

Founders Investment Banking

July 2013 Oil & Gas Newsletter



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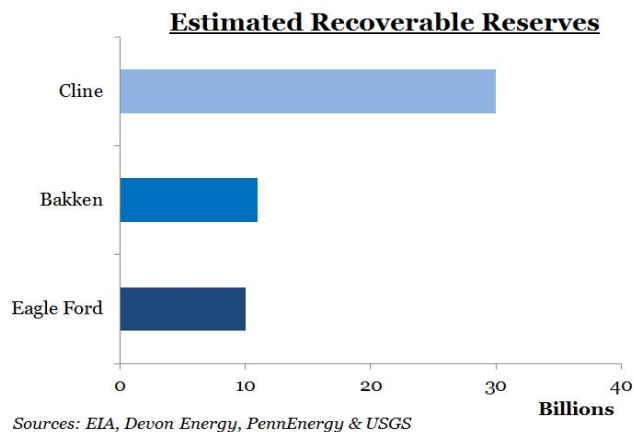
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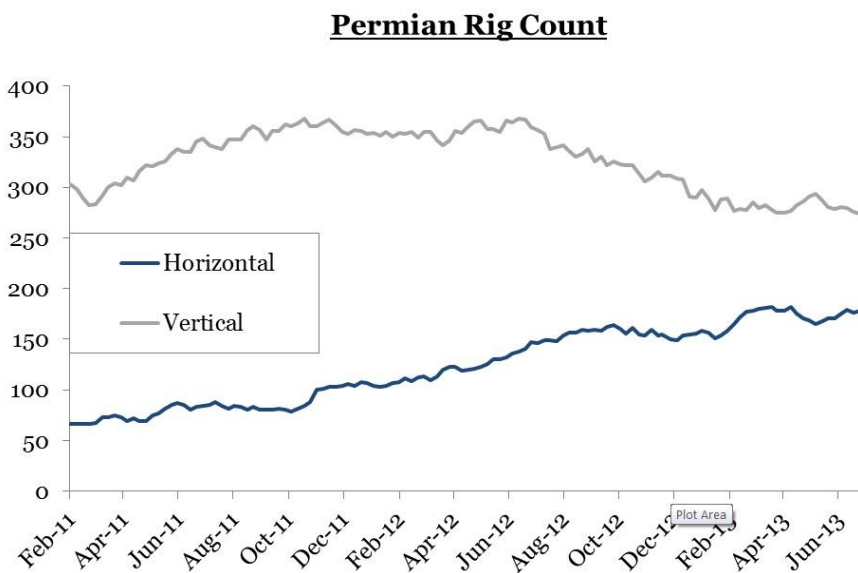
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## The Shale Boom in West Texas

The Permian Basin is flourishing as operators and service companies continue to focus on the established, yet evolving basin. The region has always been known to hold great potential – in 1995 the U.S. Geological Survey (USGS) estimated the Permian to hold 100 bbl. of oil. Since then, innovations have significantly unlocked these reserves. A recent presentation by Pioneer Natural Resources estimated total recoverable resource potential in the Permian Basin to be over 50 bbl. of oil, while Murchison Oil & Gas estimates roughly 66 bbl. of oil. Many believe the most prolific formation of the Permian and the country – the Cline Shale – has barely been tapped. Initial estimates by Devon Energy and PennEnergy indicate recoverable reserves of up to 30 bbl. of oil in the Cline shale. To compare this to other major shale plays in the U.S., the USGS and EIA both estimate the Bakken to have 11 bbl. of recoverable oil and the Eagle Ford to have 10 bbl. of oil. The initial Cline estimates stem from the first 100 or so wells drilled in the area, making them “rough” estimates. If pricing remains steady and the early indications are accurate, we can expect activity in this area to continue to pick up.



