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OIL & GAS

Newsletter

Special Edition: Insights from the LAGCOE Conference

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The Founders O&G Services team recently attended the LAGCOE Conference, which brought more than 17,000 attendees to the Cajundome & Convention Center in Lafayette, LA. Founders condensed the collective feedback and news below:

- **Haynesville Shale.** Positive news regarding the activity outlook is emerging from the Haynesville shale of North Louisiana and East Texas. The Marcellus is still the most economical gas producing basin, but areas of the Haynesville continue to see signs of life from the predominantly dry gas play. The news:
    - Rob Shaufel, the President of BHP Billiton Petroleum remarked, "We probably have the best acreage in the heart of the Haynesville, so we have good economic opportunities right now. We can drill very economical wells there, even with today's gas prices"
        - BHP is positioning itself for the future, "We want to continue activity there in order to build up our technical understanding… [t]hen, as gas prices recover, we have worked through the issues and can really execute on the development in the field," added Shaufel
        - BHP's rig count has increased from 4 to 5 rigs in the basin coinciding with gains in rig efficiency to create more wells this year
    - EnCana Corporation noted that their improved efficiency has made the basin economically viable again, "We have been successful over time at creating greater efficiencies that allow us to profitably drill in the Haynesville, even in a low-price environment," stated a company spokesman
        - Specifically, the spokesman noted, "maximizing ultimate reservoir drainage, by increasing laterals from an average 7,100 ft to 10,000 ft, has delivered noticeable improvements in the ultimate economics"
    - Chesapeake suspended drilling last year and has not released official information on reviving activity; however, unconfirmed reports from various oilfield services companies indicate that Chesapeake has plans to move additional rigs into the Haynesville during the first quarter of 2014
    - In summary, some companies are positioning to capitalize on increases in natural gas demand *and* prices; these increases are expected to derive from LNG exports and an growth in manufacturer energy utilization

- **LNG Exports.** Cheniere Energy now expects Sabine Pass LNG terminal to have their first exports during 2015. Further notes on the following page:

Duane Donner (left) speaks with oilfield executives at LAGCOE

"Cheniere Energy now expects Sabine Pass LNG terminal to have their first exports during 2015"

- Cheniere's Sabine Pass began as an import-only terminal, but a design overhaul will soon make the facility the first of four liquefied natural gas projects who have found counterparties and been approved by the Department of Energy (additionally, Freeport, Dominion Cove, and Lake Charles)
  - In total, 33 additional North American facilities have been proposed


Cheniere's Sabine Pass near the Louisiana -Texas boarder

- **Manufacturing Growth.** Much anticipation has been paid to the future of LNG exports and the impact it would generate to reduce the current supply glut. However, a more immediate consumer has arisen from manufacturing companies building along the Gulf Coast. Companies in the region are seeking to capitalize on the plentiful, inexpensive gas reserves in their backyard. Dr. David Dismukes, professor and director of the Louisiana State University Center for Energy Studies, credits manufacturing as "the real potential game changer (for the natural gas industry)." Additional details:
  - Over the past year, more than **$62.3 billion in capital investments** has been released for new manufacturing facilities ***in Louisiana alone,*** cited Jim Redden, editor at World Oil and LAGCOE contributor
  - Additionally, Shell recently declared it has selected a site in Ascension Parish for a proposed $12.5 billion gas-to-liquids (GTL) plant that would produce diesel, jet fuel, and other liquids, with Sasol planning a similar facility in Southwest Louisiana
  - Sundrop Fuels is building a "green gasoline" plant near Alexandria, LA

> "There have been more than $62.3 billion in capital investments released for new manufacturing facilities in the past year in Louisiana"

- **Deepwater Gulf.** A panel at the SPE's Annual Technical Conference in New Orleans agreed that activity is projected to increase in the Gulf of Mexico (GOM). With activity returning and investment levels increasing, the deepwater Gulf is poised to become an even more important component of the U.S. energy mix. Further insights:
  - Currently, there are 10 deepwater projects either underway or sanctioned and 8 discoveries undergoing appraisal
  - "We're expecting 17 deepwater rigs to enter the Gulf between now and 2015," stated Lars Herbst, Gulf of Mexico regional director at BSEE
  - FMC Chairman and CEO John Gremp stated that two-thirds of his firms $6.2 billion in revenue is subsea driven
    - Furthermore, Gremp believes strongly that subsea oil is a large portion of the future market, stating "By 2020, 27 MMbpd of additional global oil production will be needed, and 10 MMBpd will have to come from deep-water fields"
  - John Hollowell, Executive V.P. for Deepwater at Shell Upstream Americas predicts that GOM reservoir depths will continue to increase, pushing reservoir temperatures and pressure higher


Innovation in offshore drilling could spark new opportunities for service providers.

