



this ISSUE

September 2013

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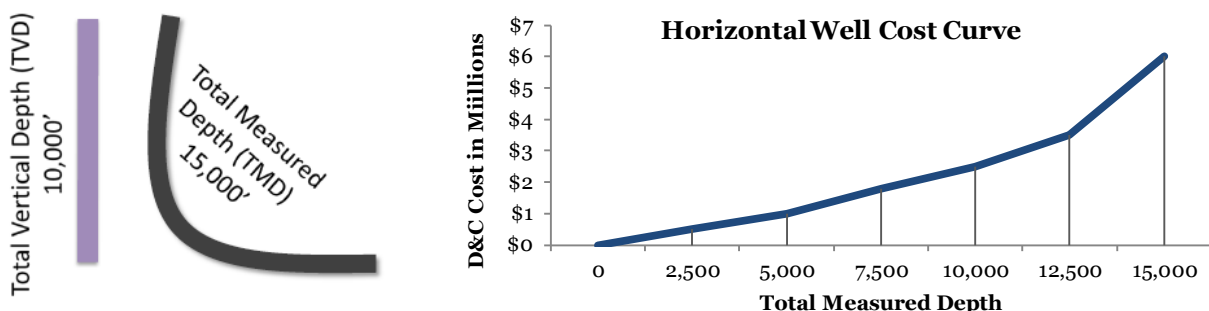
Welcome, we would like to share with you the latest issue of our monthly Oil & Gas Services Newsletter. With a decade of advising O&G clients at Founders, we stay focused on the market so that you can stay focused on your business. We look forward to providing you this monthly update. Please let us know if you have any questions.

Regards,

A handwritten signature in black ink, appearing to read 'Duane P. Donner, II', is positioned below the 'Regards,' text.

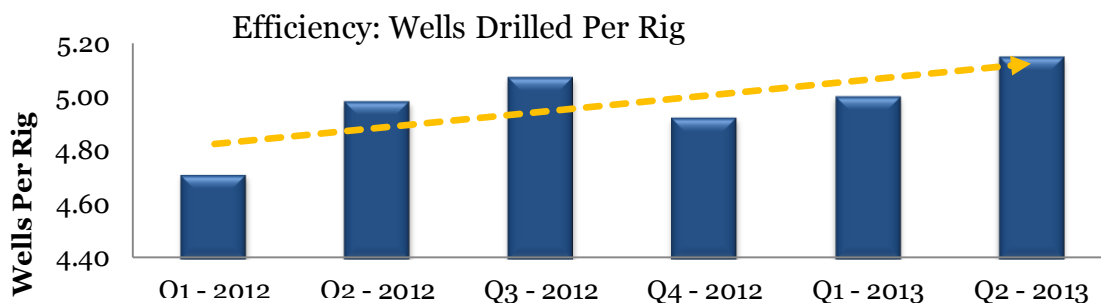
Oilfield Evolution

Amidst the shale revolution, oilfield services (OFS) companies have emerged as the unsung workhorses of the oil & gas industry. To provide insight behind their importance, let's remember that with the rise of unconventional drilling, costs of both drilling and completion have increased. A horizontal well utilizes ~2.5X the equipment and services of a similarly located vertical well drilled into the same zone. The costs to drill and complete a well increase as the measured depth is increased – with the rule of thumb being ~2.5X per incremental 5,000 feet. With drilling and completion costs between \$5-10M for a horizontal well, E&P operators are placing a high value on efficiency.



Source: Spears & Associates

OFS companies have historically adapted to meet the needs of operators. The increasing demand for production has bolstered demand for skilled OFS companies who can provide innovations. Jeff Miller, COO of energy giant, Halliburton Company, spoke on the subject, “We’ve seen probably upper-single-digit-type improvement in terms of efficiency even in the current year... That’s on the back of double-digit efficiency gains last year. So I expect that there is still headroom to grow around that scenario.” Mechanical drilling rigs are being replaced by new high-powered AC rigs, leading to a higher rate of wells per rig (see below graph). Efficiency is expanding capacity in the drilling arena, where high performing rigs are in demand and lower performing are becoming less utilized. Progressively, the pursuit of efficiency is moving down the line to the completion stage.



