Of course, if the stock runs to 150% of NAV, maybe they raise equity again. But I think they're leaning towards debt or a big JV with a major or foreign national company. Analysts who follow the stock suggest a \$200 million JV deal is not unreasonable.

Whatever it is, I think the market will like it and use it to bid up the stock as it will mean quicker development of their land base.

As I mentioned above, TPLM's generic "type curve" for a Middle Bakken well is 575 boe/d 30-day IP and an Estimated Ultimate Recovery (EUR) of 350,000-750,000 barrels.

Drilling and completion costs are expected to be roughly \$8.5 million per well. Triangle estimates a 50% plus rate of return and a payback period of less than two years per well with oil just under \$100.

Analysts are predicting roughly \$30 million in internally generated cash flow for Fiscal 2012, which ends January 31 2013.

VALUATION (this can get confusing—stay with me!)

Surrounding land packages have sold for \$3700 - \$17,400 per acre. Triangle assembled its package for roughly \$1300/acre – about \$400 per acre in Montana and \$2600 in North Dakota, though they have paid as high as \$4000.

As of Feb 2 2012, with a closing stock price of \$6.82, the company has an Enterprise Value of \$202.7 million. If I back out the value of the Station Prospect at cost, \$21 million, and then back out the value of the production at \$100,000 per flowing barrel (this is VERY conservative given peer group trades at twice that) = \$80 million—I'm now backing out \$101 million in total value, to determine what the enterprise value is of the Rough Rider acreage.

It's \$101.7 million (\$202.7 million - \$101 million)—and if you divide that by their 29,000 acres, it works out to \$3,506 per acre. (*Valuing the production at a more realistic \$200,000 per flowing barrel gives an enterprise valuation of \$748/acre.*)

Consider that Brigham was bought for roughly \$6500 per acre, and if you back out production it was more like \$11,500 an acre. Operated acreage is now selling for up to \$7,000 per acre. Analysts estimate their 21 operated units=13,000 acres, which makes a valuation of \$91 million.

Non-operated acreage is now valued all over the map—Northern Oil and Gas (NOG-NASD) is all non-operated and trades at \$10,000/acre. Other transactions are in the \$1500-\$4,000 per acre range. However, TPLM's acreage is in the heart of Rough Rider, considered one of the best areas). So I'll use \$4000/acre x 16,000 acres=\$64 million. Again, I would suggest to readers this is conservative.

That creates a rough overall valuation of \$155 million or \$5,344 per acre over their net 29,000 acres. That equals \$1.23 per share value gap right now to bring the stock up to current market valuation metrics—a theoretical value of \$6.82 + \$1.23=\$8.05.

But by far, the big leverage for investors is in Station Prospect. Should drilling near there hit something similar to what's happening in North Dakota, I think its asset value could rise tenfold or more, from \$400/acre to \$4,000 per acre. Even \$2000 per acre on 54,500 acres=\$2.50 per share value to Triangle, with only 43.5 million shares out. That sounds exciting, but first the market needs to see successful wells on a regular basis around that property.

While my comparisons aren't exact, it leaves me with little room for doubt there is 50% upside for the stock from current levels in one year—and this is my criteria for every trade I do; I want to make 50%-100% on every one.

On a production basis, I expect the stock to always be expensive—this is development land so the market is pricing in a lot of future growth as low to no risk. Analysts are not yet valuing the company on cash flow multiples or price per flowing barrel (which is mostly a Canadian metric; Americans don't use that as much.)

WHAT THE ANALYSTS SAY

FIRM	TARGET PRICE
Canaccord Genuity	\$9.00
Johnson Rice & Company	Overweight
Keybank	No Target Price
Northland Capital Markets	\$10.50
Pritchard Capital Markets	\$9.00
Rodman & Renshaw	\$9.00

STOCK CHART



CONCLUSION

This management team has all the land they need to make this a \$15 stock in the next three years—if someone doesn't take them out first. There are over 1100 well locations at Rough Rider alone, and each with an NPV10 of roughly \$8 million—a \$1.6 billion unrisken value.

(Unrisken means if every single well hits, and is roughly the same as this \$8 M NPV—it's not real; it's fairytale but gives an idea what could happen in a perfect world (which is where a lot of analysts are forced to live and write from, by their cruel corporate finance masters ;-))

It's more prudent to say half their Rough Rider acreage may support that type curve. Even at that level, the numbers have the potential to support a valuation 2-3x what it's now trading at in 2-3 years—and sets the bar for take-out values in advance of that. And all management has to do is simply drill what they have, which is high quality, low-risk development ground in the middle of the Bakken.

No other major transaction, or corporate voodoo move is required. I think this growth story is basically a winner in the bag, just add patience.

The key catalyst will happen late spring when results are known from Triangle's first four operated wells in late summer (expect a BIG bump when we see that, especially if the stock hasn't baked too high a speculative premium for that into the price already).

I own 10,000 shares at \$6.25—and I'm looking to add in late April/early May.

I've shared with you one of my TOP 2012 Junior Oil Picks. I put my money on the line with my subscribers in finding the best growth stocks in the energy sectors. And there are more portfolio stocks that are enjoying exploration success and being rewarded by the market.

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