- **Offshore Services.** Subsea Well Intervention is poised for continued growth as operators are pushing the boundaries of exploration into deeper and more challenging waters. Additional notes:
  - There are more than 5,000 subsea wells in operation globally
  - Well intervention is currently only common in the GOM and the North Sea
  - Latin America, North America, and Africa are anticipated to account for 91% of global deepwater intervention demand for 2013-2017
  - During the 2013-2017 period, deep and ultra-deepwater well intervention demand is expected to rise by an annual growth of 8% and 18% respectively

Select Oil & Gas Transactions

Announced Date	Closed Date	Target	Buyer/Investors	Size ($mm)
Nov-13-2013	Nov-12-2013	Aqua Handling of Texas, LLC	HII Technologies, Inc. (OTCBB:HIIT)	1.33
*Nov-12-2013	Sept-4-2013	Tornado Production Services, LLC	Professional Directional Enterprises, Inc.	-
Nov-11-2013	-	Elkhorn Holdings, Inc.	John Wood Group PLC (LSE:WG.)	-
Nov-08-2013	Nov-08-2013	Lon Dan Enterprises Ltd.	Aveda Transportation and Energy Services Inc. (TSXV:AVE)	3.98
Nov-07-2013	-	Poro-Technology, Inc.	Micromeritics Instrument Corporation	-
Nov-06-2013	-	ODS International, Inc.	Integral Oilfield Solutions	-
Nov-06-2013	Nov-06-2013	PDC Logic, LLC	Kingdream USA, Inc.	0.61
Nov-05-2013	-	Sheraton Investment Worldwide Ltd.	Termbray Petro-king Oilfield Services Limited (SEHK:2178)	7.97
Nov-04-2013	-	Automated Engineering Services Corp.	AMEC plc (LSE:AMEC)	29.0
Nov-04-2013	-	Black Hawk Energy Services, Inc.	Steel Excel Inc. (OTCPK:SXCL)	60.0
Oct-31-2013	Oct-31-2013	WearSox, L.P.	Antelope Oil Tool & Manufacturing Co., LLC	-
Oct-28-2013	Oct-17-2013	Team Well Services, Inc.	RockPile Energy Services, LLC	-
Oct-24-2013	Oct-24-2013	Shores Lift Solutions	Schlumberger Limited (NYSE:SLB)	-
Oct-15-2013	Oct-15-2013	Array Holdings, Inc., Accuseal Business	COOPER Valves, LLC	-
Oct-15-2013	-	Parker Technologies, Inc.	Strategic Rare Earth Metals, Inc. (OTCPK:SREH)	-
Oct-16-2013	Oct-16-2013	Adler Hot Oil Services, Inc.	Aldine Capital Partners, Inc., Spell Capital Mezzanine Partners, Spell Capital Partners LLC & Others	-
Oct-14-2013	-	Freedom Energy Holdings, Inc. (OTCPK:FDMF)	Redline International, Inc.	10.0

**Indicates that the Principals of Founders Investment Banking acted as the sole advisor in the transaction*

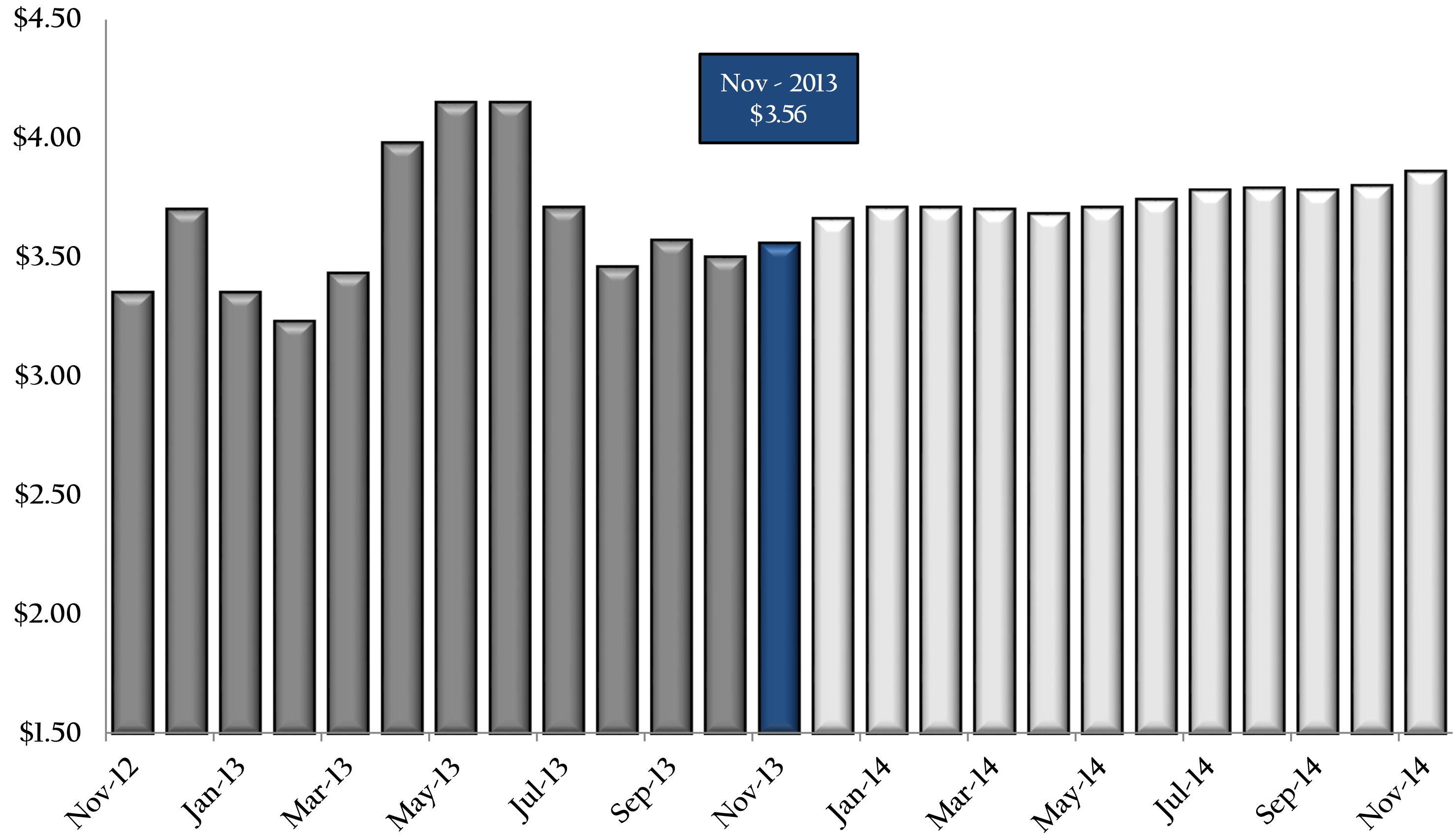
Transaction Overview:

