

ENERGY

INDUSTRY QUARTERLY

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Jerald Alexander

Gianpiero (JP) Balestrieri

Herbert Bud Boles

Deanna Cannon

S. Lee Crawley

Michael Gardner

Roy Graham

Lawrence Rogers

Energy prices in the USA continue their cyclic trend. We seem to be doing everything we can to stimulate demand while we do all things possible to eliminate supply. Experts predict that oil and gas prices will go back up as quickly as we saw the fall in such prices. With regard to natural gas, we witnessed a decade of no growth until 2007. According to the U.S. Energy Information Administration, an upward trend showed 3 percent growth between first quarter 2006 and first quarter 2007 and accelerated to 9 percent between first quarter 2007 and first quarter 2008.

This growth can be mostly attributed to unconventional gases found in shales and tight gas sands. This huge development in the domestic gas energy has been explained by one energy expert in the Rocky Mountain area by saying "our system works like none other, in that a free market price signal was sent to producers, which enabled them to pull natural gas from shale at a reasonable cost through technological innovation". The industry transformed the raw potential of shale and tight-sand reservoirs into 45 percent of the natural gas consumed in the USA according to the U.S. Energy Administration. The temporary glut of gas consumed on the market and the U.S. and global economies resulted in an abrupt decrease in commodity prices. There is no longer a relationship between oil and natural gas prices on a BTU basis.

I. Global Review

The international scene has continued to target large reserves by major companies within friendly political environments. OPEC position has the objective of maintaining high oil prices; however, it is interesting to note the comment by Don Stowers of Oil and Gas Financial "If OPEC and non-OPEC production declines against the backdrop of \$100 per barrel oil (when the obvious incentive was to pump full blast) those declines have to come from involuntary reasons such as the inherent geologic limits of oil fields. Despite the turndown in the global economy resulting in shut down and delay of many projects, the energy industry will recover assuming no punitive legislation or adverse political actions. Research and Development money continues to invest in technology that will take drilling and production into deeper water and colder climates.

There are some indications that recovery may occur in the near future. Revenues in North America, particularly in USA, have declined significantly both in the operation and service and supply sectors. Rig count in North America vs. International confirms the relative strength. North America rig count declined 27% compared to 2% decline for international. North America is a natural gas play with associated oil while international is oil with associated gas. North America recovery depends upon natural gas prices. Conversely, recovery of international depends upon stabilization and subsequent upward movement of the price of oil.

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In any event, we do not have the luxury of limiting ourselves to a few sources of energy and excluding others. We need to draw on every resource at our disposal. An analyst, including several executives, expressing opinions in World Energy estimate that U.S. utilities will have to invest \$900 billion in new energy infrastructure over the next 15 years to meet the nation's growing energy needs. This does not include costs related to potential carbon regulation.

II. Outstanding Exploration and Production Activity – 2009

Bakken Shale Play North Dakota

The Bakken Shale Play has been extremely successful and widely reported by oil and gas periodicals. As an example, a record 4,570 bbl per day, the largest initial production rate discovery in North Dakota history has been reported by Denver-based Whiting Oil & Gas Corp. The #11-19H Richardson Federal is in Section 9-153N-91W, Mountrail County, North Dakota. The well is producing from fractured horizontal lateral in Middle Bakken from 10,436 ft. to measured depth of 19,936 ft. Whiting has completed additional wells in the field.

North Sea Deals

Norwegian Company (Bayernagas Norgeas) acquired assets in Norwegian sector from Sweden Company for \$220 million. BG Grove Pfc & BP Pfc exchanged properties in UK sector valued at \$442 million.

Canada

Encana Corp. of Calgary (largest natural gas company in Canada) has announced its intention to sell non-core assets for \$1 billion in 2009.

Subsalt Plays

From the Gulf of Mexico to offshore Brazil and West Africa great oil and gas plays have developed in subsalt plays with large reserves. The subsalt activity is difficult with imaging under salt causing problems worldwide of hole stability and completion solutions.

Elephant size fields and long lead time have kept activity mostly non-North America at a healthy level. Brazil has announced a number of high-potential pre-salt discoveries resulting in a 61 percent increase in five-year capital expenditures program. Petrobras has announced expenditures of \$174 billion within the next five years, the majority of which will go to upstream development with 1/3 going to exploration in the Santos Basin.

Iraq

In June 2009 exports are scheduled to begin flowing from new fields developed since the fall of Hussein 6 years ago. Exports will total 100,000 BOPD from two new fields developed by Norway and Swiss-Canadian companies. The Kurdish government signed the contracts which were finally approved by the Oil Ministry.

III. Alternative Sources of Energy

Coalbed Methane Gas

Coalbed Methane Gas has a great future as a clean burning fuel after it has been treated. Coal powered power plants are being shut down by the government because of environmental problems. CO2 sequestration and CBM treating facilities may provide the clean fuels for existing power plants in certain areas. Coalbed methane gas will also provide the gas supply for utilities in other areas.

