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With Fluid Cycling Becoming a Hot Button Issue for the Oil and Natural Gas Industry across North America, Poseidon Concepts Corp. with their Above-Ground, Modular Fluid Storage Tank Designed for Large Volumes of Fluid – is Providing the Right Product at the Right Time

Resources
Oil and Gas
(PSN-TSX)

Poseidon Concepts Corp.

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Lyle D. Michaluk, CA
Chief Executive Officer
and Director

BIO:
Mr. Michaluk is a founding member of the Poseidon team, having helped to drive the business development and early growth of the innovative fluid handling system. He was also instrumental in Poseidon becoming an independent, publicly traded service and supply company in November 2011. He is a Chartered Accountant with over 15 years of diversified corporate experience including corporate finance, investor relations, management accounting, financial reporting, treasury management, auditing and tax planning. Prior to becoming Poseidon's founding CEO, Mr. Michaluk was Vice President, Finance and Chief Financial Officer of Open Range Energy Corp. since mid-2006, where the Poseidon technology was developed.

Prior to joining Open Range, Mr. Michaluk gained extensive experience in the service & supply and exploration & production sectors with Halliburton, Marathon Oil and Rio Alto Exploration. Before that he was with Ernst & Young LLP. Mr. Michaluk is a graduate of the University of Saskatchewan where he received a Bachelor of Commerce degree in Accounting. He is a member of the Institute of Chartered Accountants of Alberta and of the Institute of Chartered Accountants of Saskatchewan.

Company Profile:
Poseidon Concepts Corp. is a publicly traded Canadian energy equipment and services company that provides an innovative fluid handling system to the oil and natural gas industry across North America. Poseidon has approximately 81.2 million common shares issued and outstanding, which trade on the TSX under the symbol "PSN".

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine

CEOCFO: Mr. Michaluk, Poseidon is an unconventional solution for unconventional plays; could you explain the basic concept of Poseidon?
Mr. Michaluk: Poseidon is an unconventional solution for today's oil and gas industry. It is an above-ground, modular fluid storage tank designed to handle large volumes of fluid. It is the right product, at the right time - as the oil and gas industry deals with the trend of increasing horizontal wells, increasing numbers of frac stages per well and increasing fluid volumes require to complete those horizontal wells. We are coming in as a large-scale fluid handling solution with multi-basin critical mass for today's North American oil and gas producers.

CEOCFO: How is your concept different and how did you decide on this strategy?
Mr. Michaluk: It really was a product that was designed out of need. In November 2011 we came out from under the umbrella of an energy and exploration and production company, Open Range Energy. The product was designed in-house for our own fluid handling needs on horizontal wells in Alberta's Deep Basin. The product was designed back in the winter of 2010 by Open Range's completions manager at the time, Cliff Wiebe - today Cliff is Poseidon's president and chief operating officer. We had tried the traditional methods of fluid storage, which include conventional steel tanks and lined pits. Cliff and his team were not happy with the solutions out there. They all had their various drawbacks. The Poseidon system was first tested in the Q1 2010 on well sites in Alberta's Deep Basin. It worked very well. So well in fact that we had some area producers that saw what we were up to and wanted to try the product out themselves. So we immediately began offering it up

on a rental basis. The first customer was a very large independent producer, so we knew that we were possibly on to something that there was some demand for in the marketplace. At that point we began constructing these and offering up on a rental basis. As the story goes, from those first two rented in June 2010 we are now over 350 systems deployed throughout North America.

CEOCFO: Are you able to patent protect your concept?

Mr. Michaluk: Yes. The connection system is patented in Canada and patent- pending in the U.S. This is really integral in the safety and performance of our product and the speed of deployment, which ranks very high on the checklist of what today's producers are looking for in a service provider. They have very large projects, multi-well projects - that require sourcing and storing large volumes of fluid to deliver on their capital programs - so we fit in nicely with that. The connection system is one of the pieces of our technology. We have other processes and accessories that are also at the patent pending stage that nicely complement our core product offering.

CEOCFO: What are the specific advantages to your system as compared to older methods?

Mr. Michaluk: We offer producers many advantages over the two traditional methods of fluid storage, namely the 400- and 500-barrel steel tanks and lined pits. First, the advantages over the tank farm are that logistically we are a much simpler and more portable product. Our largest model tank can store up to 41,000 barrels of fluid and can be deployed in two truckloads. Compare that to over 100 truckloads for the equivalent storage capacity from traditional steel tanks. Therefore, there are very big advantages to the producer in terms of safety, logistics and landowner relations; and of course cost savings in terms of trucking costs. We also have significant benefits when it comes to heat retention and ultimately that brings in more cost savings for producers using our product.

As for our product compared to lined pits - just as it sounds, a lined pit is a hole in the ground, with a lot of drawbacks in terms of safety and environmental protection as you can imagine. We do not have the sort of ground disturbance and contamination issues that can come along with lined pits. We also don't need permitting like you will see in a number of states when it comes to using lined pits. So the overall growing environmental concerns around pits and producers clearly is working in our favor - and more and more producers are looking for greener, more environmentally-friendly solutions today. And producers are getting proactive and looking for better environmental solutions.

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CEOCFO: You have several models. Is that just a matter of size or are there other differences?

Mr. Michaluk: The difference is really just storage capacity which is driven by customer needs and demand. We are basically introducing models that meet the demands the producers have at the wellsite or as central storage in the particular region that they are in. So the different sizes we have today reflect the different projects we have dealt with over the last couple of years, which involves listening to producers needs and following that through with designing a product that works in the field.

