OIL & GAS Newsletter

October Edition: U.S. Oil Export Fight Continues

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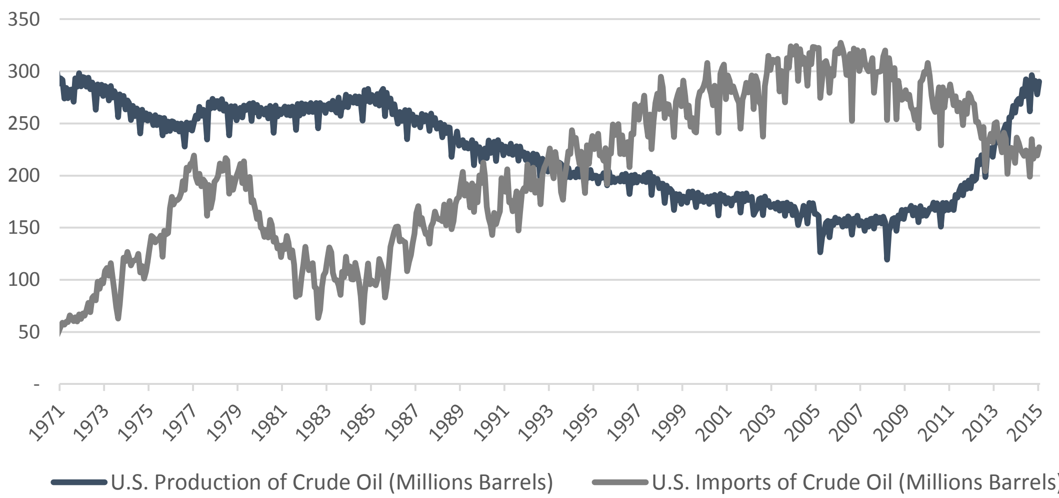
As domestic oil & gas producers find themselves in the midst of a price war, regulations enacted by the U.S. government in 1975 restricting the exportation of crude oil have once again been called into question. Arguably, these laws handicap the ability of domestic exploration & production companies to compete in the global commodity market. By reducing access to refineries, domestic crude, known as WTI, is forced to trade at a discount to its overseas counterpart, Brent. In times of reduced pricing, the significance of these regulations becomes more apparent to U.S. producers as margins erode and cash flows tighten.

In recent years, the development of shale resources has helped the U.S. become a global leader in oil and gas production, stimulating domestic investment and economic development. As illustrated in **Figure A**, increased output has aided the country in reducing its dependency on foreign oil and resulted in the decrease of crude oil imports. However, as oil export restrictions are discussed, the U.S. must weigh the pros and cons of lifting the oil export ban and potentially growing production levels which could affect the long-term health of the country.

Figure A: Monthly U.S. Crude Oil Production vs Monthly U.S. Crude Oil Imports



Source: EIA

> “THE U.S. MUST WEIGH THE PROS AND CONS OF HOW GROWING PRODUCTION LEVELS AFFECT THE LONG-TERM HEALTH OF THE COUNTRY.”

History

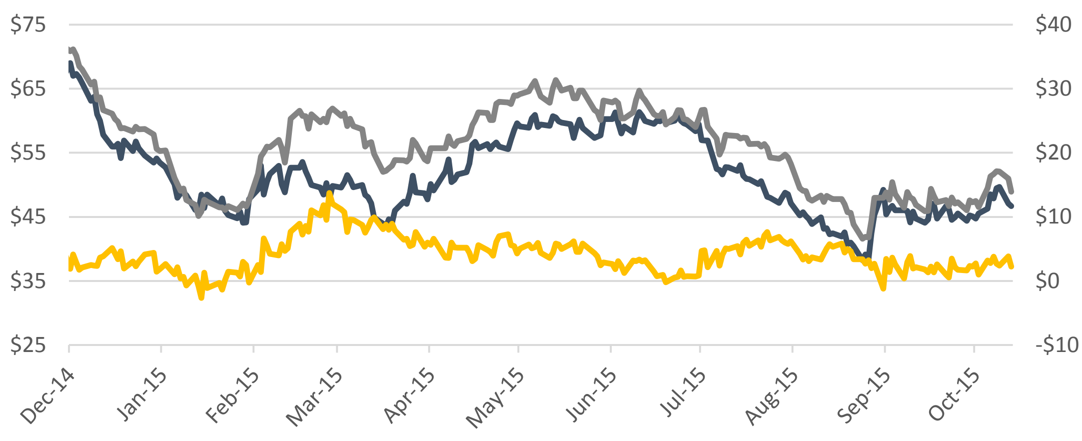
The establishment of the export ban came as a direct response to the 1973 Oil Embargo. Following this crisis, the U.S. Government enacted the 1975 Energy Policy Conservation Act and the 1979 Export Administration Act. These policies provide the President legal authority to control U.S. exports during their respective time in office in support of national interest. Today, the President and his staff consult the Export Administration Regulations (EAR) of the Bureau of Industry and Security (BIS), an agency of the Department of Commerce, to determine these short supply controls. However, the definition of national interest is often considered vague and leaves the legislation open to question and criticism.

