

Founders Investment Banking
June 2013 Oil & Gas Newsletter



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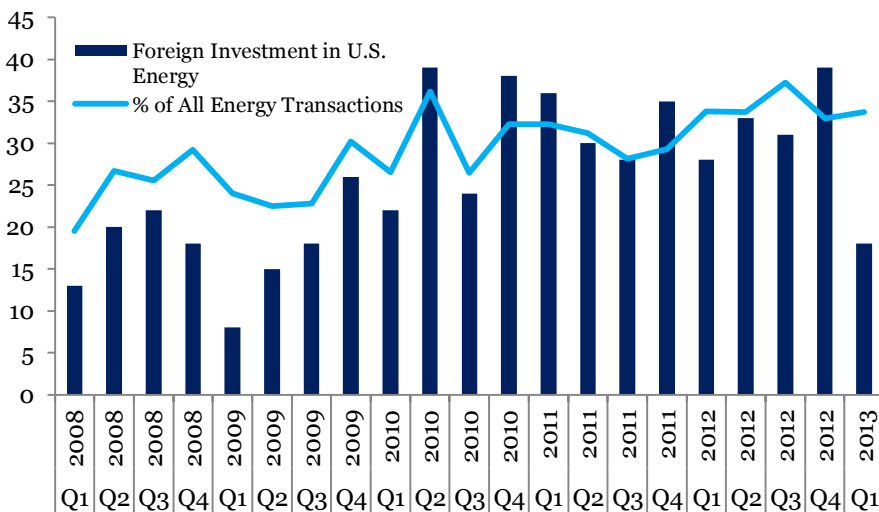
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Foreign Investment Flooding into U.S. Oil & Gas Fields

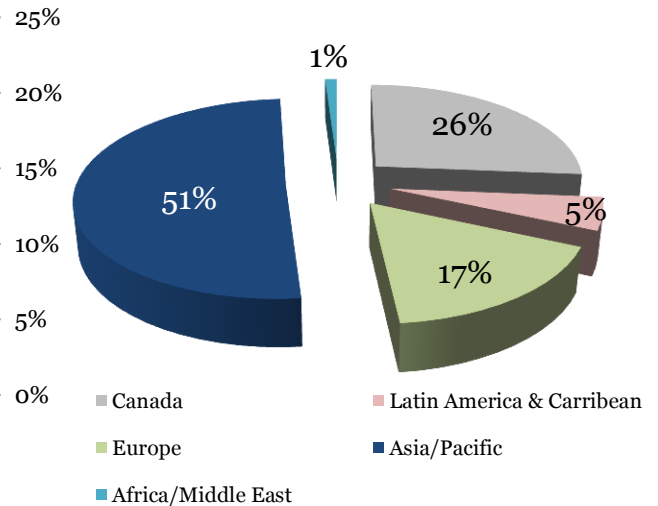
While M&A has been slow to rebound from the 4th quarter of 2012, international interest in the flourishing U.S. shale plays continues to increase. “Foreign buyers, though, are still looking for opportunities to expand in U.S. shale plays and are extremely active in upstream projects – and they’re willing to acquire those assets at a premium,” said Rick Roberge, principal in PwC’s energy deals practice. Foreign companies are seeking not only assets to the U.S. rich shale plays, but also the introduction into U.S. based technology and domain expertise.

Foreign investment in the U.S. energy sector has continued to increase from 2008-2012. According to CapitalIQ, the percentage of foreign investment into U.S. Energy has increased from around 10% up to 20%. Joint ventures by foreign companies have accounted for 20% of the \$133.7 billion invested in U.S. shale plays in this same time period. The EIA reports that in 2012 the Utica, Eagle Ford, and Wolfcamp make up close to 70% of the international joint venture investments. Angie Sedita, UBS Oil Service Analyst, expects to see “continued foreign buyer activism through 2013, as companies look to gain a position in the U.S. hotbed of production and drilling technology.”

Foreign Investment in the U.S. Energy Sector



Where are the Investors From?