With these production increases and estimated future growth, it may come as no surprise that in 2012 the Permian led all acquisition and divestiture activity, accounting for 25% of deal activity. This activity reflects the intensity with which operators are seeking opportunities in the Permian, where 25% of the U.S. onshore rigs are currently operating. Horizontal drilling is just starting to integrate in the region, while currently over 60% of the active rigs in the Permian are drilling vertical wells. According to an Apache presentation at the 2013 DUG Permian Basin Conference, Apache only drilled 20 horizontal wells in 2010 and were expecting to drill 180 horizontal wells in 2013. The paradigm is shifting,



Source: Baker Hughes

particularly in the Delaware Basin, where horizontal drilling has doubled from two years ago. “We are very early in the Permian plays with horizontal drilling,” said John Christmann, Region VP of Apache Corporation. Tim Dove of Pioneer Natural Resources agrees and says, “The big surprise in the U.S. will be the Permian. When it’s turned on its side, it’s going to be shocking to see the kind of resources that will come out of those horizontal plays.” Only time will tell the true amount of reserves in West Texas, but for now the future continues to look bright.

Select Oil & Gas Transactions

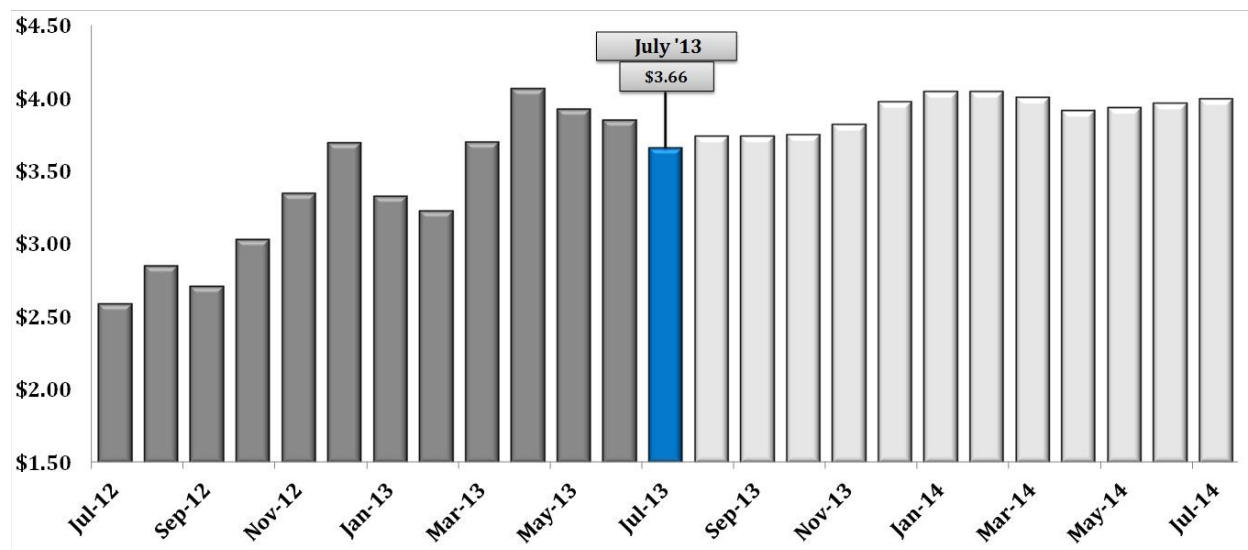
Date	Status	Target	Buyers/Investors	Type	Value (\$mil.)
7/5/2013	Announced	Universal Wing Technologies Inc. (TSXV:UAV)	-	Private Placement	\$0.28
7/2/2013	Closed	High Roller Wells Big Lake SWD No. 1, Ltd	NGL Energy Partners LP (NYSE:NGL)	Merger/Acquisition	-
6/30/2013	Closed	GR Energy Services Holdings, LLC	Pine Brook Road Partners, LLC	Private Placement	-
6/28/2013	Announced	Galvanic Applied Sciences Inc. (TSXV:GAV)	Tuckerman Capital; 2SV Capital LLC; Right Lane Capital LLC	Merger/Acquisition	\$25.39
6/27/2013	Closed	DynaFlo Artificial Lift Systems and Five Star Equipment, LLC	Accelerated Companies LLC	Merger/Acquisition	-
6/24/2013	Closed	Hercules Offshore, Inc., Domestic Liftboat Segment	-	Merger/Acquisition	\$54.50
6/20/2013	Closed	TerraVest Capital Inc. (TSX:TVK)	Geosime Capital Inc.	Merger/Acquisition	\$7.65
6/20/2013	Closed	PetroGlobe Inc., Certain Wells, Pipelines and Land in Pembina Area of Alberta	-	Merger/Acquisition	\$0.51
6/19/2013	Announced	Seitel Inc.	-	Public Offering	\$250.00
6/19/2013	Closed	Antelope Oil Tool & Manufacturing Co., Inc.	Intervale Capital	Merger/Acquisition	-
6/19/2013	Closed	Panhandle Oilfield Service Companies, Inc.	Argosy Capital	Merger/Acquisition	-
6/11/2013	Announced	Ft. Worth Pipe Services, L.P.	Savage Industries, Inc.	Merger/Acquisition	-
6/5/2013	Announced	Global Tubing, LLC	Quantum Energy Partners; Forum Energy Technologies, Inc. (NYSE:FET)	Merger/Acquisition	-
6/3/2013	Closed	W.L. Gore & Associates, Inc., GORE® Survey Products Group	Amplified Geochemical Imaging, LLC	Merger/Acquisition	-

