CORPORATE FINANCE ASSOCIATES

ENERGY

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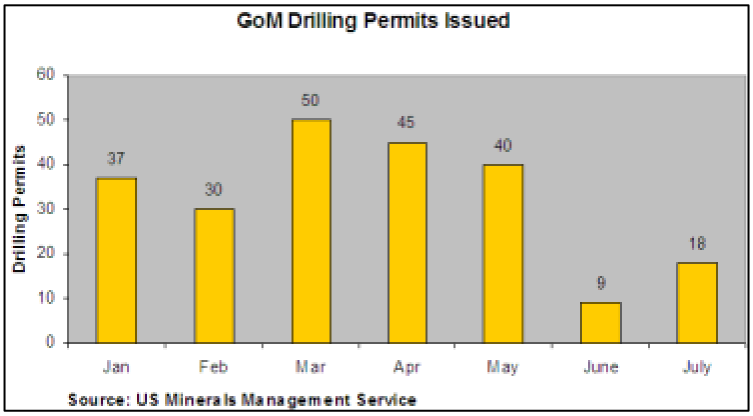
I. Aftermath of the Spill

The worst oil spill in history has been capped and now we will witness serious subsequent actions such as endless litigation, enormous claims, some of which will be exaggerated and others exonerated. Certainly, to the Gulf of Mexico, the devastating losses of life, jobs and permanent damages cannot be minimized, belittled or overlooked.

There are mitigating after-effects to be considered such as the disclosure by the National Commissioner on the BP deepwater Horizon Oil Spill on September 28, 2010 (Wall Street Journal) that the estimated peak of flow was 62,000 barrels per day and the fairly consistent rate of gushing was just 1,000 to 5,000 barrels per day.

In separate testimony, the top U.S. offshore drilling regulator said it would take weeks after the present administration lifts the ban on new deepwater oil exploration that the 33 idle rigs will return to work. New drilling permits are down substantially as evidenced by the bar graph on the right.



The Interior Department is planning to issue new rules in early October 2010 to govern offshore drilling. This action will hopefully clear the way for lifting the ban before its expiration on November 30, 2010. The oil industry has been pushing to end the ban in an effort to save thousands of jobs.

On the bright side, four of our major oil companies have joined in an effort to support and establish a technological and permanent industry coalition to prevent future occurrences.

II. Global Activity

It is not surprising to witness the global oil and gas industry, with the exception of the United States, moving aggressively forward to establish offshore reserves around the world. The USA administration has elected to maintain its total deepwater drilling moratorium. The adverse effect to the gulf coast industry workers and security of the future of our nation seems to be minimized with paramount importance placed on the punitive action toward the oil and gas industry.

Examples of increased global activity by other countries are as follows:

- Norway has resumed its deep water push in the Great Norwegian Sea
- Brazil is accelerating its drilling pace with $200 billion expenditures the next five years for reserves at 23,000 feet
- Australia and New Zealand have authorized expenditures to extend their offshore drilling
- Canada continues to allow drilling in deep water off Newfoundland and Labrador and is moving ahead with licenses in the Arctic
- The UK is still drilling in the North Sea

The continuation of the drilling ban is having a detrimental effect to the USA economy by the loss of jobs and the necessity to offset the loss of domestic production by increasing imports.

The US industry must take measures to prevent a reoccurrence of this type spill.

The September 2010 issue of Offshore Magazine recommends one common global standard to improve offshore safety. There are a number of companies such as BOSIET (basic offshore safety industries and emergency training) is now recognized around the world with over 100,000 workers in 30 countries trained to high standards of safety per annum. Exponent is a 40 year old public company which provides an industry wide offshore drilling risk solution center. Emphasis is placed on failure analysis and prevention, risk management, engineering and scientific evaluations and remedial actions. The global industry must accept and adhere to global standards to achieve offshore safety.

III. Markets and Pricing

The International Energy Agency forecast global oil demand to increase by 3.1 million barrels a day in 2010 and 2011 based on economic growth of 4.5% and 4.3% respectively in those years. This growth could be lower with the decrease in China stimulus efforts and US still in the doldrums. The low growth could cause a decline in oil prices. In this event, prices would depend upon OPEC's willingness and ability to cut its output.