The stage is set for foreign investors to continue making their entrance into the already booming U.S. shale plays. Ernst & Young notes that they are seeing the largest players in the world “shrug off” depressed pricing and pursue U.S. unconventional assets. They go on to say that continued low U.S. natural gas prices may “fuel buying interest”. According to Steven Yap, Deloitte’s Energy and Resources leader, in addition to increased technological efficiency, other factors attracting buyers’ interests in North American resources include political stability, private property rights, and access to workforce skills—all of which initially drove the boom in unconventional sources of oil and gas for the region.

Select Oil & Gas Transactions

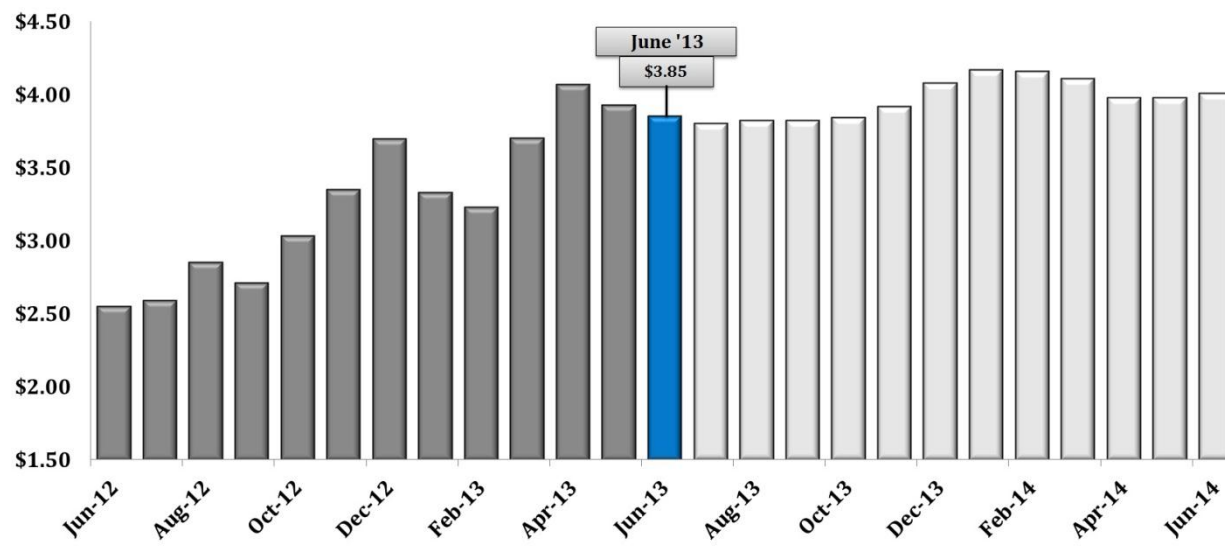
Date	Status	Target	Buyers/Investors	Type	Value (\$mil.)
6/5/2013	Announced	Global Tubing, LLC	Quantum Energy Partners; Forum Energy Technologies, Inc. (NYSE:FET)	Merger/Acquisition	-
6/3/2013	Closed	W.L. Gore & Associates, Inc., GORE® Survey Products Group	Amplified Geochemical Imaging, LLC	Merger/Acquisition	-
5/28/2013	Announced	Benefuel Inc.	-	Private Placement	\$11.50
5/24/2013	Announced	High Arctic Energy Services Inc (TSX:HWO)	-	Buyback	-
5/23/2013	Announced	Nuverra Environmental Solutions, Inc. (NYSE:NES)	-	Public Offering	\$150.00
5/23/2013	Closed	CanElson Drilling Inc. (TSX:CDI)	-	Public Offering	\$24.37
5/23/2013	Announced	Mid-Continent Equipment, Inc.	-	Merger/Acquisition	\$0.10
5/22/2013	Announced	Archer Limited, North American Rental and Tubular Division	Clearlake Capital Group, LLC	Merger/Acquisition	\$244.00
5/20/2013	Closed	ST Pipeline, Inc.	-	Merger/Acquisition	\$8.50
5/17/2013	Announced	Tidewater Inc. (NYSE:TDW)	-	Buyback	\$200.00
5/17/2013	Announced	Bonnett's Energy Corp. (TSX:BT)	-	Buyback	-
5/16/2013	Closed	Tradesmen Enterprises GP Inc.	Fulcrum Capital Partners Inc.	Private Placement	\$19.69
5/14/2013	Closed	Ultimate EOR LLC	Clariant AG (SWX:CLN)	Private Placement	-
5/13/2013	Announced	Wenzel Downhole Tools Ltd. (TSX:WZL)	Basin Tools, LP	Merger/Acquisition	\$68.07
5/1/2013	Closed	ION Geophysical Corporation (NYSE:IO)	-	Public Offering	\$175.00