CEOCFO: What is the utilization rate for you?

Mr. Michaluk: The utilization rate has been very robust. I will say that historically, we have been 80%-plus and up to 90% in the busy points of the winter drilling season. As we speak, we are going through Canadian spring- breakup where there are significant restrictions on moving equipment on the roads - so in Canada we see some softness in activity levels here in Q2 and that is pretty typical this time of year in Canada. But with very little seasonal impact on our U.S. operations and approximately 80% of our fleet allocated to that market, Q2 utilization has held in very strong.

CEOCFO: What is your geographic reach and customer distribution?

Mr. Michaluk: Our fleet allocation in our two major markets today is about 80% in the U.S. and 20% in Canada. We are basically in all the major unconventional plays throughout North America. We now have a presence in 17 states in the US and throughout western Canada as well. We are able to service the larger producers. The large independents, majors and the super majors are certainly customers that are on our roster. We have the ability and scalability to deliver a product in any of these plays that these producers are in. The ability to deploy multiple tanks to multiple plays is certainly an advantage we have over potential future competition.

CEOCFO: Is there much maintenance that you need to do on the tanks and what is the lifespan?

Mr. Michaluk: Very minimal maintenance capital is required. We use an estimated useful life for accounting purposes of ten years; but it's quite likely that the useful life will be much longer than that. The best analogy would be the bare steel tanks. There are bare steel 400-barrel tanks that have been in service for a couple of decades. We are a similar product to that in terms of a very long expected asset life.

CEOCFO: Do all those that should know about your tanks, indeed know, and why isn't everyone taking advantage of your innovation?

Mr. Michaluk: We certainly have first-mover advantage and are working on becoming a household name in the oil and gas industry. But we are not there yet. Make no mistake, we are in the very early innings of the market penetration game. Our biggest competition today is lined pits and the conventional steel tanks. Now that we do have a presence in all the major plays throughout North America, we are rapidly gaining traction. We have a great word of mouth product - as we get visibility in a new region we can use that as leverage to quickly gain new business.

CEOCFO: What is a typical contract length?

Mr. Michaluk: It will vary from typically the smaller intermediate producers, guys that are working job-by-job. Those will be the short end of the range where we are typically leapfrogging with their frac equipment as needed. You will be on a two to three week job, which is very common on one fracing a well and then moving to the next site. The other end of the spectrum would be some of those central storage projects I talked about where we are setting up in the middle of their drilling program a central water transfer facility. In those cases we have tanks that will be there for the next one to three years and anywhere in-between of course. Therefore, we have several different scenarios in terms of long-term commitments.

CEOCFO: Do you have a strategy on how many new tanks you build over the next few years, and what is involved in the building of the tanks?

Mr. Michaluk: We can react quickly to demand. That is the business model we have created. We have built everything for customer demand to date and have not built product on spec. We have two third-party facilities that build for us. We can react very quickly to customer demand and at current capacity we can build up to nine new units a week. We are a very unique business model that way - we have no significant lead time on new equipment which enables us to have a just-in-time manufacturing process that we have been using since we started building out the fleet 18 months ago. With that being said, we can be very reactionary because of that speed in which we can construct. The same goes the other way, where we don't really have much capital at risk if we were faced with a sudden downturn in industry activity levels.

CEOCFO: What is the financial picture like for the company?

Mr. Michaluk: We are in a very good financial position to continue growing the fleet for the foreseeable future. We recently closed our first equity financing earlier this year. That put us in a very good position from a balance sheet perspective. We expect to exit 2012 with a cash/working capital surplus position. We have a clean balance sheet so we can build as demand dictates. We certainly are spending some time and energy and resources on new product development as well - which we do have the balance sheet to pursue some of those initiatives. Lastly but certainly not least, we are a dividend paying company. So typically you will see us having a fairly clean balance sheet considering the fleet growth and new product development needs combined with the dividend. And while our top priorities right now are continuing to build out the fleet and bring forward some new product development, there can also be room in there for dividend growth down the road.

CEOCFO: Is the investment community paying attention?

Mr. Michaluk: Yes. We are a new technology and certainly the investment community is becoming more educated on what we are doing; particularly around where we are focused on the fluid management space in the oil and gas industry. A couple of years ago we would not be having this conversation around the fluid management space as it relates to the oil and gas industry. Nobody was really trying different things for handling, reuse or recycling of fluids used for fracking for example. Of course the size of fracking jobs and related water requirements have also increased dramatically. This is why this fluid cycle is a pretty big hot button issue for the typical U.S. producer. The investment community is also starting to see that this isn't an issue that is going away anytime soon. Innovative fluid management solutions around the oil and gas industry are only going to grow from what we're seeing today. We are definitely in that space with the right product at the right time.

CEOCFO: Why should potential investors pay attention to Poseidon Concepts today?

Mr. Michaluk: This fluid management solutions needs for the typical producer is a growing space. Producers are spending more and more time and effort today determining the appropriate methods for sourcing their water, storing it once they get it to the wellsite, handling the flowback fluids after the well has been stimulated, and disposing or recycling and reusing it before moving on to the next well or project. This whole fluid cycle is a growing trend that is becoming a very big hot button issue for today's producers. We believe we are positioned very well in that space. On top of that we are still in the market penetration stage with a new, disruptive technology. We pay what we feel is a very attractive and sustainable dividend. That, in combination with very early stages of a very large organic growth opportunity, makes us a pretty attractive investment proposition. We are excited about what we have in front of us.

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