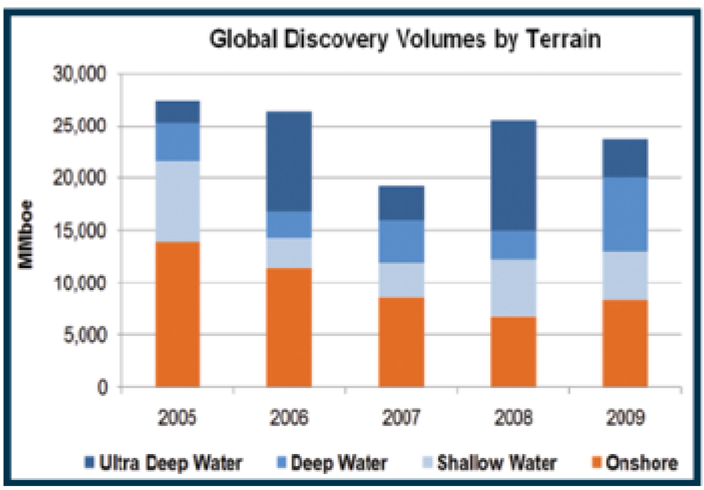
Natural gas prices in the US are still suffering from a glut of supply on the global market. IHS Energy Group reports that the year to date average price of $4.75 per mcf though up 17% from 2009, still is below the break even point for many key unconventional gas plays.

There are so many factors affecting the global price of oil that it is very difficult to predict future price trends. One thing for certain is that until such time as natural gas is the main source of fuel for power plants and is a major fuel for vehicles and other large uses, the industry will scramble for oil prospects worldwide.

IV. Current Activity

Deepwater Exploration

The August 2010 AAPG Explorer issue reports that new developments in the shale plays have extended to new areas on the North American continent and also new international locations . The main global emphasis, however according to AAPG is in offshore deepwater. The observation was made that active onshore drilling has achieved moderate success the past 10 years while more than 50% of oil and gas reserves were found offshore in deepwater and ultra deepwater as shown in the following graph. Global exploration in 2009 located nearly 500 new fields outside inland U.S. and Canada.

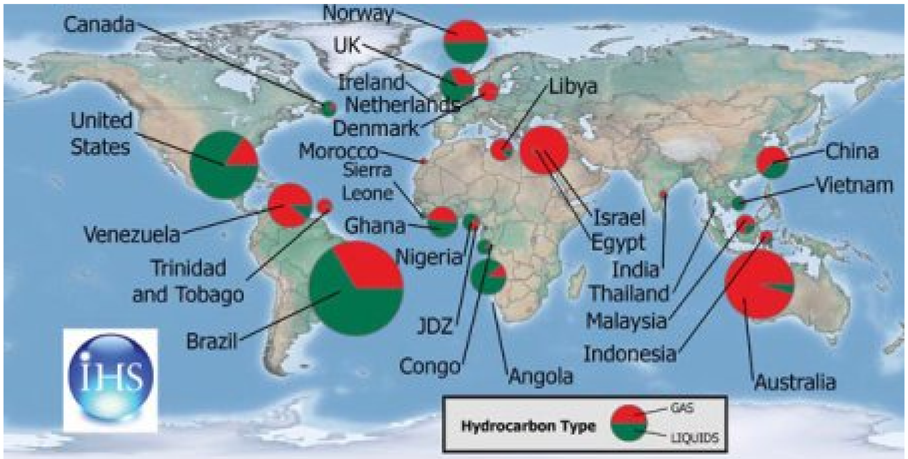


Source: AAPG Explorer, August 2010

Major New Oil Field

Tullow Oil PLC, a large U.K. company has made a second big oil discovery offshore Ghana Tullow reported in late July 2010 that the latest find the Owa field has added a billion barrels of oil equivalent to reserve estimates for the area. The Owa field is estimated to contain 200 million barrels of proven and probable reserves and up to 550 million barrels of possible reserves. Anadarko Petroleum Corp owns 18%, Sabre Oil & Gas 4.1% with 10% carried by Ghana National Petroleum Corp.

These types of huge discoveries are examples of global emphasis and further indicated by the IHS maps showing recent discoveries.