Transactions

M&A activity continues to be relatively sluggish as the number of May transactions was marginally lower than that of the preceding months. In Ernst & Young's bi-annual Oil & Gas Global Confidence Barometer, they state that current M&A activity in the U.S. shale industry "tells us that many companies are looking to grow through efficiency, better execution in current markets, technology and competency changes rather than through transformational deals."

Most industry executives would like to be engaged in M&A activity but are held back by the current price levels. "We're out in the M&A market," said Dale Dusterhoft, CEO of Trican Well Service. "If we were to do any M&A in the U.S., we would want to do it under asset value, and we don't see any opportunities out there right now." Some do see opportunities and are in search of transactions where earnings would exceed the cost of capital.

Natural Gas Futures

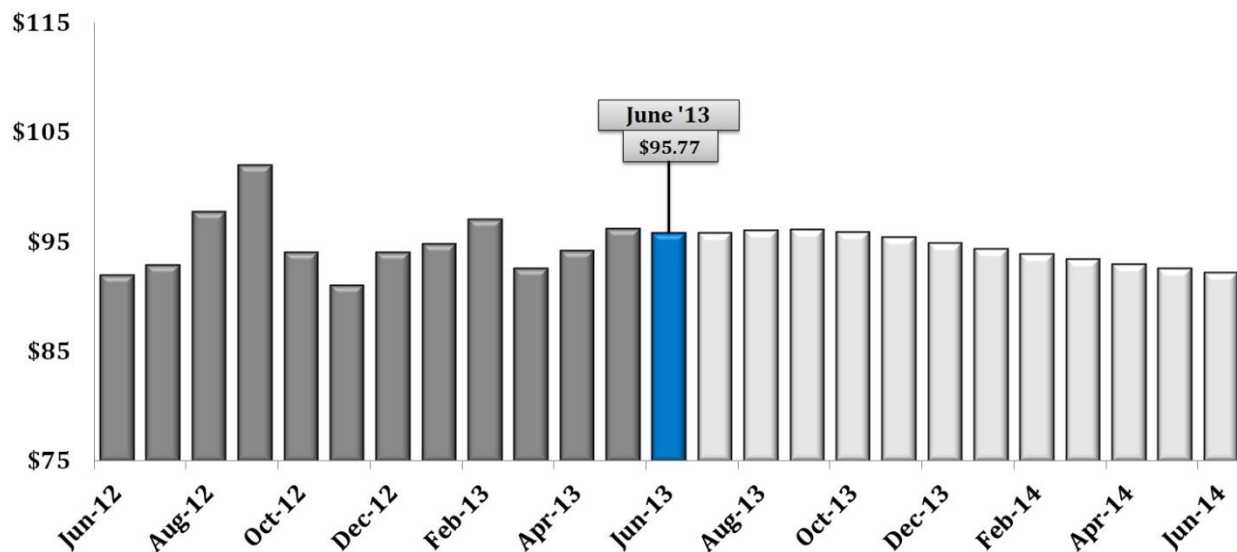


Natural Gas Future Pricing

Natural gas spot prices averaged \$4.04 per MMBtu at the Henry Hub in May 2013, down 13 cents from the \$4.17-per-MMBtu average seen the previous month. The EIA expects the Henry Hub prices will increase from an average of \$2.75 per MMBtu in 2012 to \$3.92 per MMBtu in 2013 and \$4.10 per MMBtu in 2014.