Source: Baker Hughes

The advent of hydraulic fracturing highlighted and enhanced new completion phase service lines and procedures – such as pressure pumping and flowback for fracking, and the expansion of thru tubing for drilling out zoning plugs. Other preexisting services such as completion fluids, specializing in cleaning out horizontally drilled wellbores, continue to evolve from underutilized service lines to significant, value-added services. As operators turn away from portfolio increase models, they will focus more intently on services that maximize production efficiencies rewarding higher performing completion services companies.

In certain segments the OFS M&A market remains strong, and Founders' Oil and Gas Services Group has been able to participate by helping numerous companies experience growth and liquidity. Founders recently advised a Texas based completion fluids business which experienced tremendous growth from this changing paradigm shift in drilling and completion services. The Company was acquired by a private equity backed buyer, and the transaction was a case study example of how unconventional drilling illuminated a previously minor service line and created an M&A opportunity to capture value. As technology continues to shape the OFS market, the overall outlook for the U.S. onshore shale markets remains positive for the foreseeable future.

Sources: Spears & Associates, Baker Hughes, CapitalIQ, Oil & Gas Financial Journal, Credit Suisse, and Reuters

Oil & Gas Select Transactions

Date	Status	Target	Buyers/Investors	Type	Value (\$mil.)
9/5/2013	Announced	RDX Technologies Corporation (TSXV:RDX)	-	Buyback	-
9/4/2013	Announced	Elite Construction and Fabrication, LLC	Next Fuel, Inc. (OTCPK:NXF1)	Merger/Acquisition	\$5.50
8/30/2013	Announced	Frontier Oilfield Services, Inc. (OTCPK:FOSI)	-	Private Placement	\$0.40
8/21/2013	Announced	Diverse Energy Systems, LLC	-	Private Placement	\$5.00
8/21/2013	Closed	Testco Well Services, LLC	Greene's Energy Group, LLC	Merger/Acquisition	-
8/20/2013	Announced	RigNet, Inc. (NasdaqGS:RNET)	Kohlberg Kravis Roberts & Co. L.P. (NYSE:KKR)	Merger/Acquisition	\$134.00
8/15/2013	Closed	Promap Corporation Prior To Reverse Merger With Advanced Cannabis Solutions, Inc.	Promap Corporation (OTCBB:PMAP)	Merger/Acquisition	-
8/14/2013	Announced	Blue Dot Energy	BE Aerospace (NASDAQ: BEAV)	Merger/Acquisition	\$75.00
8/13/2013	Announced	Oil States International Inc. (NYSE:OIS)	-	Public Offering	\$400.00
8/13/2013	Closed	S&R Compression, LLC, Compression Assets	USA Compression Partners LP (NYSE:USAC)	Merger/Acquisition	-
8/6/2013	Announced	Energy Services of America Corporation (OTCPK:ESOA)	-	Private Placement	\$6.00
8/5/2013	Closed	Prohaul Transport LLC, Foster Testing Co., Inc. And CP Well Testing, LLC	Prospect Capital Corporation (NasdaqGS:PSEC); Prospect Capital Management LLC	Merger/Acquisition	\$105.00
8/2/2013	Effective	ECM, Inc.	-	Private Placement	\$3.00
8/2/2013	Effective	CP Energy Services Inc.	-	Private Placement	\$2.51
8/1/2013	Cancelled	Galvanic Applied Sciences Inc. (TSXV:GAV)	Jaguar Financial Corporation (TSX:JFC); Cinnamon Investments Limited	Merger/Acquisition	\$30.40
8/1/2013	Closed	Blackhawk Specialty Tools, LLC	Bain Capital	Merger/Acquisition	~\$200.00
8/1/2013	Closed	Summit Energy Services, LLC and Liquid Logistics	Waste Management, Inc. (NYSE:WM)	Merger/Acquisition	-

