

August 26, 2011

Energy

Industry Comment

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Oil & Gas Energy Services

Weekly Oilfield Bulletin; Rig Counts and Fracking Debate Both Turn Up

This is shaping up to be one of the more active Augusts on the record books. This week there are 536 rigs either drilling or moving between locations. If producers maintain their current trajectory, the rig count is likely to cross through 2006 utilization levels within a week or two. We expect most industry observers were expecting high activity levels in the second half of 2011, and especially so after severely wet weather impaired field conditions from May all the way through July (and even today in some areas). But we doubt many were considering rig counts above 500 in the middle of August.

One of the direct consequences of these rigs counts is that many service companies should easily meet or exceed our 3Q estimates. Notice that the utilization rates of each of the drillers has more of a 4Q or even 1Q kind of feel to it. This should directly benefit the drilling contractors, but we suspect that many had discounted the pressure pumpers' potential for 3Q as well. Like the drillers, we believe the pumpers and completions companies shouldn't have too much trouble hitting the consensus numbers in 3Q11, in general.

The Fracking Issue That Won't Go Away

Under the pretext of investor protection, the U.S. Securities and Exchange Commission wants the oil and gas industry to disclose the chemistries of their fracturing treatments because of, you know, all the uncertainty and potential liability that precipitates from this "new" and "controversial" method of "drilling" wells. The SEC's interest here seems curious to us, because while fracturing may be controversial, and topical in both the media and celebrities alike, there aren't a great number of lawsuits out there that could expose producer's soft underbellies to fracturing-specific liabilities. Nevertheless, we don't see a reason that the SEC's wading into the fracturing issue would have any measureable impact on fracturing demand, nor are there material implications for costs.

Not to be left out of a popular movement, New Jersey is also getting into the anti-fracturing business. The legislature there placed a one-year moratorium on hydraulic fracturing. Never mind that we can't find a single oil or gas company working in the Garden State, you just can't be too careful about these things.

Company	Ticker	Aug-25-11 Price	Target Price (6-12 mths)	Dividend Yield	Total Return To Target	Rating
Contract Drillers						
Ensign Energy Services	ESI-TSX	\$15.48	\$24.25	2.5%	59%	Outperform 2
Precision Drilling Corporation	PD-TSX PDS-NYSE	\$12.01	\$18.25	0.0%	52%	Outperform 2
Savanna Energy Services	SVY-TSX	\$8.14	\$12.25	0.0%	50%	Outperform 2
Trinidad Drilling Ltd.	TDG-TSX	\$7.67	\$12.50	2.6%	66%	Strong Buy 1
Western Energy Services Corp.	WRG-TSXV	\$8.50	\$12.00	0.0%	41%	Outperform 2
Pressure Pumpers						
Calfrac Well Services	CFW-TSX	\$31.73	\$55.00	0.5%	74%	Strong Buy 1
Canyon Services Group Inc.	FRC-TSX	\$11.62	\$22.25	0.9%	92%	Strong Buy 1
GasFrac Energy Services Ltd.	GFS-TSX	\$7.95	\$12.50	0.0%	57%	Outperform 2
Trican Well Service	TCW-TSX	\$21.22	\$31.00	0.5%	47%	Strong Buy 1
Completion Services						
Essential Energy Services Ltd.	ESN-TSX	\$1.71	\$3.10	0.0%	81%	Strong Buy 1
Pure Energy Services Ltd.	PSV-TSX	\$6.91	\$12.00	0.0%	74%	Strong Buy 1
Field Services						
Black Diamond Group Ltd.	BDI-TSX	\$14.76	\$17.50	3.9%	22%	Outperform 2
Enerflex Ltd.	EFX-TSX	\$10.13	\$13.25	2.4%	33%	Outperform 2
Mullen Group Ltd.	MTL-TSX	\$20.15	\$23.25	5.0%	20%	Market Perform 3
Secure Energy Services Inc.	SES-TSX	\$8.00	\$10.25	0.0%	28%	Outperform 2
Strad Energy Services Ltd.	SDY-TSX	\$4.25	\$6.75	0.0%	59%	Strong Buy 1

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Please read domestic and foreign disclosure/risk information beginning on page 11 and Analyst Certification on page 12.