**Transactions**

As the 2nd Quarter of 2013 wraps-up, M&A activity and volume remain sluggish. In fact, the total deal value in the upstream sector during the 2nd Quarter was lower than any other quarter since the 3rd quarter of 2009. Through the first half of the year there were a total of 181 transactions accounting for \$48.2 billion in U.S. oil and gas, down from 206 deals accounting for \$52.8 billion in the same time period of 2012.

Despite the slowdown in activity, many industry experts remain optimistic. Ronald Montalbano, U.S. Oil & Gas sector leader for Ernst & Young, thinks "Oil & Gas deal activity could improve over the next 12 months... Private equity players should continue to take an active role in oil & gas, and asset optimization and industry consolidation will continue to drive the sector." Additionally, there should also be increased consolidation out of the less mature shale plays as they continue to develop.

Natural Gas Futures

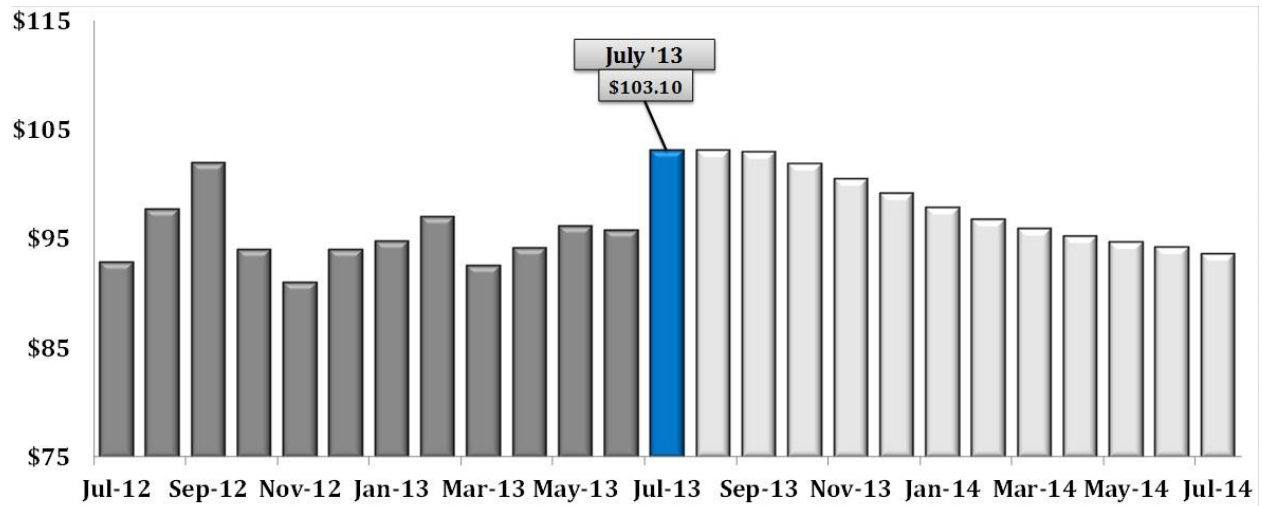


**Natural Gas Future Pricing**

Natural gas spot prices averaged \$3.83 per MMBtu at the Henry Hub in June 2013, down 21 cents from the previous month's average price. The EIA expects the Henry Hub price will average \$3.76 per MMBtu for the full year 2013 and \$3.91 per MMBtu in 2014.