Impact on Crude Oil Prices

Since the early days of the "The Great Recession" in January 2008, spot prices for WTI futures have traded at an average discount of 7.2% to those of Brent. As seen in **Figure B**, in the eleven months following OPEC's November 2014 meeting, the spread between WTI and Brent has remained, with WTI trading at an average discount of 7.4% to Brent. This spread, which equates to approximately $4.13 per barrel of crude oil, is attributable to the fact most U.S. refineries were built to handle heavy and medium crude oils and is compounded by differing regulations facing domestic upstream and downstream oil & gas companies. Unlike WTI producers who are ultimately restricted by the oil export ban, U.S. refineries are able to maximize utilization and benefit from the flexibility to source feedstock from domestic and international producers. The limited refinery capacity for light-sweet crude lowers demand of domestic oil production, creating localized supply gluts and driving down the price of WTI.

> "THE PROHIBITION ON CRUDE OIL AND CONDENSATE EXPORTS THREATENS RECORD-BREAKING U.S. OIL PRODUCTION AND AMERICAN JOBS BY CREATING INEFFICIENCIES, GLUTS, AND OTHER DISLOCATIONS."
>
> *- LISA MURKOWSKI, U.S. SENATOR*

Figure B: WTI Spot Price vs Brent Spot Price



Source: EIA

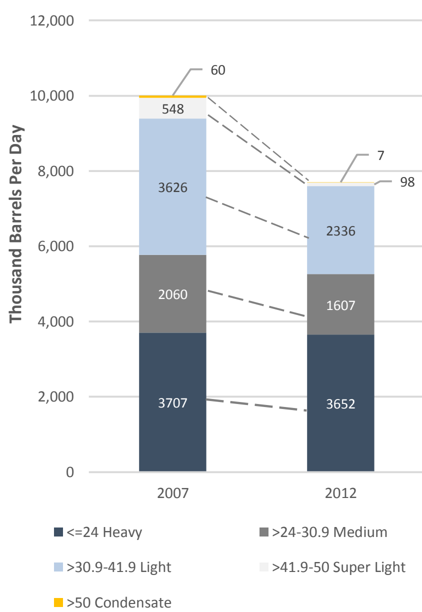
Topics of Discussion

Many agree current laws regarding the exportation of domestic crude do not align the U.S. with its support of free trade in the global economy. Additionally, proponents on both sides of the argument predict domestic production will increase as a result of lifting the ban. However, opinions of its effect on the U.S. economy, gas prices, and energy security, as well as global warming, do vary greatly. To better analyze and consider the impact while avoiding biases, the prevailing arguments "for" and "against" lifting the ban have been provided.

U.S. Economy

- Pro-Export: Numerous studies estimate that ending the export ban would help the U.S. economy by adding new jobs, increasing domestic manufacturing, and boosting gross domestic product. At its peak in 2018, IHS World estimates lifting the ban could add up to 964,000 jobs in the U.S. and provide an additional $134 billion to the country's GPD. Proponents argue today's export restrictions run the risk of forcing additional downward pressure on prices at the wellhead. This could decrease domestic and international investment in U.S. oil & gas production and infrastructure by $70.2 billion through 2020. Instead, investments would go overseas, leading to increased hiring of oil exploration and production personnel, as well as employees in the secondary and tertiary service industries, abroad.
- Anti-Export: Proponents in favor of upholding the restrictions argue a refinery's ability to buy domestic crude resources at a discount allows the U.S. to decrease its trade deficit as the feedstock is made into higher-valued products, including gasoline, diesel, and jet fuel, which are then sold

Figure C: Growing U.S. Production Reduced U.S. Crude Imports



Source: American Fuel & Petrochemical Manufacturers internationally. Concerns have also been expressed that lifting the ban would scuttle plans to invest in and expand the U.S. refining infrastructure, which the EIA estimates to be approximately $8.7 billion through 2025.

Domestic Gas Prices

- Pro-Export: Because gasoline and refined products are traded on the international market, U.S. gasoline and refined product prices follow global crude benchmarks, and not domestic. Allowing U.S. crude oil on the global market would increase supply and put pressure on gasoline prices. Over time, low-cost producers would supply the market reducing unnecessary costs and inefficiencies, thus decreasing the price of gas and refined products.
- Anti-Export: Proponents argue increasing the price of the inputs will lead to higher priced gasoline and refined products for U.S. consumers. Additionally, it is said the exportation of domestic crude would require refineries to rely on volatile regions of the world whose imports could be disrupted causing large fluctuations in gasoline and refined product prices.

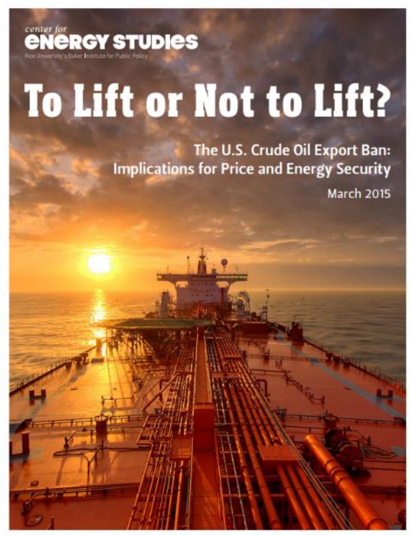
> "Because gasoline and refined products are traded on the international market, U.S. gasoline and refined product prices follow global crude benchmarks, and not domestic."