The M&A market for Oil & Gas Equipment and Services remained steady through October and into November. John England, Vice Chairman of U.S. Oil & Gas Division at Deloitte, stated his firm's belief that an increase in M&A activity will arise for the remainder of 2013 and into 2014. England credits macroeconomic and policy factors as catalysts, "The U.S economy is showing signs of growth, and an abundance of capital is available for investing in energy, and although interest rates are increasing, they remain at historical low levels. Meanwhile, the climate change rules imposed by the Obama administration could boost the prospects for natural gas, which might help firm up prices."

Additional factors contributing to M&A activity in the O&G Equipment and Services industry include: relatively strong oil prices that continue to build confidence in the upstream market, continued interest from domestic and foreign financial buyers, lower valuations, need for scale across basins, advancing technologies, and the service intensity of production from shale resources.

Sources: Capital IQ, WSJ & Deloitte

Natural Gas Futures (Henry Hub)

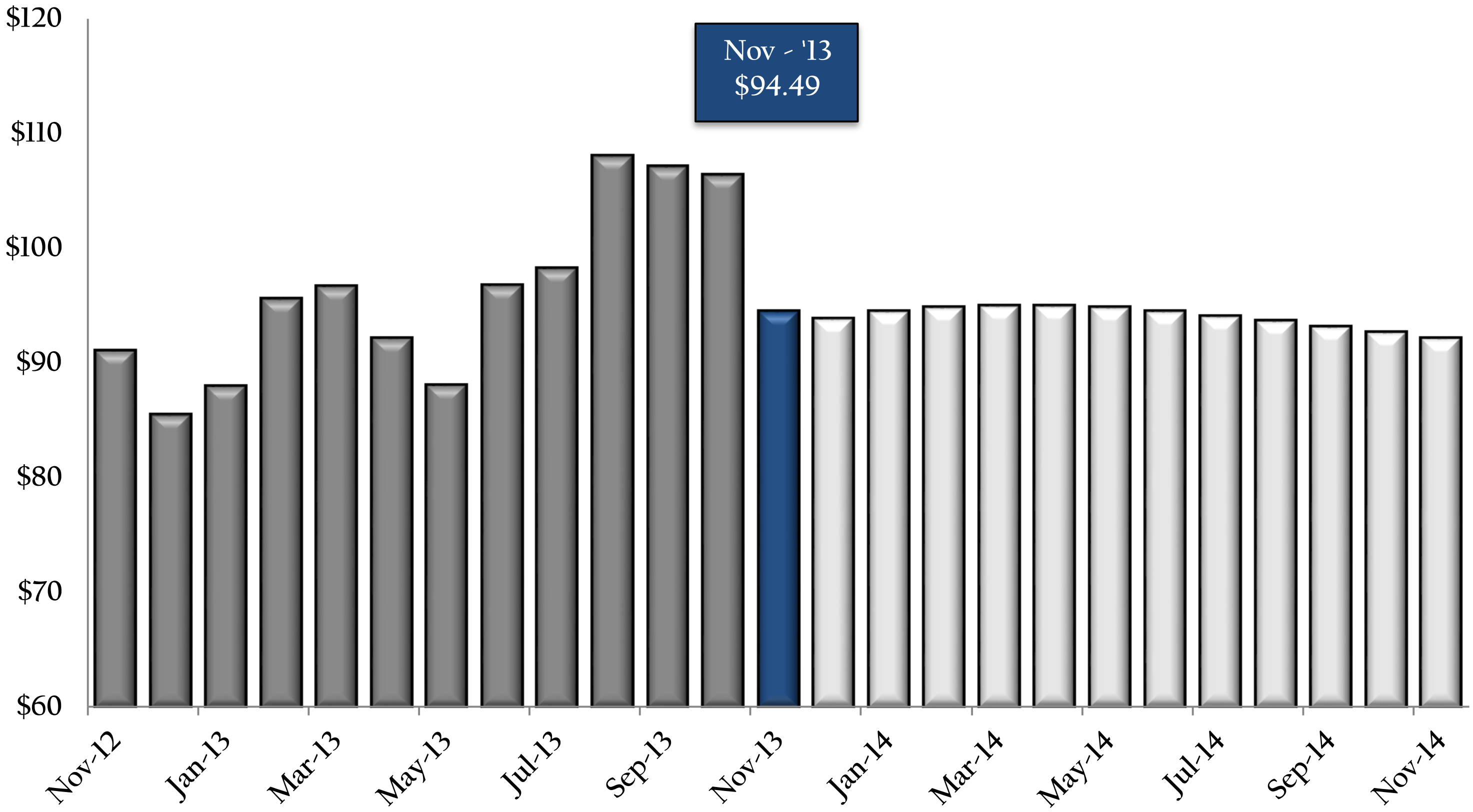


Nature Gas Futures Overview:

Natural gas spot prices averaged $3.56 per MMBtu at the Henry Hub in November, increasing 6 cents from the previous month's price. Gas production continued at record highs into November; consequently, the increase in price derives from greater consumption in colder weather, not a decrease in supply. EIA forecasts Henry Hub prices will increase from an average of $3.79 per MMBtu in 2013 to $3.96 per MMBtu in 2014.

Sources: EIA & CapitalIQ

Oil Futures Pricing (WTI)

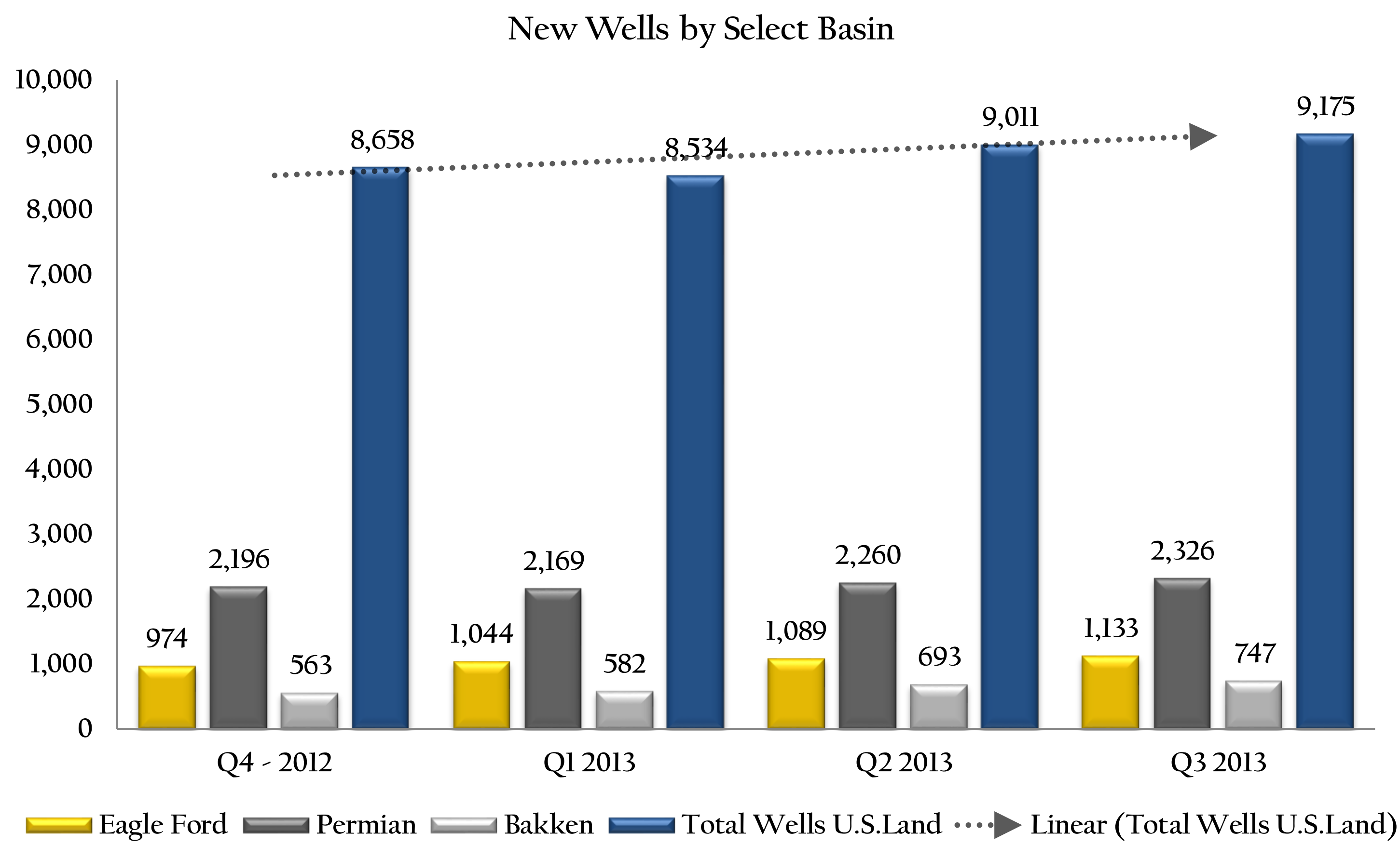


Oil Futures Overview:

The West Texas Intermediate crude spot price dropped to a five-month low in November. Prices in recent months (August – October) were driven by geopolitical unrest in the Middle East along with political and economic fear in the U.S. Domestic production has continued at historical levels, producing a larger supply and pushing prices to a new equilibrium on the supply-demand curve. However, prices are projected to remain relatively flat for the remainder of 2013 and 2014, as EIA forecasts a 2014 target price of $95.00 per barrel.