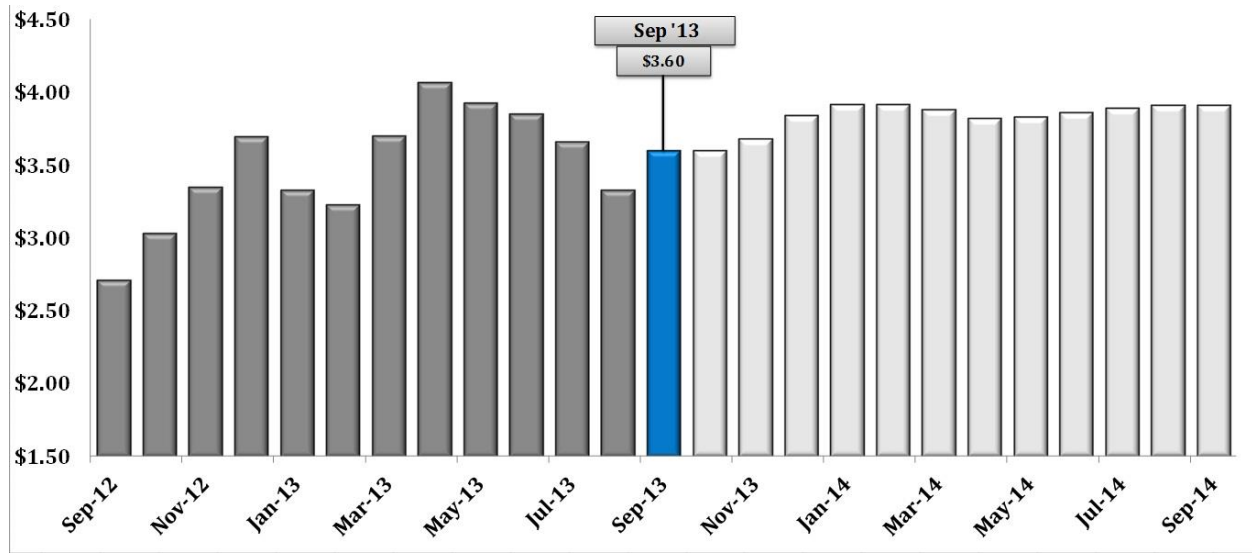
Select Transactions Overview:

U.S. oil and gas M&A has seen positive intensity build in the oilfield services sector, with large private equity firms buying small OFS companies. Market conditions show signs for a positive M&A outlook going into 2014.

Following Halliburton's recent successful debt recapitalization, companies with similarly under-levered balance sheets are exploring the cost/benefits of similar transactions. Rick Muncrief of Continental Resources commenting, "We have tried to take advantage of the debt markets, which remain very attractive right now". With oil prices at their current levels, it makes for a great time to take advantage of growth opportunities and position for the progressing U.S. shale plays.

Source: Credit Suisse, Simmons & Co., and Deloitte

Natural Gas – Futures Pricing (Henry Hub)