Domestic Energy Security

- Pro-Export: Crude oil exports will not adversely affect U.S. energy security but, instead, provide greater support through increased production levels and availability. Though domestic crude may not be refined in the U.S., crude resources already in production can quickly be redirected should it ever become necessary. To revamp low production levels would take considerably more resources and would require greater lead time for the country to respond to a security threat.
- Anti-Export: The policy has helped insulate the U.S. economy from supply disruptions and oil embargoes for more than four decades. Further, limiting production aids long-term national security by slowing the depletion of U.S. oil fields.

Global Warming

- Pro-Export: Continuing to ban crude oil exports is not an effective means of preventing harm to the environment. Companies and regulators will need to manage the risk of global warming which results from crude production regardless of where it is produced. Further, it is believed that independent companies operating in the U.S. are more likely to be prudent in their approach to environmental regulations than overseas competitors whose governments control oil production and also enforce the environmental regulatory laws.
- Anti-Export: Domestically, the increased production levels will have a negative impact on the country's wildlife by increasing the oil & gas footprint, which includes well pads, roads, infrastructure, chemicals, and emissions. Globally, lower oil prices resulting from elevated production levels will increase the public's dependence on the fossil fuels and slow the development of green energy alternatives.



Source: Rice University Baker Institute for Public Policy

Conclusion

On October 9, 2015, the U.S. House of Representatives voted 261-159 to lift the ban on domestic crude oil exports. Though the bill, H.R. 702, will now be passed to the Senate for review, the 261-vote tally fell short of the two-thirds majority vote necessary to override a presidential veto. While it is unclear if the Senate will vote in favor of repealing the ban, President Barack Obama continues to express his intentions to veto the bill should it be placed on his desk. Citing concerns of global warming, the President and his staff have said, "Legislation to remove crude export restrictions is not needed at this time. Rather, Congress should be focusing its efforts on supporting our transition to a low-carbon economy." Discussions of the ban are expected to remain a topic of debate in the upcoming government elections.

Select 2015 M&A Activity

Announced Date	Target/Issuer	Buyers/Investors	Transaction Value ($USDmm)
10/06/2015	Hybrid Tool Solutions, LLC	Hastings Equity Partners, LLC	-
10/05/2015	Mud Bay Drilling Co. Ltd.	Conetec Investigations Ltd.	-
09/25/2015	Gulf Coast Downhole Technologies, LLC	Prysmian S.p.A. (BIT:PRY)	66.0
09/01/2015	Starett's Well Service, LLC	Basin Energy Group LLC	-
08/26/2015	Cameron International Corporation (NYSE:CAM)	Schlumberger Limited (NYSE:SLB)	16,560.99
08/11/2015	Elite Energy Products Ltd.	Weatherford International plc (NYSE:WFT)	-
08/03/2015	Odessa Packer Service, Inc.	Team Oil Tools, Inc.	-
07/09/2015	Viking Oil Tools	Wellsite Rental Services, LLC	-
06/11/2015	CanElson Drilling Inc. (TSX:CDI)	Trinidad Drilling Ltd. (TSX:TDG)	436
05/22/2015	Control Zone Solutions, LLC	Cenergy International Services, LLC	-
05/01/2015	Rhodes Manufacturing Inc.	3 Rivers Capital, LLC	3.0
05/01/2015	Southwest Oilfield Products, Inc.	American Block Inc.	-
04/24/2015	ROC Service Company, LLC	Coral Reef Capital, L.L.C.	-
04/09/2015	Quality Energy Solutions, LLC	Start Scientific, Inc. (OTCPK:STSC)	2.93
04/06/2015	***Eagle Automation Limited**	**Panhandle Oilfield Services, Inc.**	**-**
03/30/2015	GASFRAC Energy Services, Inc. (OTCPK:GSFV.F)	Calfrac Well Services Ltd. (TSX:CFW)	-
03/13/2015	Inspection Oilfield Services	LB Foster Co. (NasdaqGS:FSTR)	230
03/12/2015	***Timco Services, Inc.**	**Frank's International, Inc.**	**95**
02/03/2015	J-Mac Tool, Inc.	Forum Energy Technologies, Inc. (NYSE:FET)	-
02/02/2015	C & C Technologies, Inc.	Oceaneering International, Inc. (NYSE:OII)	230
01/22/2015	Cimarron Acid Services, Inc.	Quintana Energy Services LP	80
01/15/2015	Tenax Energy Solutions, LLC	Hard Rock Solutions, LLC	2.3