Natural gas prices and natural gas producers have been put into a current stalemate. Operators seem to believe production won't rise unless prices stay between the \$4 and \$5 range, but prices won't rise unless markets improve. Ernie Leyendecker of Anadarko thinks "we will certainly see some people go back to gas when it is between \$4 and \$5." Jim Flores of Plains also states "we are in the \$3 land for some time until we get industrial demand."

Oil WTI Futures

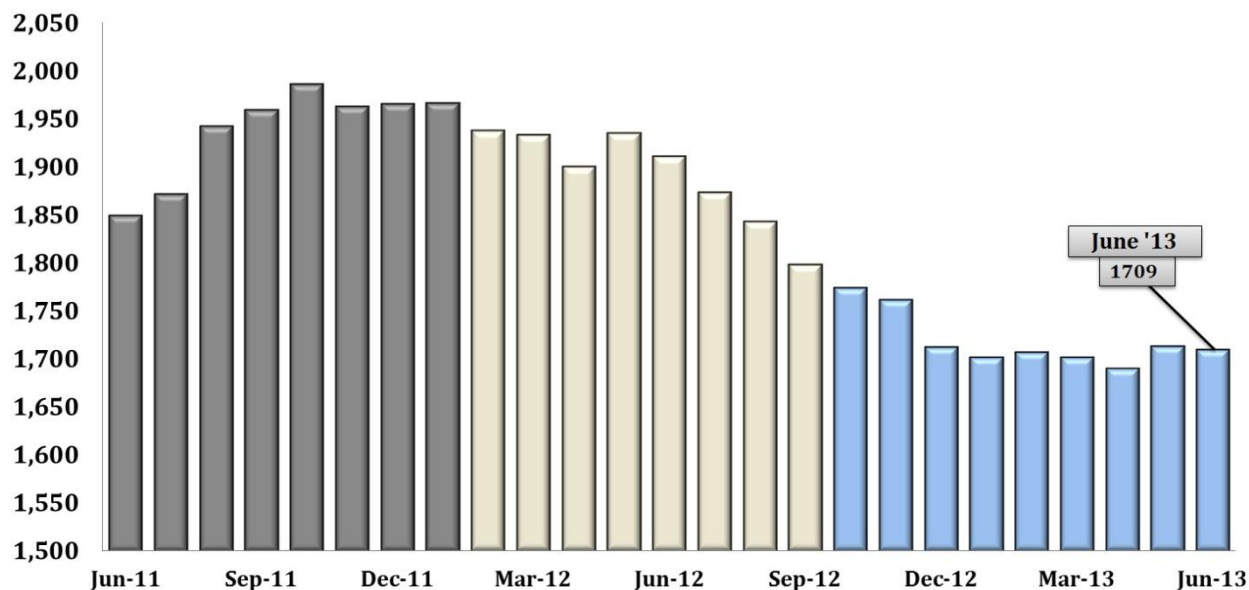


Oil Future Pricing

After averaging \$94 per barrel in 2012, the forecast WTI crude oil spot price averages \$93 per barrel in 2013 and \$92 per barrel in 2014. By 2014, several pipeline projects from the midcontinent to the Gulf Coast refining centers are expected to come on line. This will reduce the cost of transporting crude oil to refiners and is reflected in a narrowing price discount of WTI to Brent.

Producers and refiners seem to believe that the Gulf Coast will be the recipient of most of the production increase once the new pipelines have been put in place. "We are focusing a large influx of light sweet crude coming into the Gulf and that could affect pricing over the next 2-3 years," said Tim Dove of Pioneer Natural Resources. He notes that the increased processing abilities, combined with low prices, should drive demand and export growth in light sweet crude in the future.