Sources: Capital IQ, EIA & Bloomberg

New Onshore Wells



Well Count Overview:

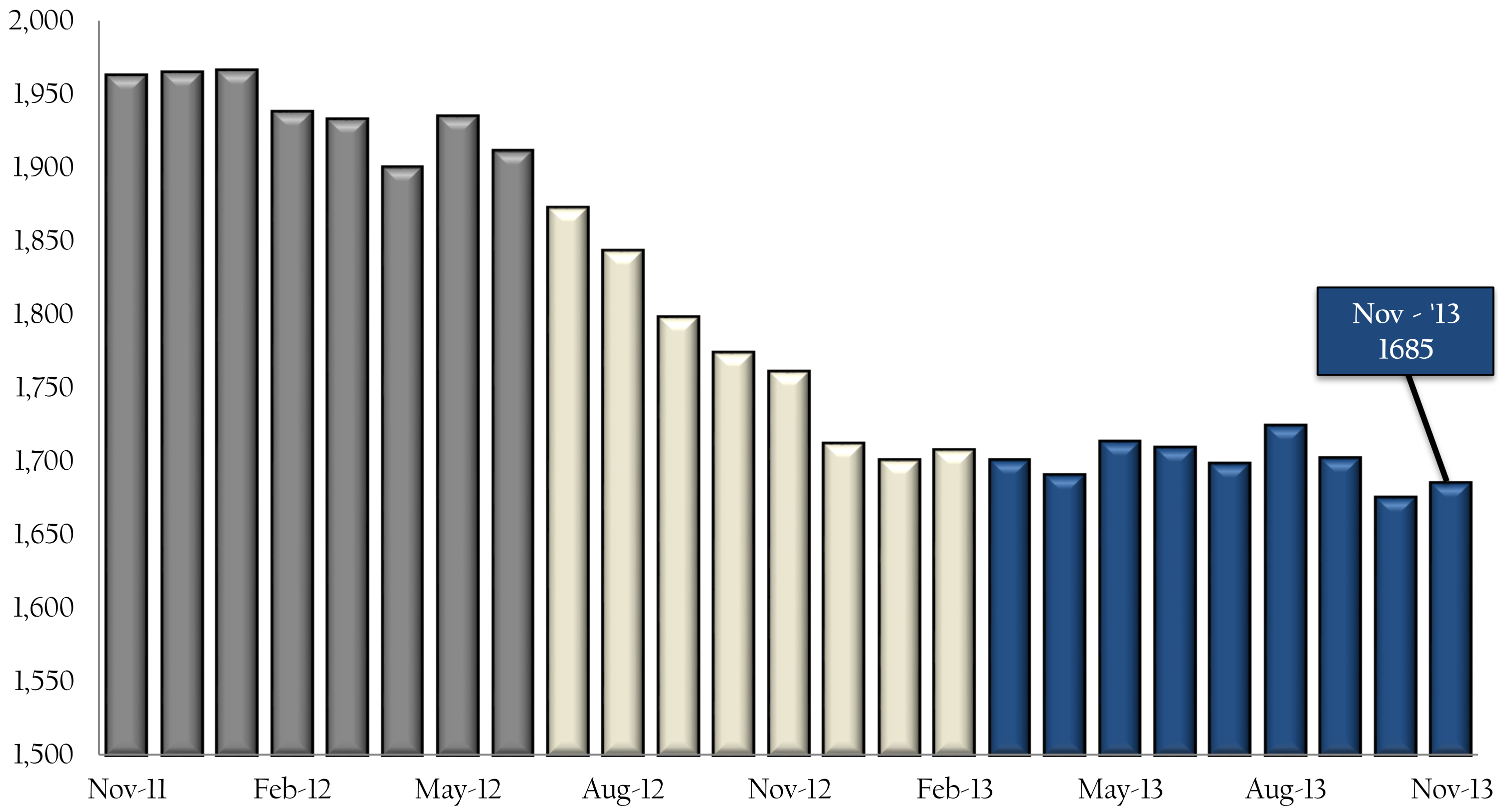
The Quarterly U.S. New Well Count data was released last month (seen above), displaying an increasing trend in drilling. The WSJ stated their expectation of a slight decrease in new drilling activity through the 4th quarter of 2013, with levels similar to the 4th quarter of 2012. However, the recent rise in total rig count could produce a greater drilling upside than previously recognized. The 3rd quarter data is revisited below:

The U.S. New Well Count for 3rd quarter 2013 is 9,175 wells; up 164 wells or 2% from the revised 9,011 wells counted in 2nd quarter 2013. Due to improved drilling efficiencies, the average U.S. onshore drilling rig is now producing 2% more wells, compared to *only* three months ago.