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Oilfield Activity Summary & Industry Forecasts

Equity Indices & Energy Prices

	Price/ Level	Percent Change (%)		
		W/W	M/M	Y/Y
TSX 300 Comp	12,284	+1.2	-7.2	+5.9
TSX Oilfield index	1,476	-2.7	-21.9	+31.5
OSX	218	-1.4	-21.8	+28.5
WTI (US\$/bbl)	85.30	+3.5	-14.3	+16.3
C Par @ Edm. (\$/bbl)	88.27	+0.8	-8.0	+23.8
NYMEX (US\$/mcf)	3.93	+1.0	-10.0	+3.0
AECO-C (\$/GJ)	3.46	-0.9	+1.2	+16.1
USD/CAD	1.01	+0.2	-4.5	+7.0

Industry & Commodity Forecasts

	2009	2010	2011E	2012E
Active Drilling Rig Count	214	328	377	396
Drilling Rig Utilization	28%	41%	47%	49%
Wells Completed	9,394	13,575	16,000	16,700
Service Rig Utilization	39%	55%	59%	60%
WTI (US\$/bbl)	62.09	79.61	96.07	105.00
NYMEX (US\$/mcf)	4.16	4.38	4.26	4.25
AECO (\$/mcf)	3.99	4.18	3.59	3.58
USD/CAD	0.88	0.97	1.02	1.02

Canadian Active Rig Counts

	This Wk	Last Wk	Last Yr	13-Wk
				M.A
Active Drilling Rig Count	536	529	402	389
Total Fleet	812	812	812	811
Utilization	66%	65%	50%	48%
Active Service Rig Count	580	565	499	476
Total Fleet	905	926	896	896
Utilization	64%	61%	56%	53%

Canadian Wells & Licenses

	Year to Date		13-Wk Total	
	2011	2010	2011	2010
Total Completions	9,089	6,694	2,504	1,674
%Oil	56	46	60	62
%Horizontal + Directional	74	66	86	79
%Vertical	26	34	14	21
Well Licenses	10,105	8,425	3,988	3,447
Total Meters Drilled (000s)	14,850	10,780	4,036	3,300
%Development	82	78	82	79
Avg. Well Depths (meters)	2,685	2,318	736	700

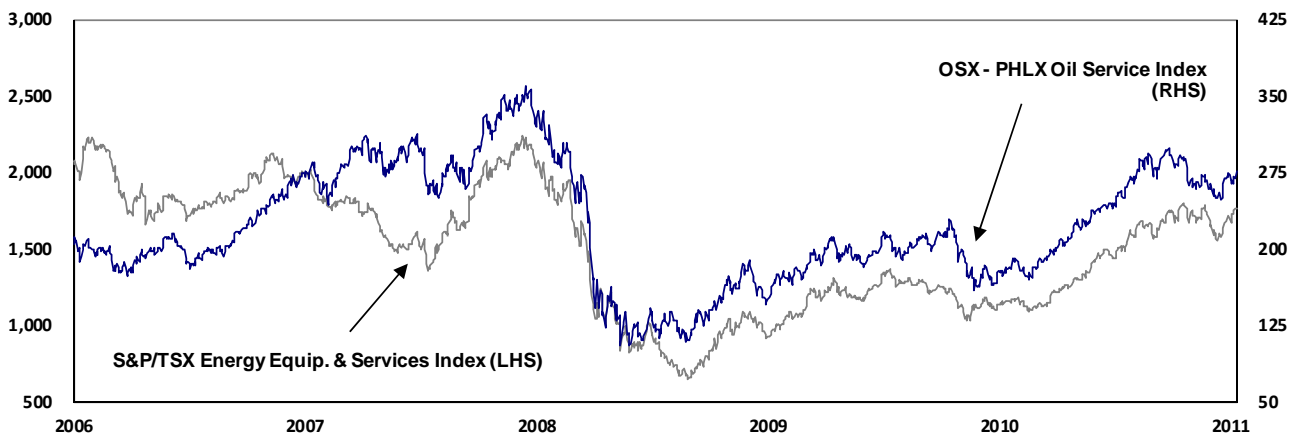
US Active Rig Count

	This Wk	Last Wk	Last Yr	13-Wk
				M.A
Total US Rig Count	1,974	1,959	1,651	1,896
%Oil	54	54	40	53
%Horizontal + Directional	70	70	68	70
%Vertical	30	30	33	30
Total Land	1,940	1,924	1,630	1,862
%Oil	54	54	40	54
Gulf of Mexico	34	35	21	35
%Oil	62	57	43	52