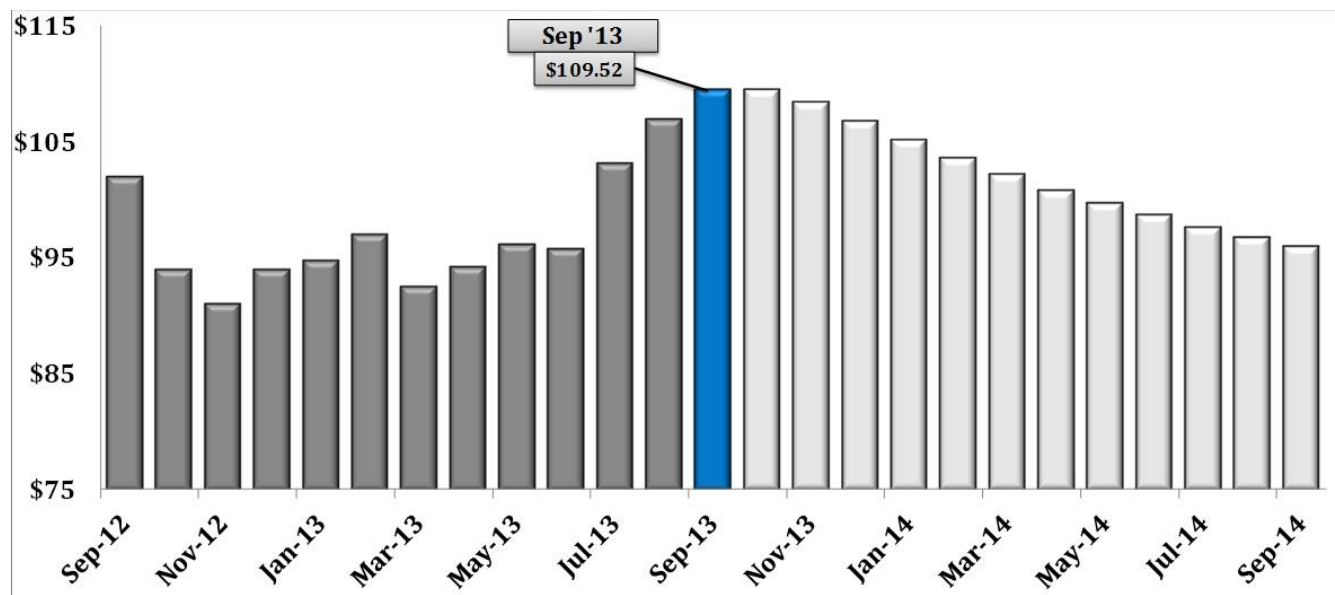


Natural Gas Futures Overview:

Natural gas spot prices averaged \$3.43 per MMBtu at the Henry Hub in August, down 20 cents from the previous month's price. While prices have been declining since April, the EIA expects this pattern will reverse in September as the weather becomes cooler and natural gas demand for space heating begins to become a factor. The EIA forecasts the Henry Hub price will increase from an average of \$2.75 per MMBtu in 2012 to average \$3.68 per MMBtu in 2013 and \$3.91 per MMBtu in 2014.

Sources: CapitalIQ, Merrill Lynch, Kinder Morgan & EIA

Oil – Futures Pricing (WTI Crude)

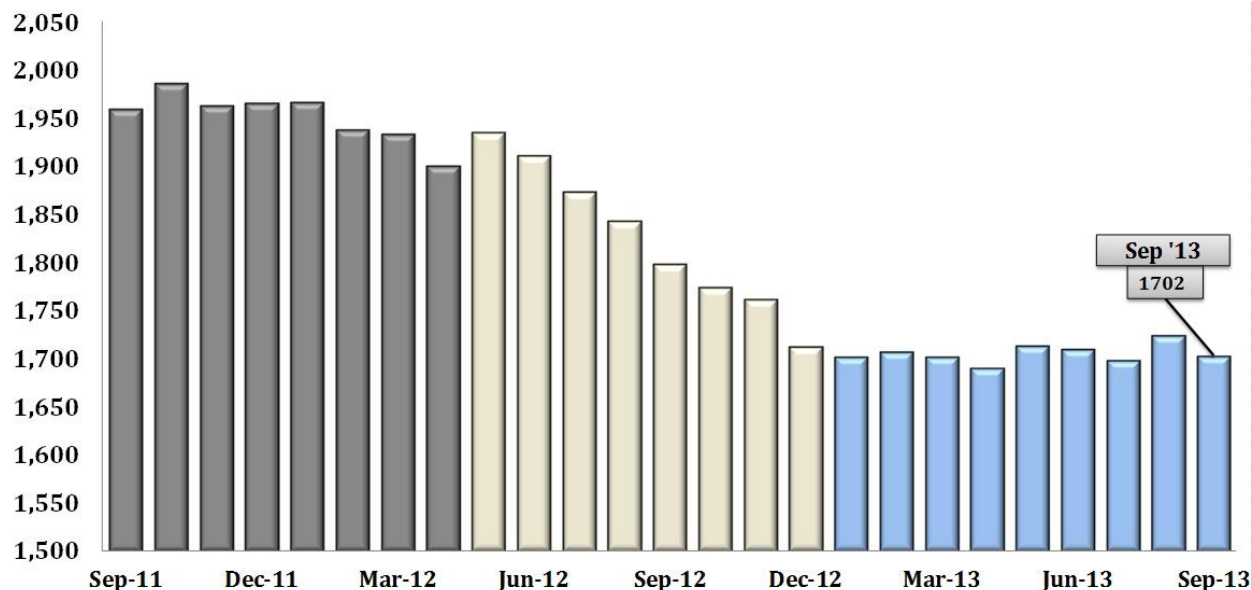


Oil Futures Overview:

Monthly average crude oil prices increased for the fourth consecutive month in August 2013, as crude oil prices hovered around \$110 for the majority of the month. Despite the current high levels for WTI pricing, the EIA projects crude oil prices to average \$101 per barrel during the fourth quarter of 2013 and \$96 per barrel during 2014. However, recent geopolitical unrest in the Middle East (Syria) and more favorable-than-expected economic reports out of China could be a catalyst for continued high prices.