Compared to the 2nd quarter 2013, new wells increased most notably in the Permian (up 66 wells or 3%), Williston (up 54 wells or 8%) and Eagle Ford (up 44 wells or 4%) basins. These increases were offset by reductions in the Fayetteville (down 35 wells or 18%) and Barnett (down 23 wells or 6%) basins

Sources: Baker Hughes & The Wall Street Journal

U.S. Onshore Rig Count

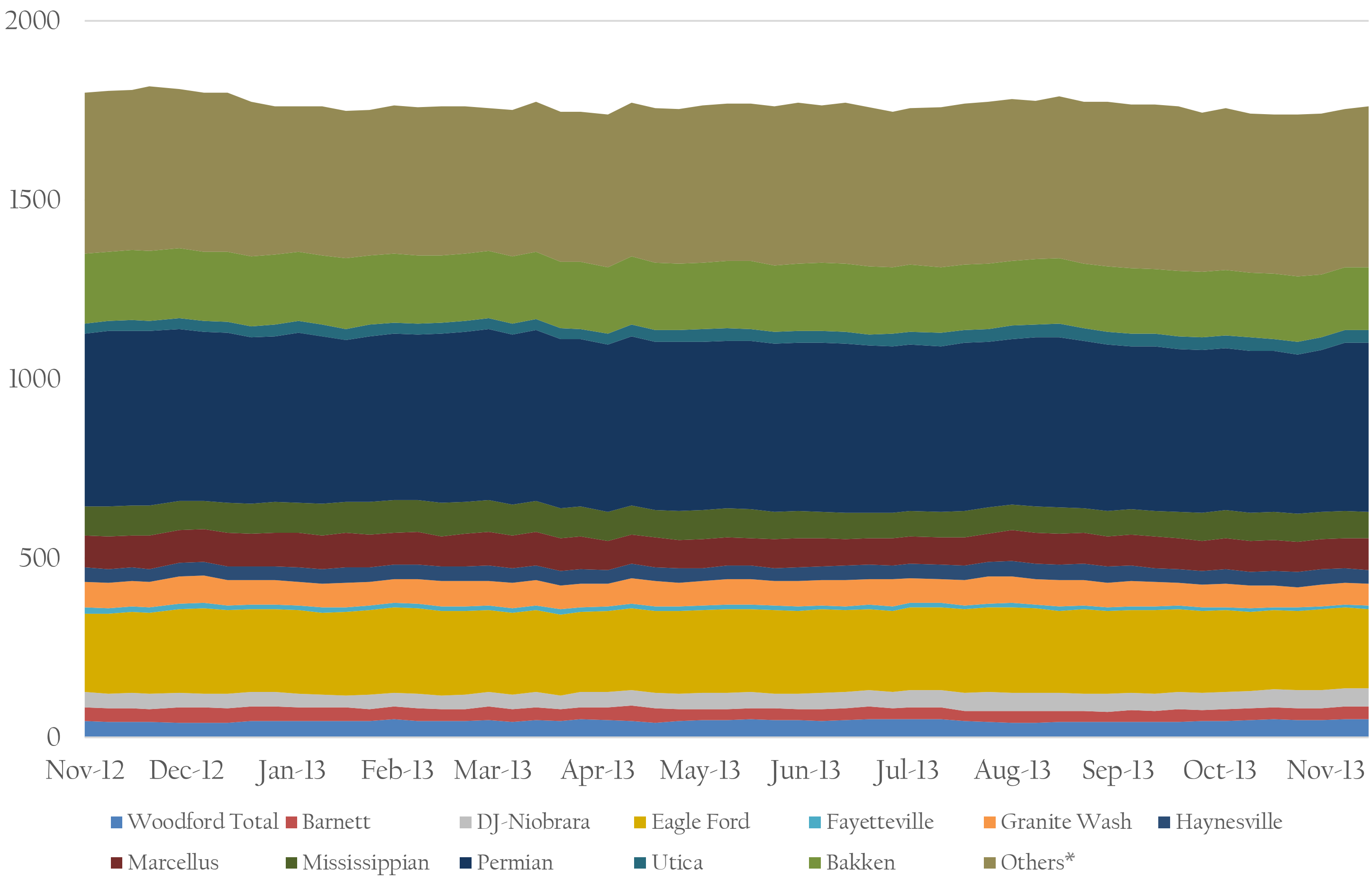


Onshore Rig Count Overview:

Through November 15th, U.S. onshore rig counts experienced a 6 rig count increase from a week prior and a 10 count increase from the previous month, bringing the current rig count to 1,685. A rise in rig count is a positive sign for the production outlook, especially when rig efficiency is taken in consideration. "Longer horizontal lateral drilling, more frac stages and lower well spacing has helped increase oil and gas production per rig sixfold on average," stated Mehdi Menouar, an oil and gas expert for Bloomberg. The rig count is expected to remain flat in the short-term outlook as well count demand will be offset by rig efficiencies.