Experts believe offshore exploration will continue to be important: A look at recent discoveries.
Source: AAPG Explorer, August 2010

V. Outstanding M&A Exploration and Production Deals

- The Wall Street Journal reported August 20, 2010 that Chief Oil & Gas, a closely held Dallas based company is among the most active operators in the Marcellus Shale Play. The company is reportedly up for bid and could sell for approximately $3 billion.
- Denver based Anschutz Exploration Corp. with assets in the Bakken Shale region of North Dakota and Montana could fetch around one billion.
- Talon Oil & Gas LLC is a young Dallas company with initial investment by EnCap in Texas has made a series of acquisitions totaling 500 million and last year bought a large interest in the Barnet Shale assets of Denbury Resources, Inc.
- Deal makers are rising in the far East. Korea National Oil Co. has a pending $2.9 billion hostile bid for Dana Petroleum PLC of the U.K.
- McMoran Exploration Co. agreed to acquire Plains Exploration & Production Co's shallow-water operations in the Gulf of Mexico plus other asssets in a cash and stock deal valued at $818 million. The deal also includes Plains 28% stake in the Davy Jones ultra-deepwater find as Plains begins an effort to sell other Gulf Operations.

VI. Alternative Sources of Energy

- Unconventional resources include production from tight gas and oil formations, shale gas, coalbed methane, heavy oil, oil shale, deep and ultra-deepwater plays and gas hydrates. Announcements at conferences in the Rocky Mountain Region proclaim that oil shales or more correctly oil-prone shales are the newest and greatest unconventional resource discovery. The Bakken Shale has jumped North Dakota from 8th to 4th place as an oil producing state in only three years. The fractured Monterey Shale in California is bringing light oil into competition with California's traditional heavy oil. The Eagle Ford shale in Texas can claim to be both a shale gas and oil-prone shale due to its geological location.
- Many other unconventional shale deposits are being investigated on the North American continent as well as Europe.
- Hydropower, once shunned because of environmental concerns is making a comeback. There is a surge of interest in adding small power plants to dams built years ago for flood control or navigation as well as turning reservoirs into battery packs releasing energy when the grid needs it. Globally, hydropower provides 16% of electricity which is slightly more than nuclear power and closing in on natural gas, according to the London based International Hydropower Association.
- Power companies are increasingly switching to natural gas to fuel their electricity plants, driven by low prices and forecasts of vast supplies for years to come. Some utilities are closing coal-fired plants while others are converting them to run on gas.

VII. Recent M&A Deals in Equipment and Services

- National Oilwell Varco, Inc. (NYSE:NOV) announced that it has signed a definitive agreement to acquire the Advanced Production and Loading PLC ("APL"), subsidiary of BW Offshore Limited (Oslo:BWO), for $500 million in cash. APL designs and manufactures turret mooring systems and other products for Floating Production, Storage and Offloading vessels ("FPSO's") and other offshore vessels and terminals.
- Nabors Industries Ltd. (Nabors) (NYSE: NBR) and Superior Well Services, Inc. (Superior Well Services) (Nasdaq: SWSI) announced that they have entered into a definitive merger agreement whereby Nabors will acquire Superior Well Services. The agreement contemplates that Nabors will commence a tender offer for all outstanding shares of Superior Well Services common stock at a price of $22.12 per share in cash in accordance with the merger agreement. The transaction is valued at approximately $900 million. Nabors expects to derive significant synergies in North America by integrating pumping services with drilling and workover offerings.
- Stanley Black & Decker, the giant toolmaker formed by a merger earlier this year, announced that it had acquired CRC-Evans International, a supplier of tools, equipment and services for constructing oil and natural gas pipelines, for $445 million in cash from a group of investors led by Natural Gas Partners, a private equity firm. Stanley Black & Decker said the acquisition of CRC-Evans would enable it to expand its growing infrastructure business and further diversify its revenue base beyond industrial and consumer tools.