Indicates Founders Investment Banking advised on the transaction

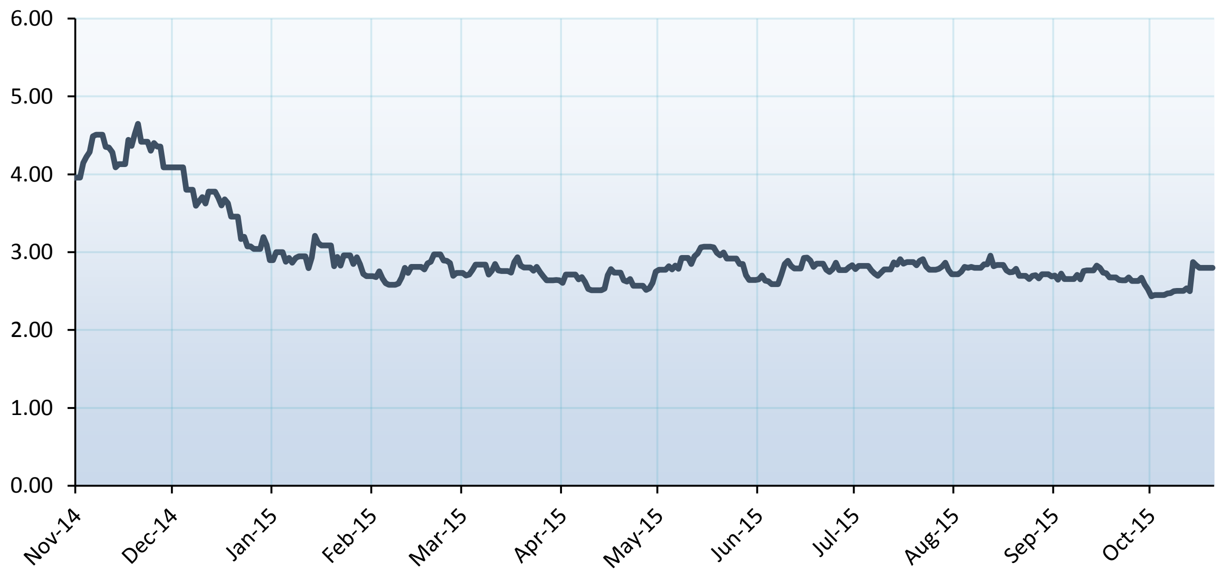
Source: CapitalIQ

Commodity Prices

Crude Oil - WTI

	Price per Barrel			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	$47.72	$45.56	$81.91	4.7%	(41.7%)