While natural gas prices have been relatively flat between the \$3 and \$4 range over the past few months, there is some good news looking ahead. "The good news is that today, you've got the Marcellus Coalition and other groups focused on raising demand for natural gas," said Ray Walker, COO of Range Resources. Low gas prices are also beneficial to the extent that they drive demand up. "Those prices are driving demand in gas-fired generation, in petrochemicals, and other industrial resources," said Park Shaper of Kinder Morgan.

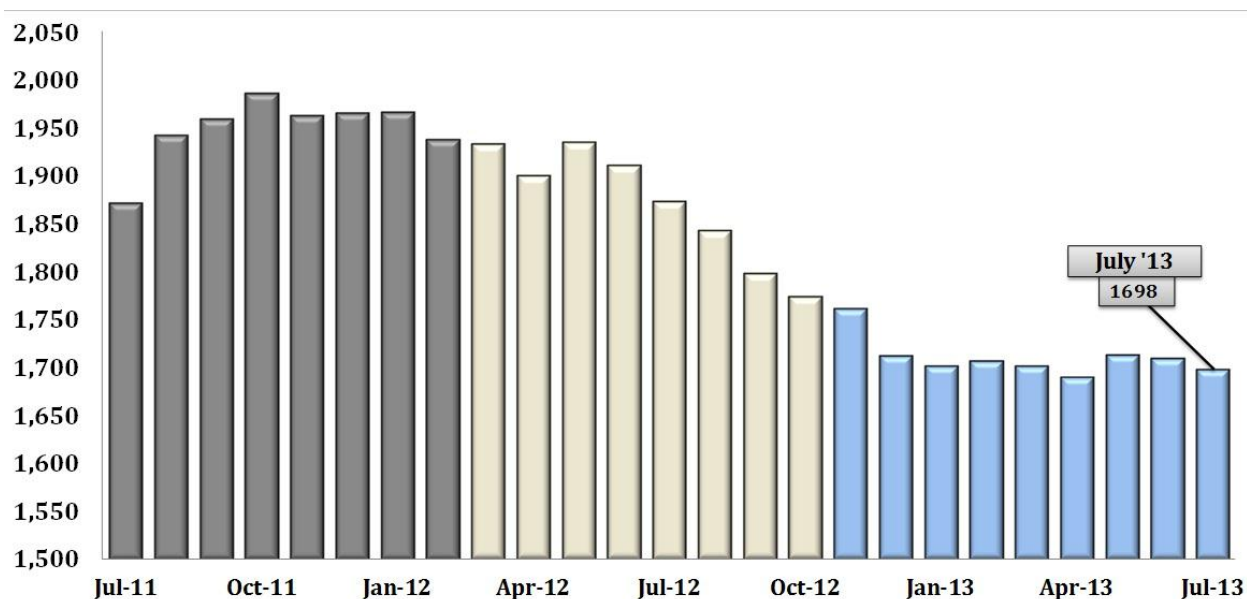
Oil WTI Futures



**Oil Future Pricing**

West Texas Intermediate crude headed for a third weekly increase, its longest run of gains since May, and is forecast to rise next week in a Bloomberg News survey amid speculation U.S. stimulus measures will continue. Coming into July, WTI future prices have surged into the \$100 range and surpassed their 14-month high. The EIA is expecting to see output from non-OPEC producers ramping up at a faster pace than it projected last month, therefore putting downward pressure on oil prices - especially WTI. Merrill Lynch is expecting for WTI future prices to dip back down as well, but for the time being to remain in the upper \$90 range for the remainder of the year.