Sources: EIA

U.S. Total Onshore Rig Count

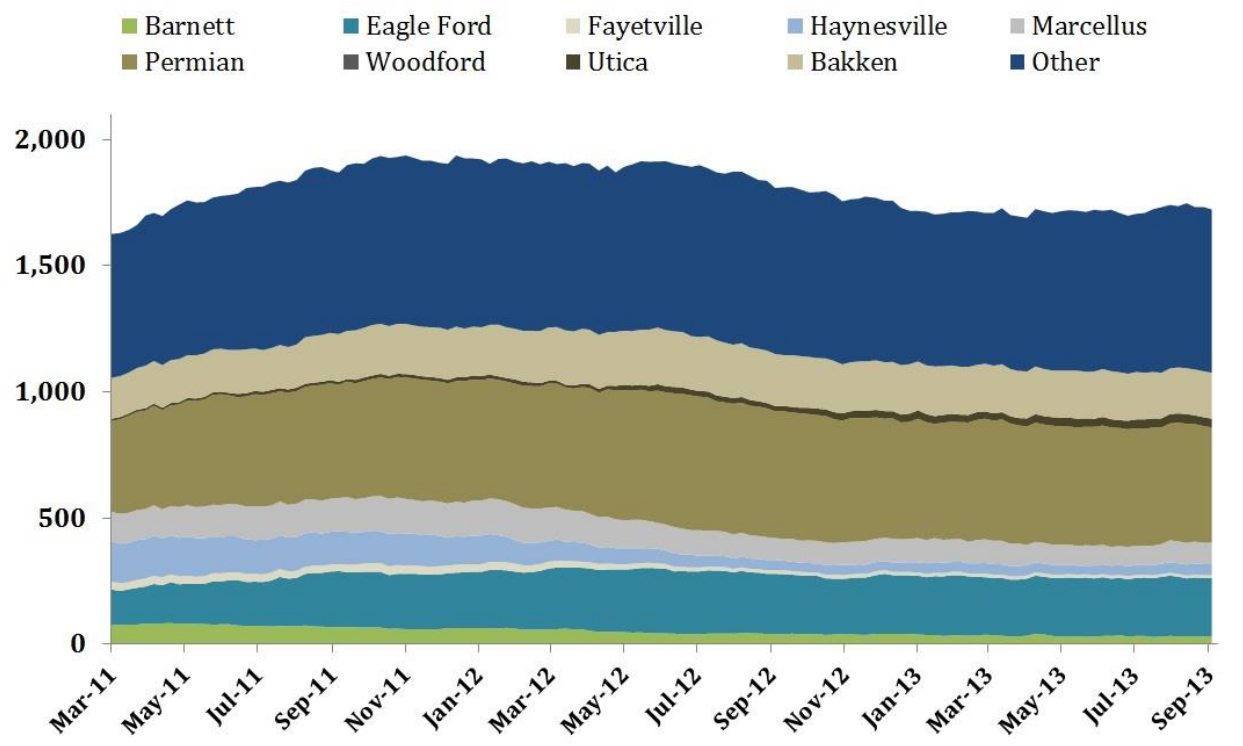


Onshore Rig Count Overview:

Entering the beginning of September, U.S. onshore rig counts saw a 22 rig decrease from the beginning of August, leaving the current rig count at 1702. Credit Suisse is projecting a 7% decrease in rig count for the full year 2013 versus 2012. However, Credit Suisse does not expect rig count to fall below current levels, "we think the momentum flattens out and activity picks up for a bit from here... Rig companies are reporting that a pickup in activity around year-end is looking likely." Additionally, Sterne Agee expects the OFS sector to experience beneficial derivatives from the increase in activity, "Expected rises in rig counts could mean increased activity for oilfield services companies."

Source: Credit Suisse, Baker Hughes & Sterne Agee

U.S. Total Onshore Rig Count by Basin



Rig Count by Basin Overview:

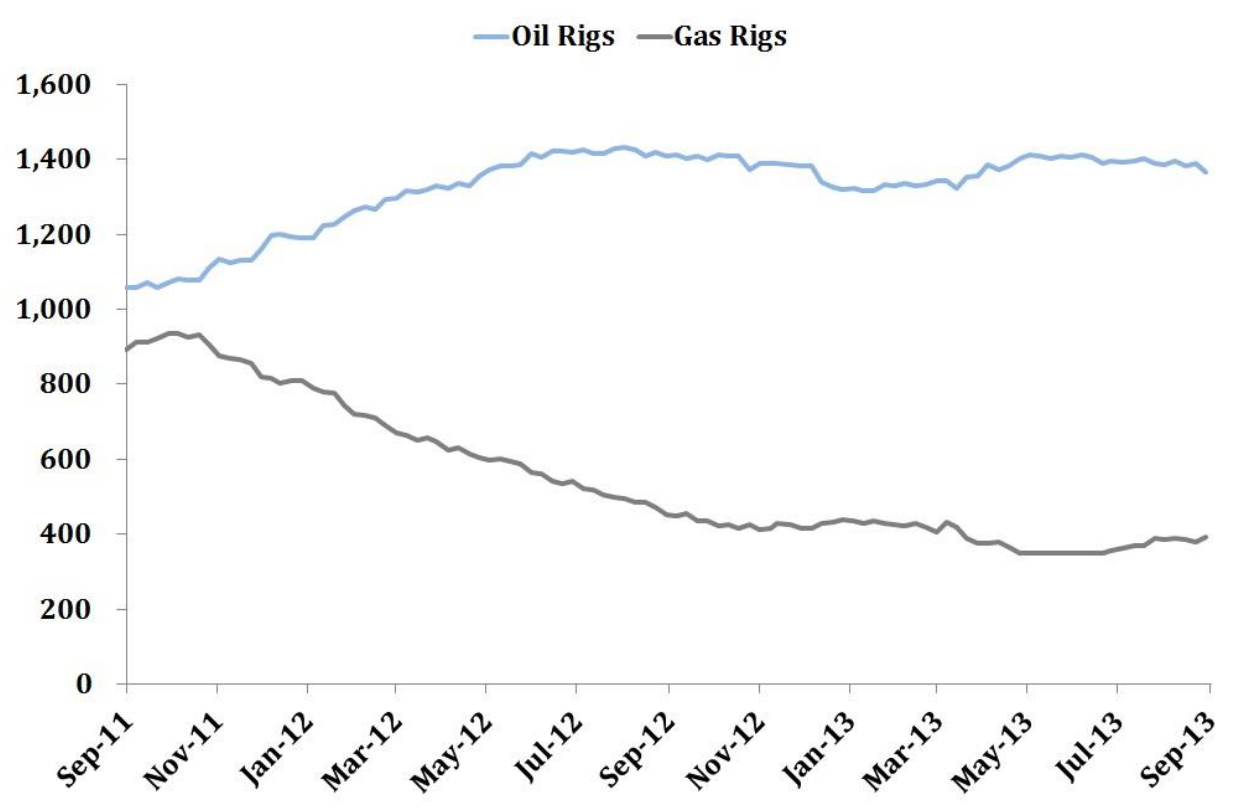
By definition, developments in rig drilling efficiencies require fewer rigs to produce the same results (reference chart “Efficiency: Wells Drilled per Rig” for additional analysis). An increasingly popular efficiency gain is through pad drilling, in which multiple wells are drilled from one site. “Efficiencies are going up” says David Havens, MD of Credit Agricole, “We increased rig efficiency by more than 15% last year, and we’ll probably see a similar increase this year.” In the Eagle Ford basin, Halliburton cites that pad drilling has gone from less than 40 percent of activity last year to more than 60 percent today.

That being said, rig counts have still remained high as production demands continue to prop up rig counts despite the efficiency gains. Rig counts as of September 9, 2013:

Barnett - 32, Eagle Ford - 231, Fayetteville - 11, Haynesville - 43, Marcellus - 86, Permian - 456, Woodford - 44, Utica - 35, Williston - 182, and Other - 647.