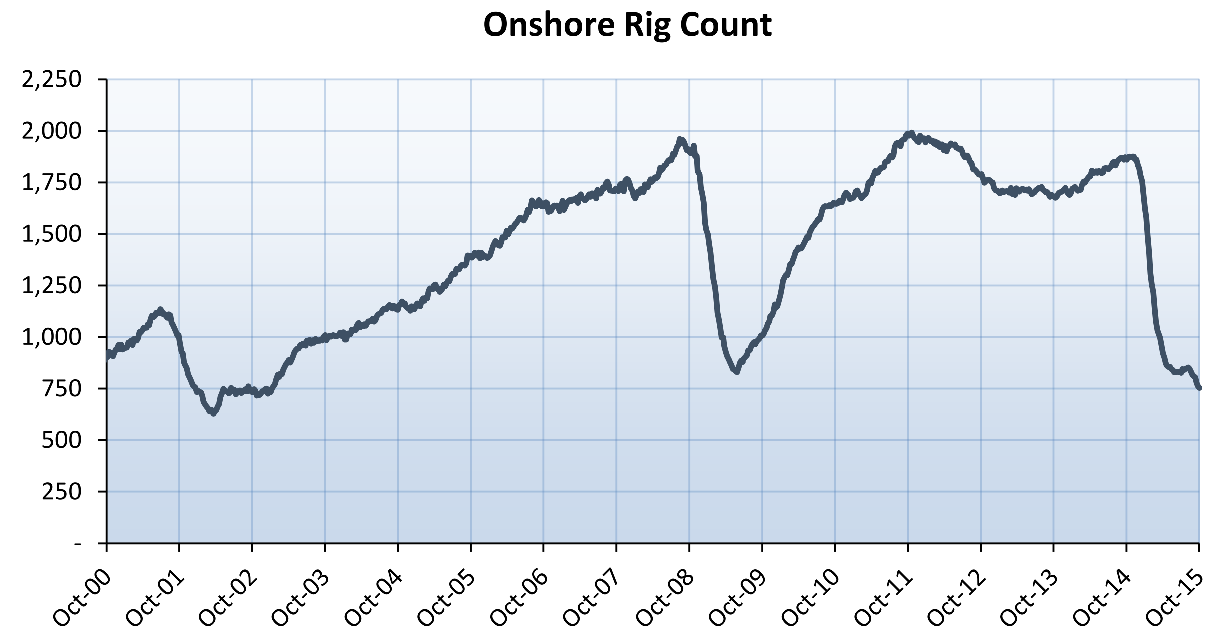
Natural Gas - Henry Hub



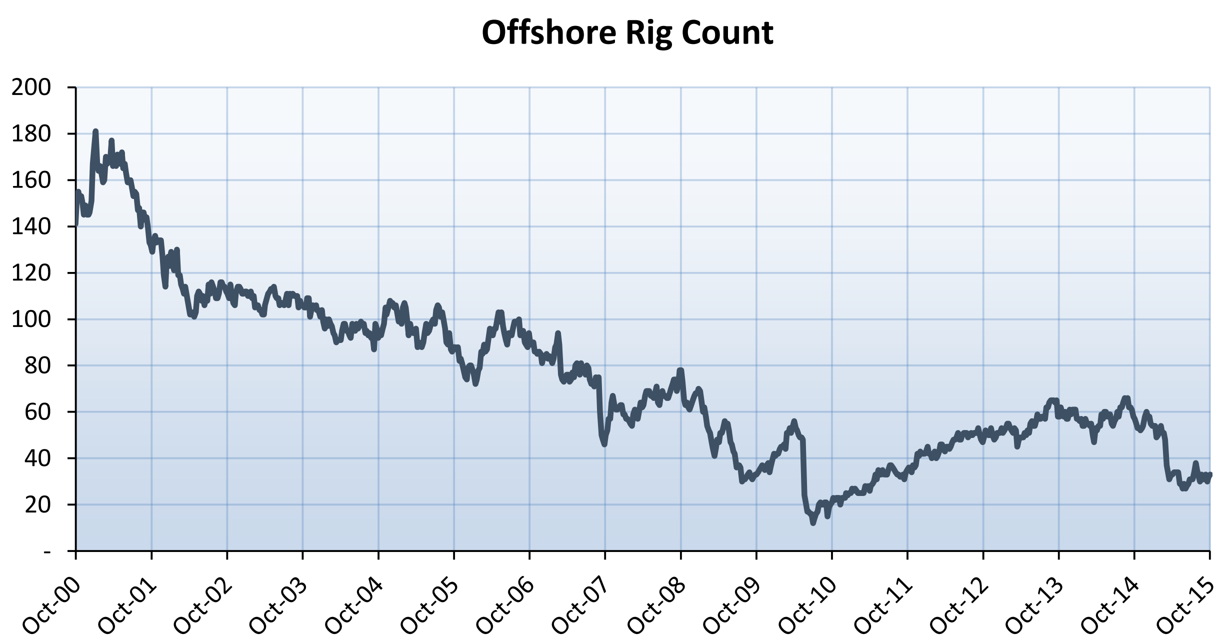
	Price per MmBtu			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	$2.80	$2.68	$3.85	4.6%	(27.3%)

Source: CapitalIQ

Rig Counts



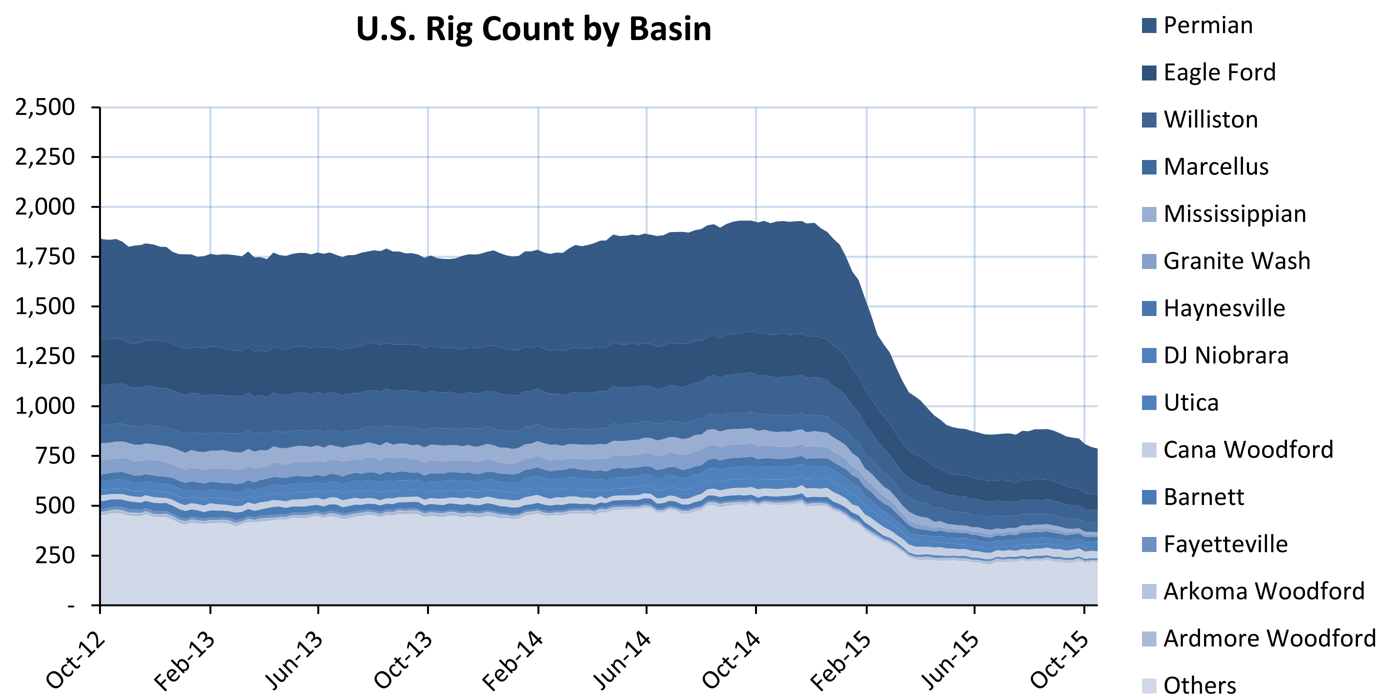
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Onshore	754	811	1,861	(7.0%)	(59.5%)