**U.S. Total Onshore Rig Count**

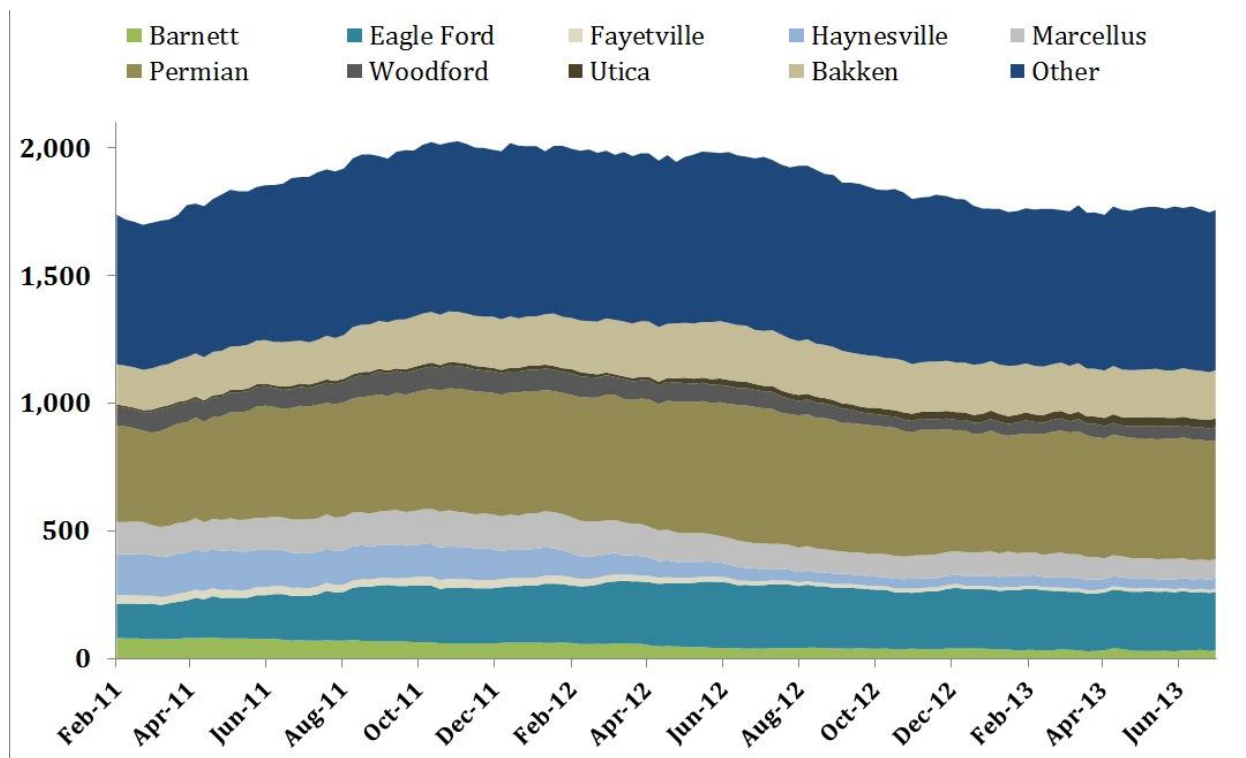


**U.S. Total Onshore Rig Count**

Despite a slight decrease in onshore oil rigs in July, rig counts are down only 3 rigs since the beginning of the year. The U.S. total onshore rig count has dipped again in July after a slight increase in May. At 1,698, it compares to 1,873 at this same time last year. Despite the reduced rig count and E&P spending in 2013, Cowen & Company expect well completions and footage drilled to "increase due to improvements in drilling efficiency."

Merrill Lynch expects onshore rig counts to drop even further heading into August, but to increase steadily thereafter. Similarly, both UBS and Sterne Agee expect the onshore rig count to increase heading into the second half of the year.