U.S. Total Onshore Rig Count

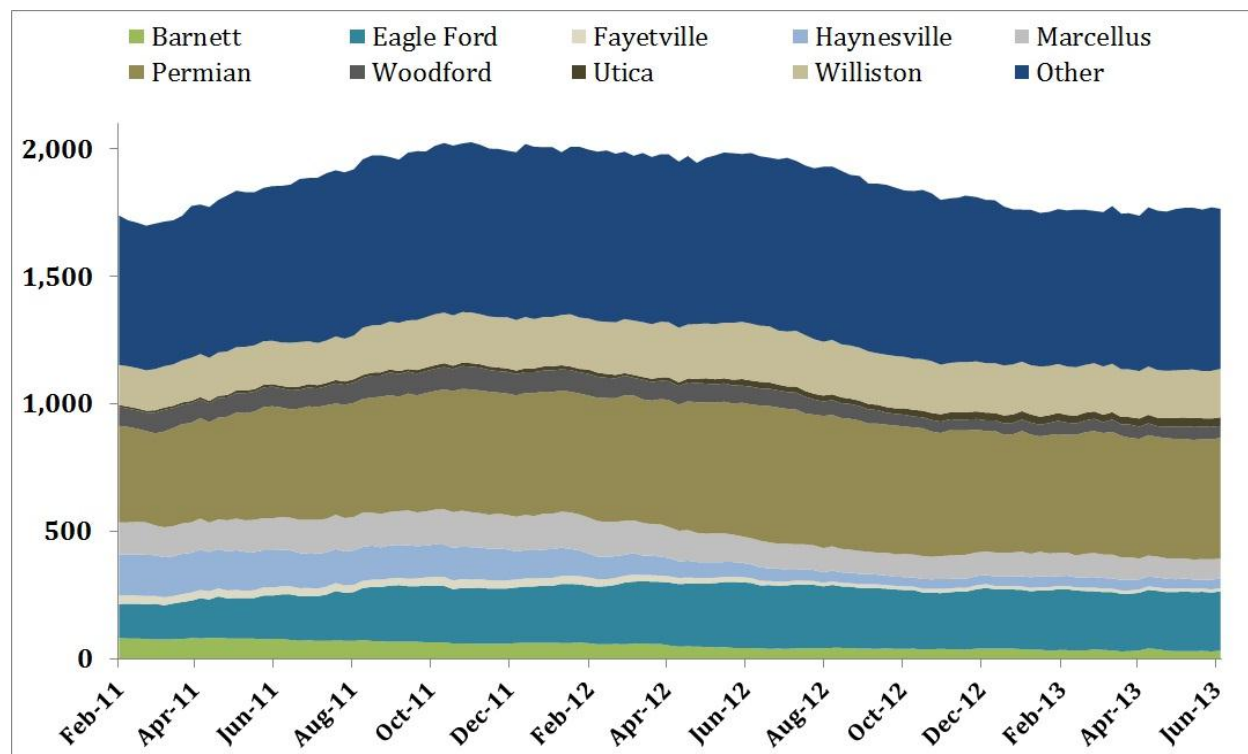


U.S. Total Onshore Rig Count

Onshore rig counts have for the most part flattened in 2013. The U.S. total onshore rig count has dipped in June since a slight increase in May. At 1,709, it compares to 1,849 at this same time last year.

Operators don't seem to be too worried about the rig count flattening, and actually seem to be fairly optimistic about the remainder of 2013. Stacy Locke, CEO of Pioneer Energy Service, recently stated that "On the production services side, wireline services, well and coiled tubing, the outlook compared to November and December is improving as rig counts pick up and should be even better in the second half." On that same note, Josh Comstock, CEO of C&J Energy Services, said "Completion intensity has increased, and that is good for us."