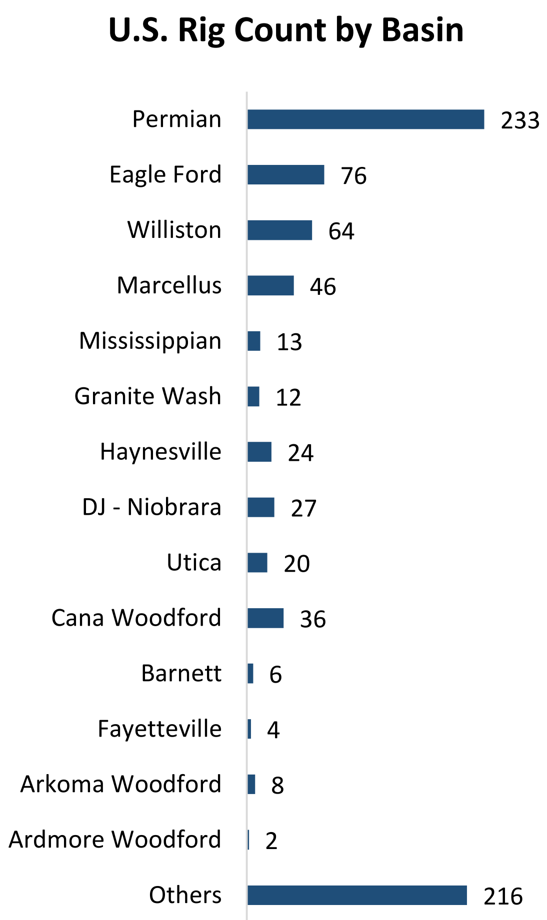


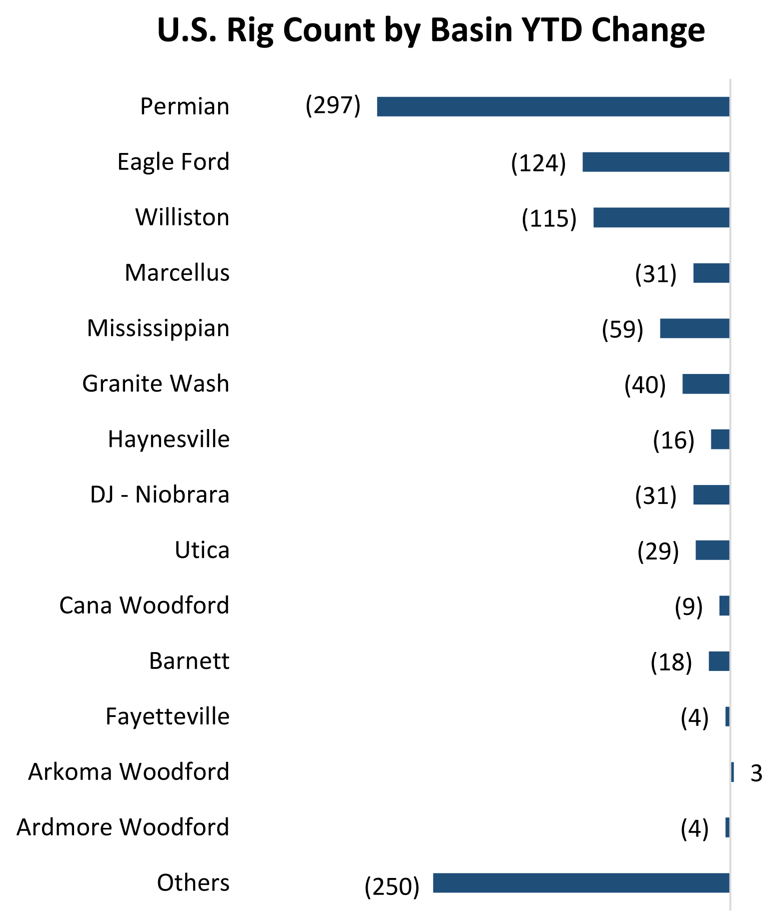
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
U.S. Offshore	33	31	57	6.5%	(42.1%)