International Active Rig Count

	Jul-11	Jun-11	May-11	Apr-11
International Rig Count	1,150	1,158	1,151	1,129
%Oil / %Land	79 / 73	76 / 74	76 / 73	77 / 74
Australia	13	15	10	12
%Oil / %Land	54 / 54	60 / 53	30 / 30	33 / 42
South America	438	438	410	402
%Oil / %Land	89 / 79	87 / 80	87 / 80	88 / 81
Continental Europe	90	86	77	82
%Oil / %Land	50 / 67	47 / 69	47 / 66	52 / 68

S&P/TSX Energy Equipment & Services Index vs. OSX Phil. Oil Services Sector Index



All figures in CS, unless otherwise noted.

Sources: Raymond James Ltd., Bloomberg, Nickle's Energy Group, Baker Hughes

Canadian Oilfield Activity Charts

a. Drilling Contractor Utilization – Weekly Observed and Actual Reported Rates

Drilling Contractor	Weekly Observed Utilization (%)				2009												2010		2011	
	This Week	Last Week	Last 13-Week Year	M.Avg.	2008	2009					2010					2011				
						Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2			
Akita Drilling	76	81	41	61	42	45	16	26	37	31	49	25	39	31	36	62	30			
Ensign Group	74	72	51	49	36	30	7	18	25	20	42	13	31	37	31	52	16			
Nabors Drilling	54	56	35	40	42	39	13	15	27	24	44	22	33	46	36	61	27			
Precision Drilling	61	61	53	44	38	33	11	20	28	23	50	19	37	47	38	61	21			
Savanna	57	60	53	49	42	31	5	19	31	22	54	18	40	47	40	64	22			
Trinidad Drilling	78	74	63	63	55	50	14	36	43	36	67	34	56	65	55	80	31			
Western (Horizon)	92	92	82	62	50	55	9	30	45	35	46	46	61	65	57	85	40			
INDUSTRY	66	65	50	48	42	36	11	21	32	25	53	20	41	49	41	67	23			

Historical utilization rates shown for Canadian drilling rig operations where available

Ensign Group includes: Big Sky Drilling, Ensign Drilling and Champion Drilling

Savanna includes: Lakota Drilling and Trailblazer Drilling

Prior to 1Q10, Western (Horizon) figures estimated using Nickle's utilization data

b. Drilling Contractor Utilization – Weekly Observed Rates by Depth Quartile

Depth Quartile		Rigs (% of fleet) Utilization	Ensign Group	Precision Drilling	Savanna	Trinidad Drilling	Western (Horizon)	INDUSTRY
Depth Range (m) / Average Depth (m)								
Q1	80 - 1,800m / 1,397 m		40 (33%) 45%	34 (17%) 26%	30 (42%) 13%	17 (31%) 71%	1 (3%) 0%	35%
Q2	2,000 - 3,000m / 2,513 m		32 (26%) 88%	69 (34%) 54%	9 (13%) 67%	5 (9%) 100%	3 (8%) 67%	67%
Q3	3,000 - 3,500m / 3,271 m		36 (30%) 92%	56 (27%) 79%	12 (17%) 92%	14 (26%) 79%	20 (51%) 95%	83%
Q4	3,500 - 7,000m / 4,166 m		13 (11%) 77%	45 (22%) 76%	21 (29%) 95%	18 (33%) 78%	15 (38%) 100%	79%
Total	80 - 6,700m / 2,831 m		121 74%	204 61%	72 57%	54 78%	39 92%	812 66%