Rig Count by Basin



Rig Count by Basin

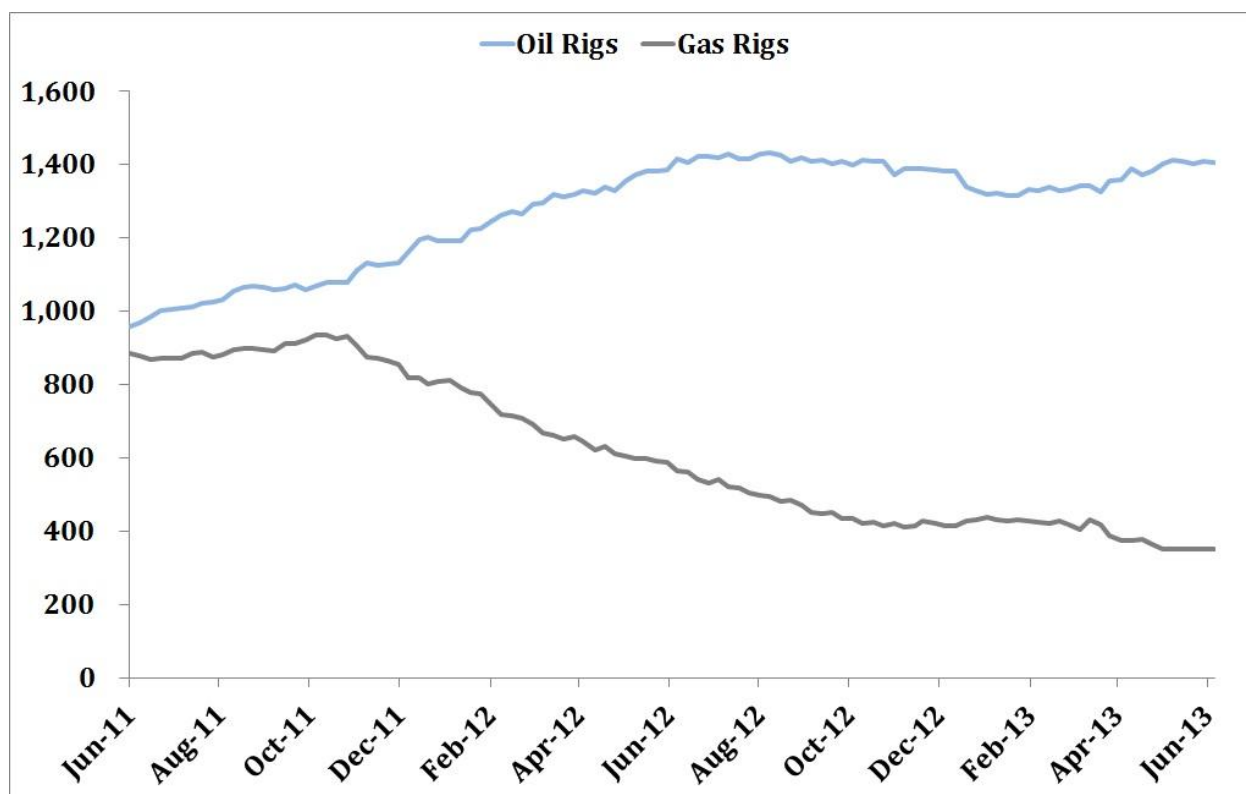
The Permian, Eagle Ford, and Williston topped the rig counts as of this publication. Operators seem very confident in the Eagle Ford, Bakken, Permian, and the Wolfcamp plays heading into the remainder of 2013. "We are optimistic that the Eagle Ford and the Bakken plays really have the resource potential for us to unlock and grow capacity," said Jim Flores, CEO of Plains Exploration & Production.

The Permian appears to be drawing the most heat and excitement among production prospects. "We are very early in the Permian plays with horizontal drilling," said John Christmann, regional VP for Apache Corporation. Apache isn't alone in their view on the Permian. Tim Dove, CEO of Pioneer Natural Resources, said "The big surprise in the U.S. will be the Permian... When it's turned on its side, it is going to be shocking to see the kind of resources that will come out of these horizontal plays."

Rig counts as of June 7th, 2013:

Barnett - 33, Eagle Ford - 233, Fayetteville - 12, Haynesville - 39, Marcellus - 77, Permian - 473, Woodford - 47, Utica - 34, Williston - 190, and Other - 627.