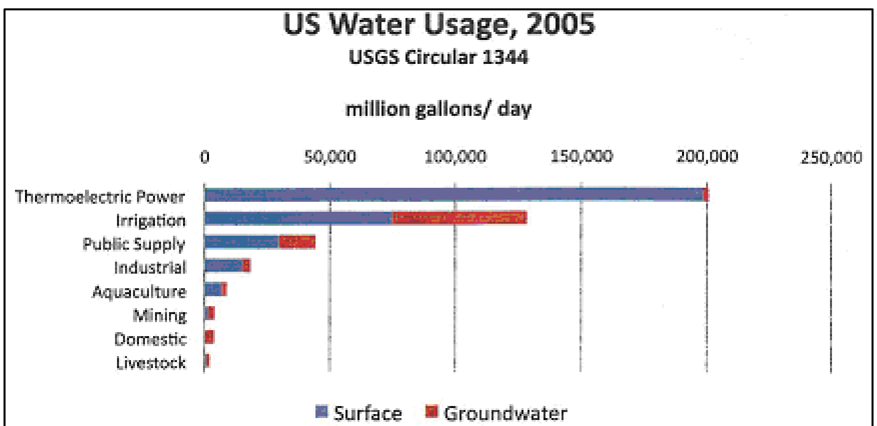
- M-I SWACO, a Schlumberger company, announced the recent acquisition of Idrabel Italia, an environmental technologies company based in Italy. The company specializes in production tank cleaning and petroleum sludge treatment as well as oil recovery and volatile organic compound (VOC) control for the petroleum and petrochemical industries. The company focuses specifically on solving critical problems related to hydrocarbon recovery from tank sludge while preventing toxic gas emissions.
- Oceaneering announced that it has, through its wholly-owned subsidiary, Grayloc Products Canada, acquired all the operating assets of SMX International Canada. Located near Toronto, SMX is a manufacturer of metal-to-metal seal clamp connectors, check valves, and universal ball joints. The company markets worldwide with its primary customer base in Canada. For fiscal year ending March 31, 2010, SMX had revenues of $15 million. This acquisition gets Grayloc closer to the oil sands market where the clamps are used extensively in the production processing.

VIII. Water Usage in the USA

Many non-industry people have no understanding of the importance of water in energy development in the U.S. The bottom line is that the cost of water is increasing and availability is decreasing.

Water injection is one of the primary methods of reservoir maintenance and secondary recovery. All drilling operations must have a good source of water. Water handling is a large cost in developing an oil and gas field.

A recent U.S. Geological Survey shows the U.S. uses 410 billion gallons of water per day. A summary of how the water is used is shown in the table below. Approximately 80% of all water usage is allocated to power generation and irrigation. A large portion is ground water and a lesser amount of surface water.



Estimated use of water in the United States in 2005: U.S. Geological Survey Circular 1344 (Kenny, J.F., Barber, N.L., Hutson, S.S., Linsey, K.S., Lovelace, J.K., and Maupin, M.A., 2009, 52 p.); Consumptive Water Use in the Production of Ethanol and Petroleum Gasoline, Argonne National Laboratory ANL/ESD/09-1 (Wu, M., Mintz, M., Wang, M., and Arora, S., 2009).

In a study by The Argonne National Laboratory and reported by AAPG Explorer publication in September 2010, Americans used in 2005 1,367 gallons of water per day per person at a cost of $2.73 per day per person. In the same year, the Americans used an average of approximately three gallons of crude oil per day. This represents a daily cost of $3.52 per person.

We can envision a time in the future when the real cost of water will have a greater impact on the world economy than the cost of a barrel of crude oil.

IX. Pipeline Developments

The Wall Street Journal reported in late September 2010 that leaders of China and Russia are preparing to announce in October 2010 the completion of the first pipeline between the countries. China will receive 300,000 barrels a day for the next two decades under a $25 billion loan for oil agreement signed last year. The pipeline will double Russian exports to China now carried by slow and expensive rail route. This represents an eastward shift in the balance of economic power.

The top suppliers of oil to the USA are Canada and Mexico. A U.S. Energy Administration report indicates that Canada contributes 21%, almost double Mexico's 12%. Trans Canada has filed an application to construct the Keystone XL Pipeline an expansion of the existing Keystone pipeline project. The $7 billion project would involve construction of 1,700 miles of new pipeline in Canada and the U.S. This proposal requires a presidential permit issued by the U.S. Department of State who also conducts an environmental study. The State Department is currently reviewing the input it has received and will prepare a final EIS. The pipeline if approved must be operated in an environmentally responsible and safe manner. Of equal importance is the need by U.S. consumers to recognize that these oil supplies and Canadian oil sands will provide a good source of oil imports in the future. All aspects are being scrutinized and the outcome is uncertain at this time.

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