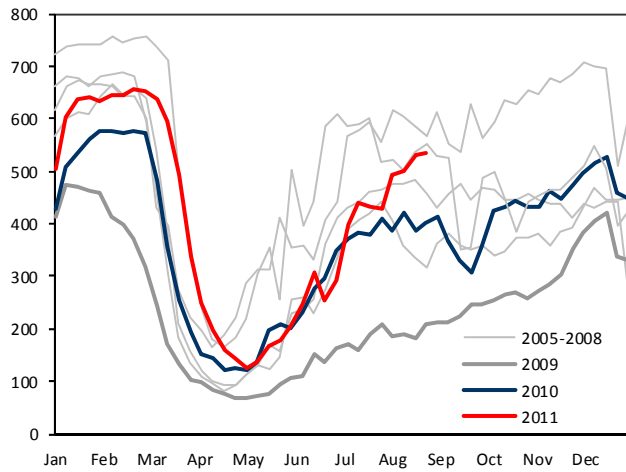
Ensign Group includes: Big Sky Drilling, Ensign Drilling and Champion Drilling

Savanna includes: Lakota Drilling and Trailblazer Drilling

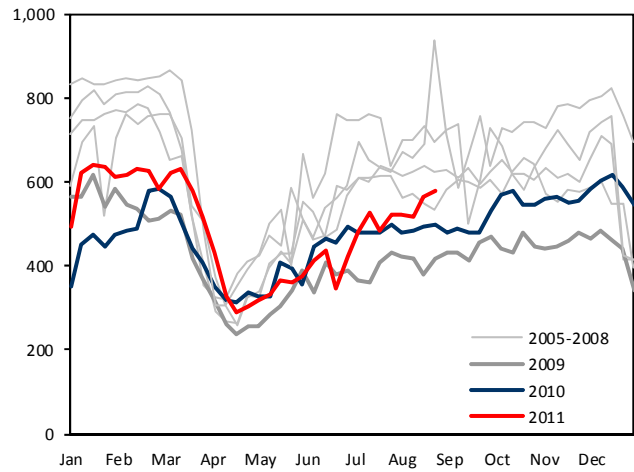
Sources: Nickle's Energy Group, Company reports, Raymond James Ltd.

Canadian Oilfield Activity Charts (continued)