**Rig Count by Basin**



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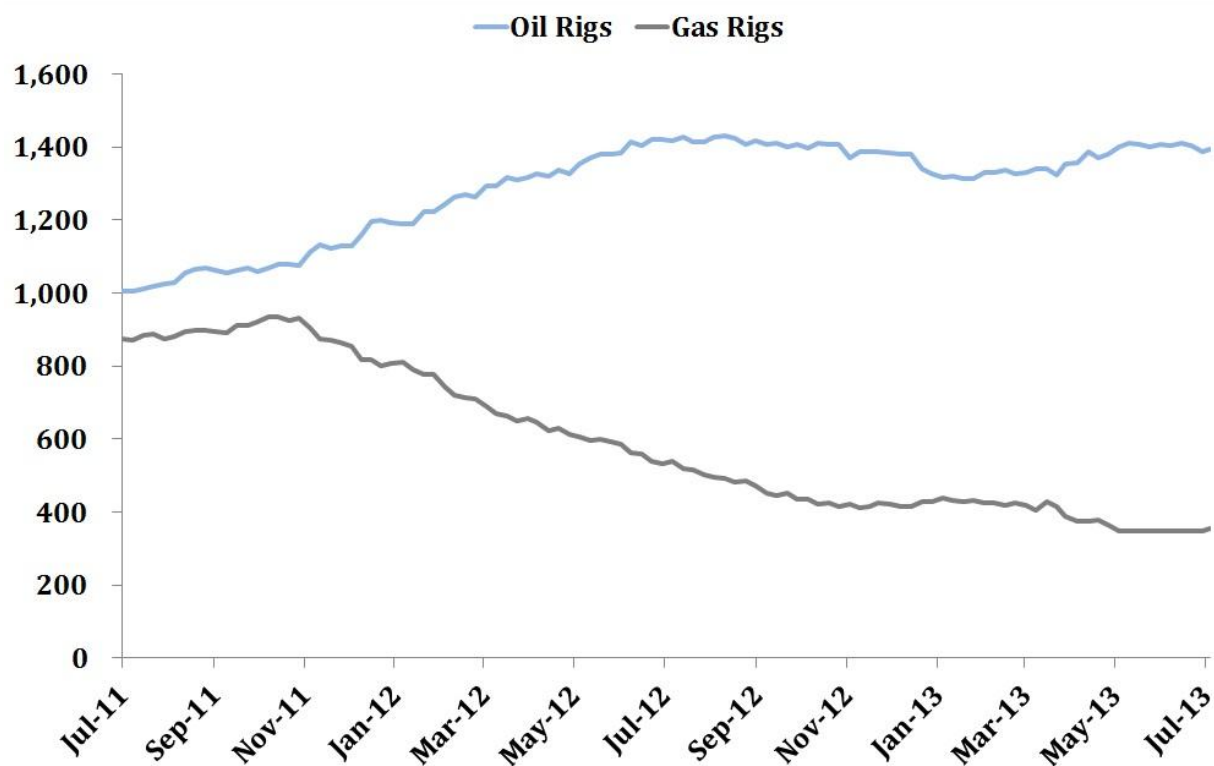
The Permian, Eagle Ford, and Bakken topped the rig counts as of this publication. Operators seem confident in the Eagle Ford, Bakken, and Permian plays and are intrigued by new shale plays heading into the remainder of 2013. "With the right fundamentals we can get significant volume out of all these incredible plays," said Ernie Leyendecker, VP of Exploration for Anadarko Petroleum.

Jim Flores, CEO of Plains Exploration & Production, said "To get to estimated production levels you have to have infrastructure." Once the necessary crude infrastructure is built out, increased production levels should follow.

Rig counts as of July 7th, 2013:

Barnett - 33, Eagle Ford - 230, Fayetteville - 12, Haynesville - 40, Marcellus - 76, Permian - 465, Woodford - 51, Utica - 35, Williston - 188, and Other - 627.