Source: Baker Hughes, EIA, Reuters, Oil & Gas Financial Journal

U.S. NG v. Oil Rig Count

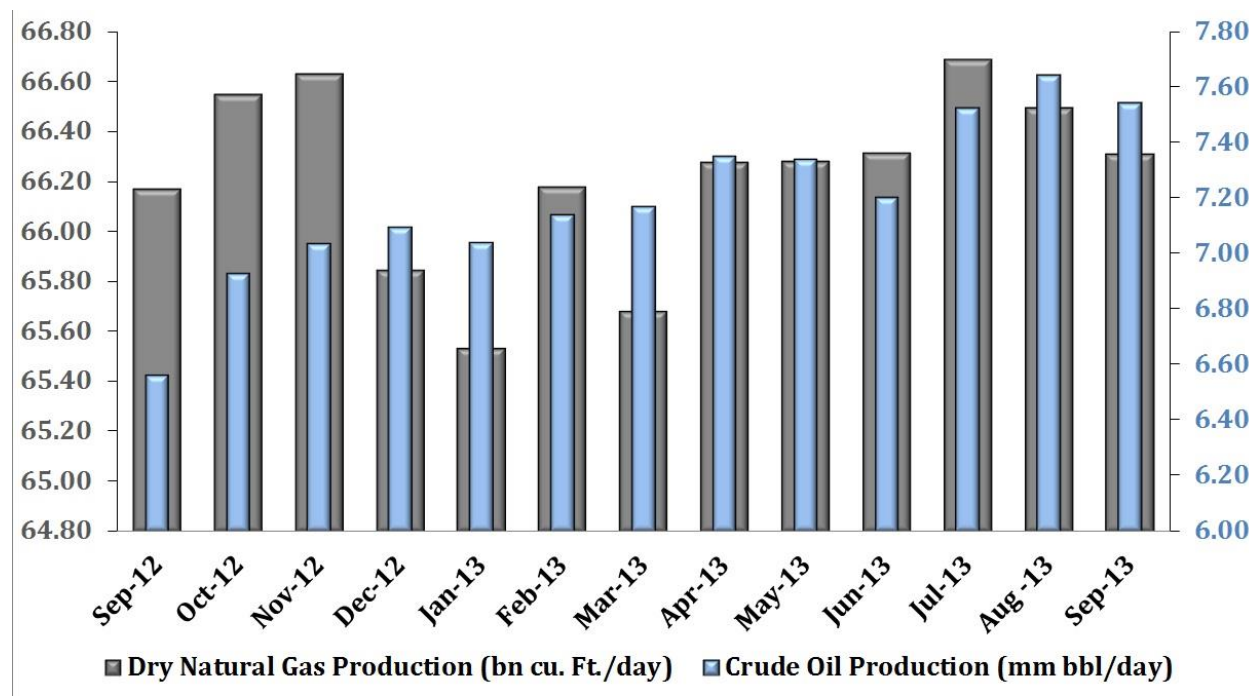






NG v. Oil Rig Count Overview:

Over the month of August, oil directed rigs saw a 23 rig count decrease and gas rigs saw a 6 count decrease. Even with the slight decrease in gas rigs, numbers are not expected to fall below the June “bottom.” Additionally, colder winter is expected to increase demand for gas comparative to the mild winter of 2012.

Source: Baker Hughes and EIA

U.S. Natural Gas v. Oil Production



US Energy Supply and Consumption Data															AVG
TTM : 2012 - 2013															
	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug -13	Sep-13		
Energy Supply															
Crude Oil Production (a) (mm bbl / day)	6.56	6.93	7.03	7.09	7.04	7.14	7.17	7.35	7.34	7.20	7.52	7.64	7.54		6.91
Dry Natural Gas Production (bn cu. ft. / day)	66.17	66.55	66.63	65.84	65.53	66.18	65.68	66.28	66.28	66.31	66.69	66.49	66.31		66.00
Energy Consumption															
Liquid Fuels (mm bbl / day)	18.17	18.72	18.60	18.13	18.65	18.66	18.48	18.55	18.55	18.72	19.09	19.08	18.47		18.61
Natural Gas (bn cu. ft. / day)	60.12	61.18	72.01	80.20	92.38	91.18	80.91	64.90	56.13	57.55	60.74	61.32	58.15		70.03

NG v. Oil Production Overview:

Natural gas production for September is forecasted at 66.31 bn cubit ft/day, which is consistent with the stable output seen over the last 12 months. Drilling continues to shift out of the dry region of northeast Pennsylvania towards more liquid-rich parts of the Appalachian Basin. Additionally, oil directed drilling has intensified in the region, particularly the Utica Shale formation.

Through August, oil production has continued at an increasingly high level. August's production level of 7.64 mm bbl/d is the highest monthly level of production since 1989. Furthermore, the months of July, August, and September (projected) will mark the top 3 highest producing months in over 20 years. EIA forecast U.S. total crude oil production will average 7.5 mm bbl/d in 2013 and 8.4 mm bbl/d in 2014.

Sources: EIA