Source: Baker Hughes

Rig Counts *(continued)*

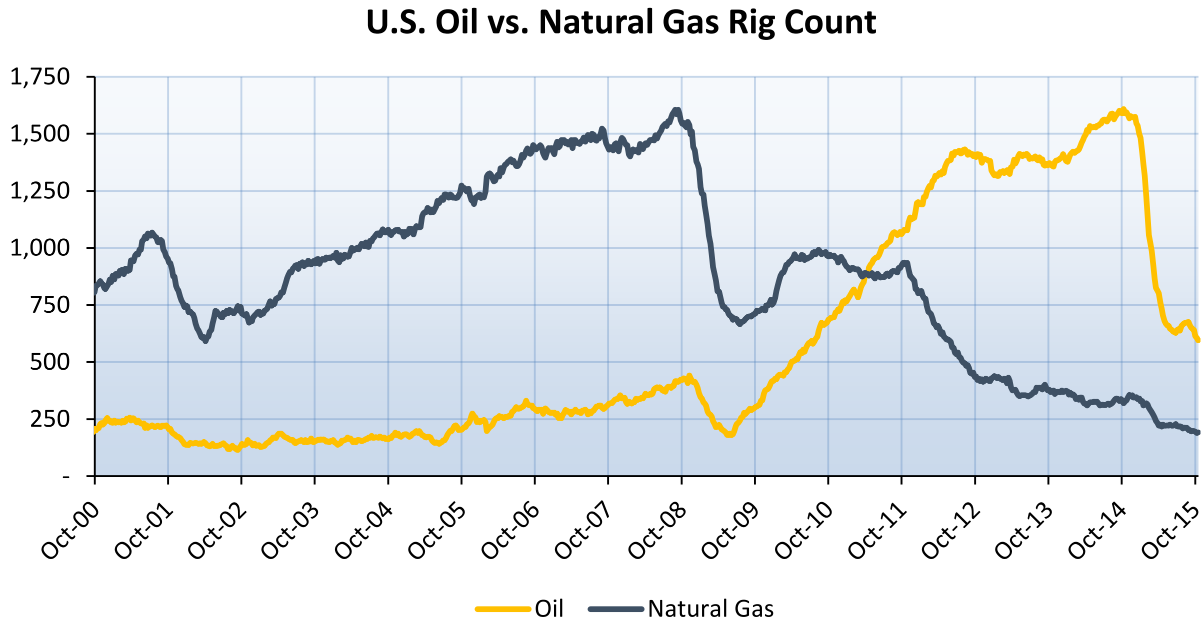




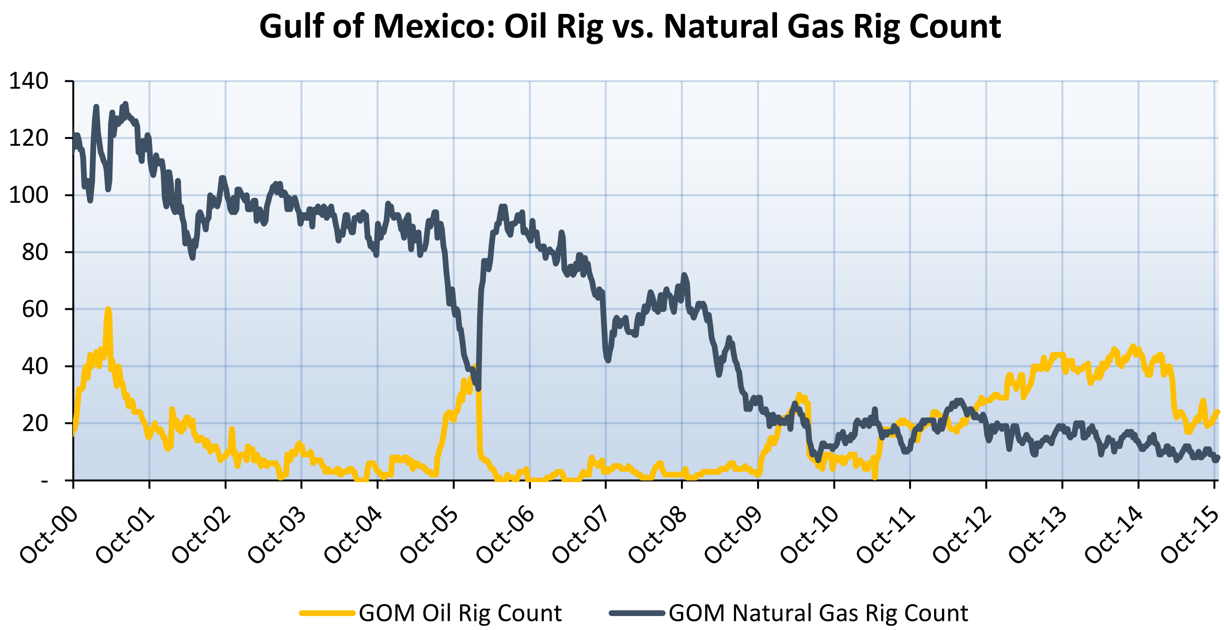


Source: Baker Hughes

Rig Counts *(continued)*



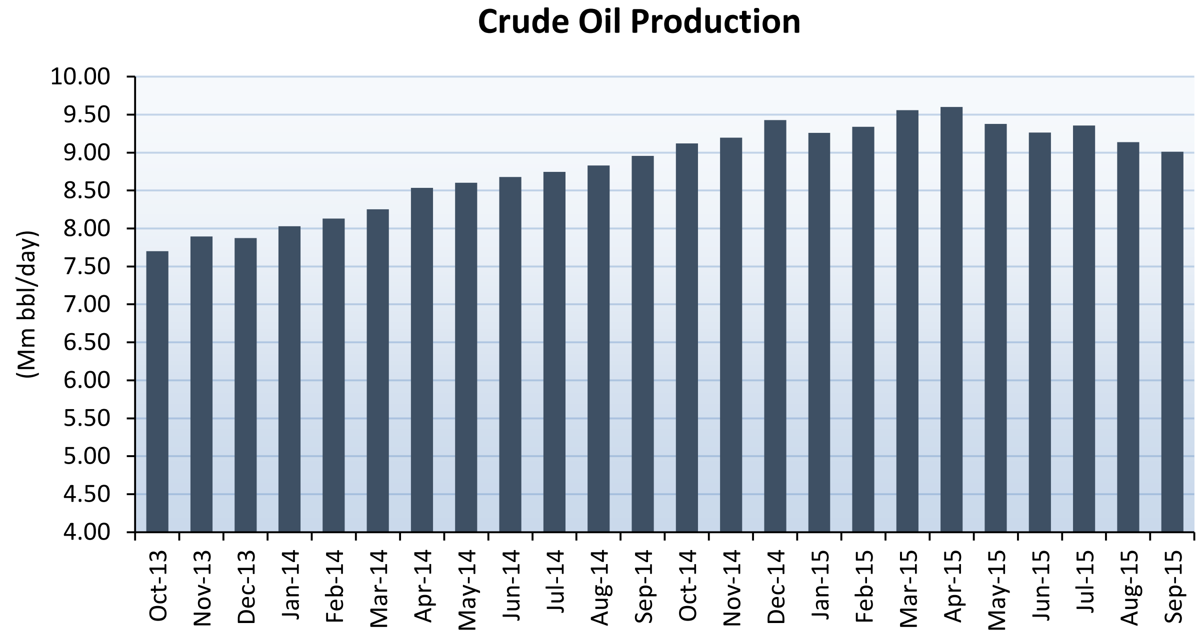
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	595	644	1,590	(7.6%)	(62.6%)
Natural Gas	192	198	328	(3.0%)	(41.5%)



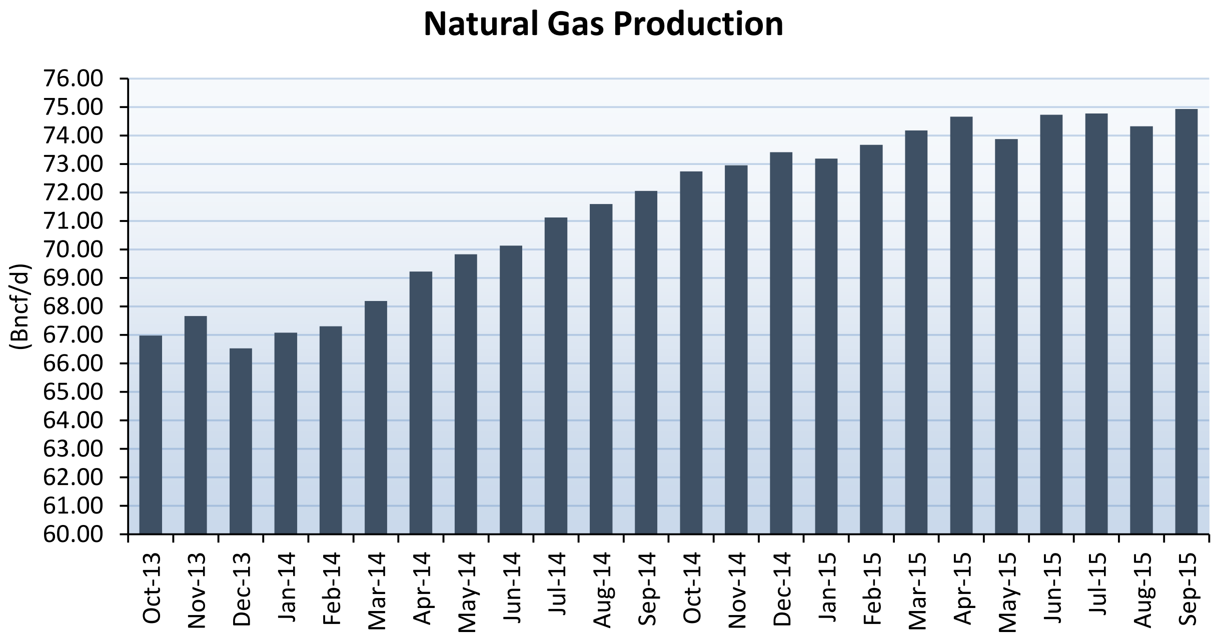
	Rig Count			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Oil	24	20	44	20.0%	(45.5%)
Natural Gas	8	9	11	(11.1%)	(27.3%)

Source: Baker Hughes

Domestic Production



	Million Barrels per Day			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Crude Oil	9.01	9.14	8.96	(1.4%)	0.6%



	Billion Cubic Feet per Day			Change from	
	Current	Prior Month	Prior Year	Prior Month	Prior Year
Natural Gas	74.93	74.33	72.06	0.8%	4.0%

Source: EIA

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Guests at the recent Founders' Forum enjoy a Cajun cuisine at the family lodge in Cameron Meadows, LA.

SELECT O&G TRANSACTIONS:

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Has been acquired by
PANHANDLE
A portfolio company of
ARGOSY PRIVATE EQUITY
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Tornado Production Services, LLC
Has been acquired by
PRODIRECTIONAL

SPARTAN ENERGY SERVICES
Has completed a recapitalization by
HARREN EQUITY PARTNERS

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