Sources: Baker Hughes and Bloomberg

U.S. Rig Count by Basin



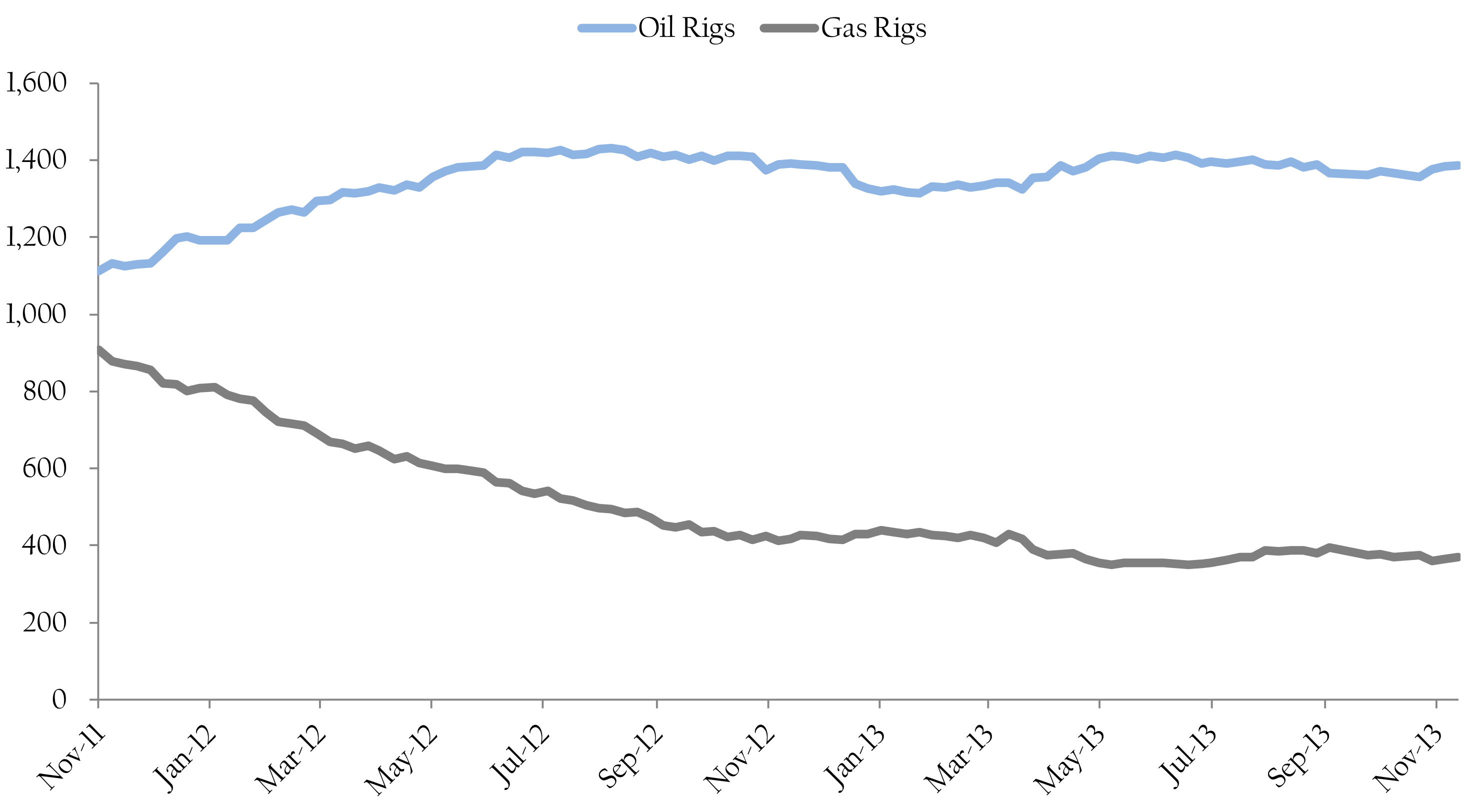
Rig Count by Basin Overview:

An increase in activity and total rig count in November was highlighted by gains in major basins. Since October 4th, rig counts increased in the Permian (+17), Barnett (+3),Woodford (+3), DJ- Niobrara (+2), and Marcellus (+1), and decreased in the Eagle Ford (-5), Haynesville (-1), Mississippian (-3), and Bakken (-6). Most notable was the 17 count rise in the Permian basin. However, correlation between rig count and production has become less positive as rig count continues to be undermined as the most accurate proxy. For example, the Permian witnessed a consistent rig count decrease from June to October; conversely, total production experienced an overall increase during the period. Nonetheless, additional rigs moving into major basins is positive signal that drilling and production is continuing full-swing.

Rig counts as of November 15, 2013:
Barnett – 36, DJ-Niobrara – 50, Eagle Ford – 223, Fayetteville – 9, Granite Wash – 61, Haynesville – 39, Marcellus – 87, Mississippian – 76, Permian – 470, Woodford – 50, Utica – 36, Bakken (Williston) – 177, and Other – 448 *(*"Other" includes offshore and inland water rigs in count).*