U.S. NG v. Oil Rig Count

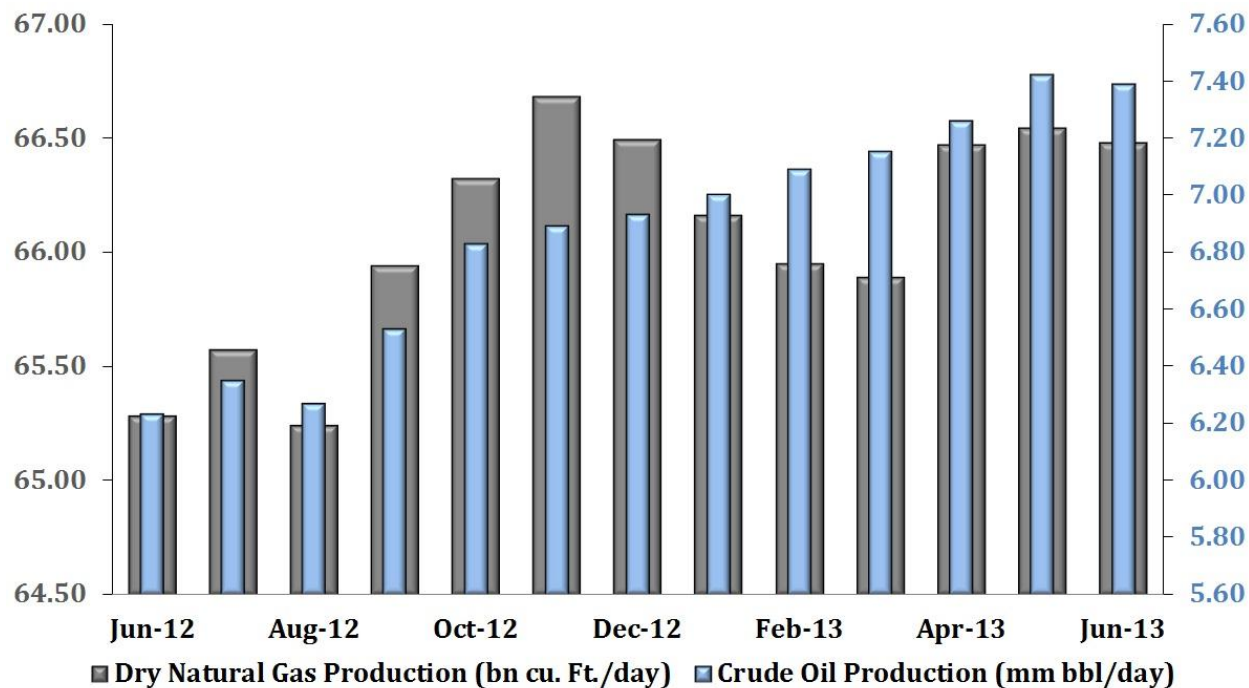


U.S. NG v. Oil Rig Count

The most recent rig count registers gas rigs flat and oil rigs down 4. The oil-focused rig count fell for the second straight week, dropping by 4 to 1,406 after posting an eight-month high four weeks ago, Baker Hughes data showed. The oil count is up 18 rigs, or 1.4 percent, from the same week last year. Oil-focused rigs should remain at their current levels or even further increase with rising production out of the Permian, Bakken, Wolfcamp and other shale plays as well.

The number of rigs drilling for natural gas in the United States was down 4 this week, hovering just six rigs above the 18-year low posted four weeks ago. Producers would seemingly need to see a substantial upswing in prices to lure them back into dry gas fields. Dan Dinges, CEO of Cabot Oil & Gas, identified \$4.50 as the price level needed in order to see increases in natural gas rigs, and that prices would have to be there for a long period of time.

U.S. NG v. Oil Production



U.S. NG v. Oil Production

The EIA expects U.S. crude oil production to continue to grow strongly over the next two years. 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. 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. The EIA expects improvements in drilling and completing horizontal wells from multi-well drilling pads in the Permian Basin, which give operators greater access to large areas of resources in a number of stacked plays from a single surface location.

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, according to the EIA. Associated gas from oil plays is not staying in the ground and appears to be part of the supply problem. "About 40% of current production of gas is associated gas," explains Tim Dove, CEO of Pioneer Natural Resources. He goes on to say that "with all the drilling that went on last year, we grew production by 10% even though we drilled no gas wells."