U.S. NG v. Oil Rig Count

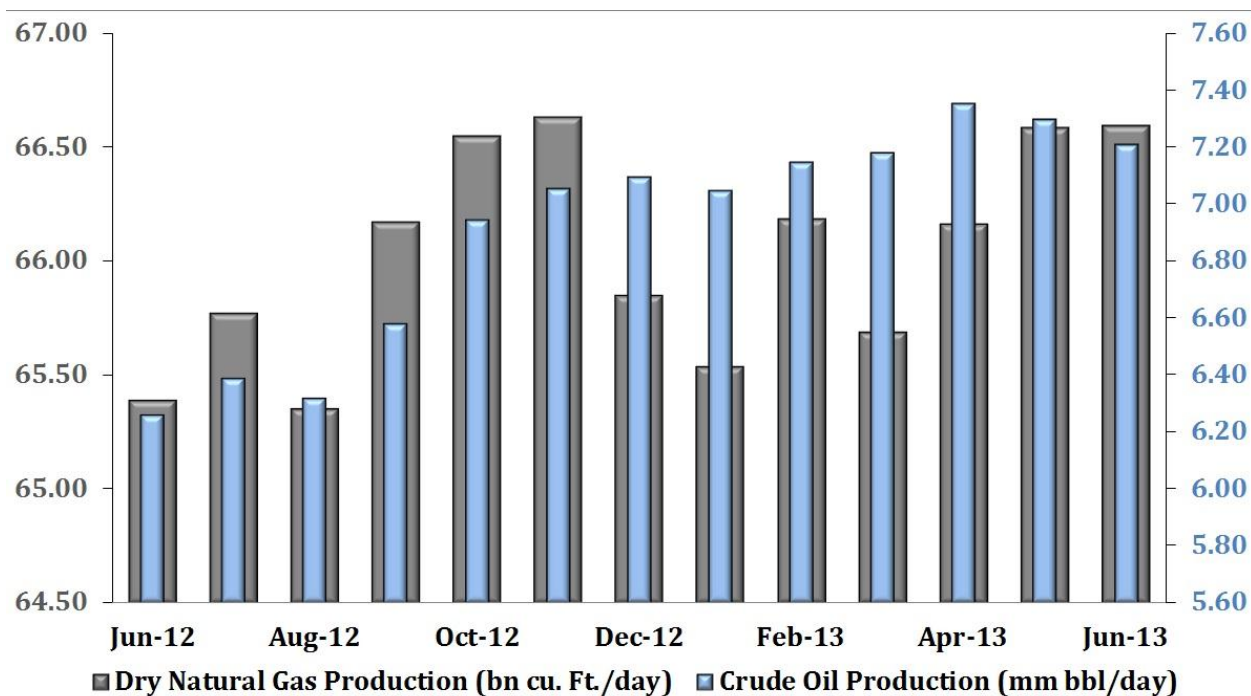


**U.S. NG v. Oil Rig Count**

The number of rigs drilling for natural gas in the United States was up 2 this week. Since early May, natural gas rigs drilling have been within the narrow range of 349 to 354, possibly signaling a bottom. There appears to be a bright future in natural gas and it seems compelling enough for some executives to look beyond the “cloudy” present. "We are in the right business... It might be 2 years, it might be 5 before prices improve, but at some point we are going to be really glad that we are doing what we're doing," said Ray Walker, COO of Range Resources.



U.S. NG v. Oil Production



**U.S. NG v. Oil Production**

The EIA expects U.S. crude oil production to rise from an average of 6.5 million bbl/d in 2012 to 7.3 million bbl/d in 2013 and 8.1 million bbl/d in 2014. The continued focus on drilling in tight oil plays in the onshore Williston, Western Gulf, and Permian Basins is expected to account for the bulk of forecast production growth over the next two years.

Natural gas marketed production is projected to increase from 69.2 Bcf/d in 2012 to 70.0 Bcf/d in 2013 and to 70.4 Bcf/d in 2014. Onshore production increases over the forecast period, while federal Gulf of Mexico production from existing fields declines as the economics of onshore drilling remain more favorable.