Sources: Baker Hughes, EIA, and Morningstar

U.S. NG vs. Oil Rig Count

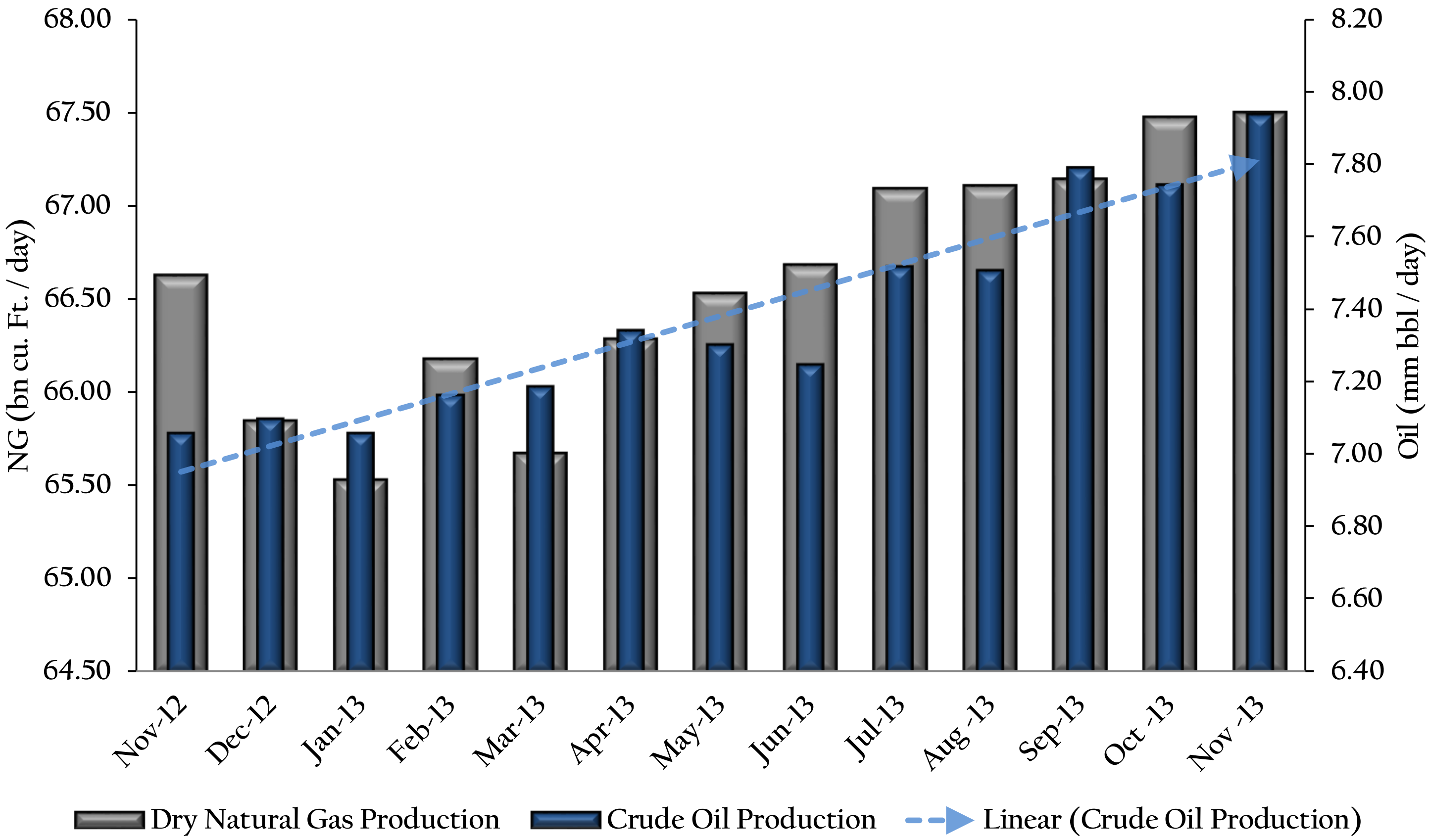


NG vs. Oil Count Overview:

From October 11th to November 15th, oil directed rigs saw a 18 rig count increase and gas rigs observed a 1 rig count increase, a positive sign that E&P's have optimistic expectations for future pricing. As Baker Hughes notes, "rig count trends are governed by oil company exploration and development spending which is influenced by the current and expected price of oil and natural gas."

Sources: Baker Hughes

U.S. NG vs. Oil Production



NG vs. Oil Production Overview:

US Oil production has continued to escalate (trend line shown in blue) into historic levels. October brought production levels of 7.74 mm bbl/ day, as November production is expected to increase to 7.94 mm bbl/day. Furthermore, EIA forecasts crude oil production to average 7.49 mm bbl/ day in 2013 and increase to 8.49 mm bbl/ day in 2014.

Natural gas (charted in gray) production for November is forecasted at 67.50 bn cubit ft/ day, rising slightly from the September levels of 67.47 bn cubit ft/ day. Natural gas production has increased over the past 12 months and EIA expects production to average 67.32 bn cubit ft/day in 2014, corresponding with a slight uptick in pricing.

Sources: EIA

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Recent Founders Blast & Cast Fall Forum duck hunt at the lodge in Cameron Meadows.

Tornado Production Services, LLC
HAS BEEN ACQUIRED BY
ProDirectional
Founders Investment Banking
ACTED AS THE EXCLUSIVE FINANCIAL ADVISOR TO TORNADO PRODUCTION SERVICES, LLC
September 2013

Spartan Energy Services
Has completed a recapitalization by
Harren Equity Partners

GO Coil
Coil Tubing & Pumping Services
Has secured growth funding from
Regions
Corporate Advisor

Louisiana Marine Operators
Has acquired strategic assets from
Lime Rock Partners
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