Geothermal

The following is an excerpt from Exxon Mobil's Notice of Annual Meeting and Proxy Statement. 'A comprehensive new MIT-led study of the potential for geothermal energy in the Earth's hard rock crust could supply a substantial portion of the electricity the United States will need in the future, probably at competitive prices and with minimal environmental impact...Just 2 percent of the U.S. geothermal resource base could yield nearly 2,000 times the power that the nation now consumes each year'.

Solar Power

Today Solar has a miniscule share of the solar power market, accounting for just .25% of the world's total installed electric power. Thermal power generation (oil/gas, coal power) makes up the largest share of global power generation at 68%, hydroelectric is 15%, nuclear is 14% and the capacity constraints and high cost.

Shales and Tight Gas

Through recent advancements made in drilling and completion technology, producers have unlocked vast natural gas resources primarily from the unconventional tight gas and shale reservoirs. US natural gas reserves rose 27% over the last five years to 238 TCF. There are 8 or 10 large gas plays on the North American continent which appear to hold hundreds of Tcf's which will make the USA gas market self sufficient for many years to come. Cost advantage on a PW value is not as great as first thought because of higher bonus prices, longer life and smaller percent of total EUR in early years.

Wind Power

Favorable prices for wind generated electric power range from \$0.04 to \$0.11 per kilowatt hour which is the key reason that wind power accounts for 3% of world's energy production. When compared to solar cost of \$0.21 to \$0.79 per KWH, there is a significant difference.

Biomass Power

While solar power is taking root in the sunny Southwest and wind power is growing in the blustery band from the Dakotas to Texas, other places are turning to trees and grass as their best bet for producing renewable energy, leading to a new building boom in "biomass" plants. U.S. energy forecasters predict that by 2030, biomass will generate 4.5% of the kilowatts consumed in the U.S., versus 2.5% for wind, with solar coming in behind both-though all three will trail the more established power sources of hydroelectric, nuclear, coal and natural gas.

Proposed policy that would put a price on green-house gas emissions and provide tax credits and loan guarantees for renewable energy is boosting the prospects for plant-based fuels.

Another big reason for biomass's growing popularity: it's dependable.

Nuclear Power

The USA has an increasing demand for electricity and a need to reduce CO2 and other greenhouse emissions. Analysis by the Energy Administration projects that baseload electricity demand in the USA will increase by at least 25% between now and 2030 due to increasing population and our country's continued economic growth. The challenge is there. We must meet this increasing demand while simultaneously addressing climate change, environmental issues and national security implications.

IV. M&A Exploration and Development Deals – 2009

- Occidental Petroleum Corp acquired from Plains Exploration & Production Co., producing properties in Permian Basin and Piceance Basin gaining 13,000 BOPE/d & 92 MMBOE proved reserves.
- Forest Oil, Denver sold production in Wyoming and Utah to undisclosed buyer for \$200 million. Included in sale was 21 million cubic feet gas equivalent per day.
- Ecopetrol SA, Bogotá, Colombia entered into participation deal with ENI (Rome) to earn by drilling at least 5 deep wells in Gulf of Mexico for an investment of \$220 million.

V. Recent M&A Deals in Oilfield Equipment and Services

- CALGARY, June 1 / CE FRANKLIN LTD. (TSX.CFT, NASDAQ.CFK) announced today that it has acquired a Western Canadian oil field equipment distributor (the "Acquired Business"). The transaction will be financed from existing bank credit facilities. The Acquired Business operates 22 oil field equipment supply stores across the Western Canadian Sedimentary Basin of which 17 locations are proximate to existing CE Franklin supply stores and will be integrated
- HOUSTON, June 1 / Cameron International Corp (NYSE:CAM) will acquire NATCO Group, Inc. (NYSE:NTG) in an all stock deal valued at \$780 million. The deal would increase Cameron's presence in Southeast Asia, West Africa, the Middle East and Brazil, and broaden its product offerings in deepwater production processing and downstream markets. The deal is expected to close during the third quarter of 2009 and is subject to regulatory approval.
- SWITZERLAND, May 29 /TNK-BP and Weatherford International Ltd. (NYSE: WFT) today announced that Weatherford has agreed to acquire TNK-BP's Oil Field Services (OFS) enterprises in exchange for 24.3 million shares of Weatherford common stock and other consideration.

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- TNK-BP's OFS business currently provides drilling, sidetracking, well intervention and workover, cementation and required support services in Russia. It comprises six operating companies owning and operating more than 75 drilling rigs, 180 workover units, 150 cementation and pumping units and over ten operating bases in critical reservoir plays including two central bases in Western Siberia and the Volga-Urals region. OFS revenues exceeded \$650 million in 2008.
 - WUXI, China, June 2 /WSP Holdings Limited (NYSE: WH) ("WSP Holdings" or the "Company"), a leading Chinese manufacturer of API (American Petroleum Institute) and non-API seamless casing, tubing and drill pipes used in oil and natural gas exploration, drilling and extraction ("Oil Country Tubular Goods" or "OCTG"), today announced that it established a company through its wholly-owned subsidiary in northeast China to produce steel billet and ensure steady supplies for its growing OCTG manufacturing capacities.



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949.305.6710
www.cfaw.com