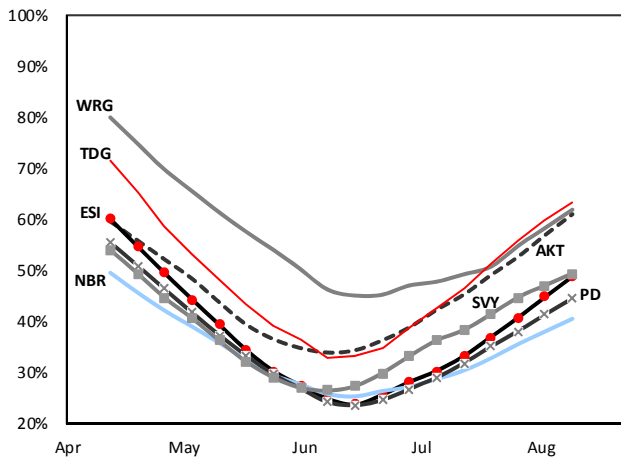
a. Weekly Rig Count



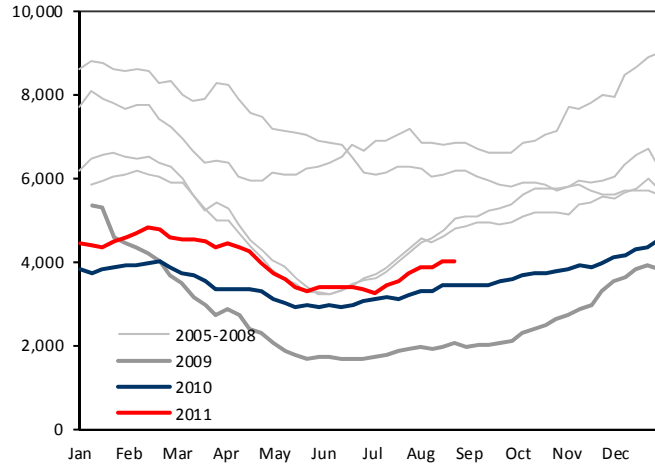
b. Weekly Service Rig Count



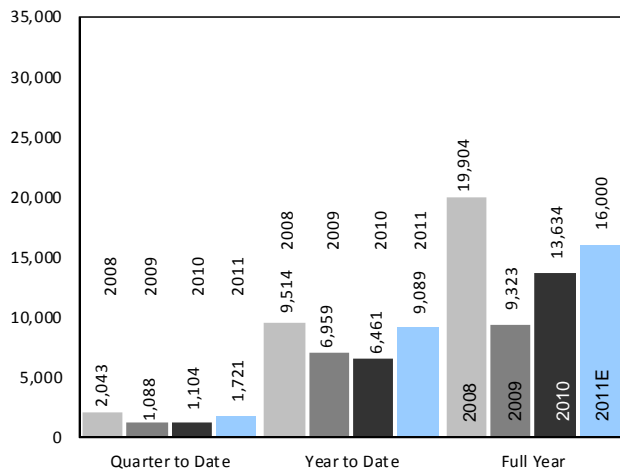
c. Contractor Utilization (13-Wk MA)



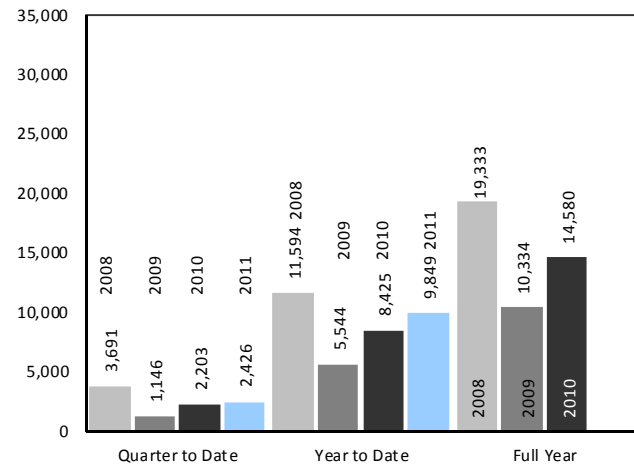
d. Well Licenses (13-Wk Total)



e. Well Completions



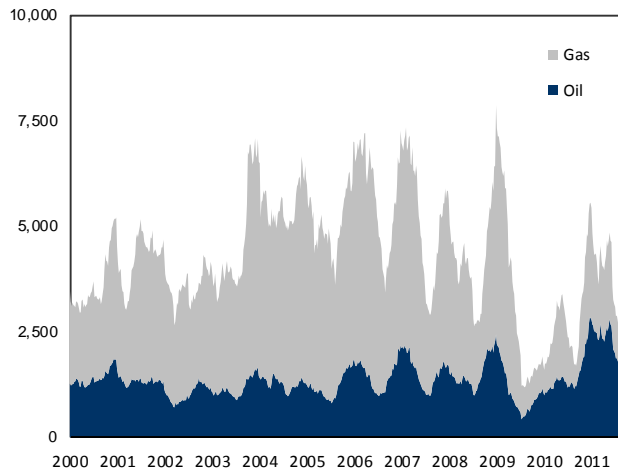
f. Well Licenses



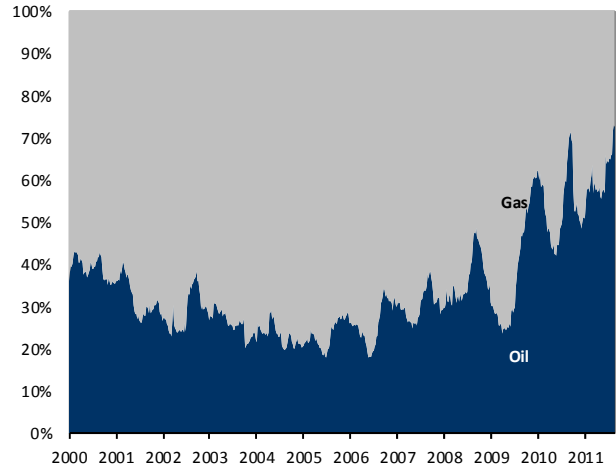
Sources: Nickle's Energy Group, CAODC, Raymond James Ltd.

Canadian & U.S. Oilfield Activity Charts

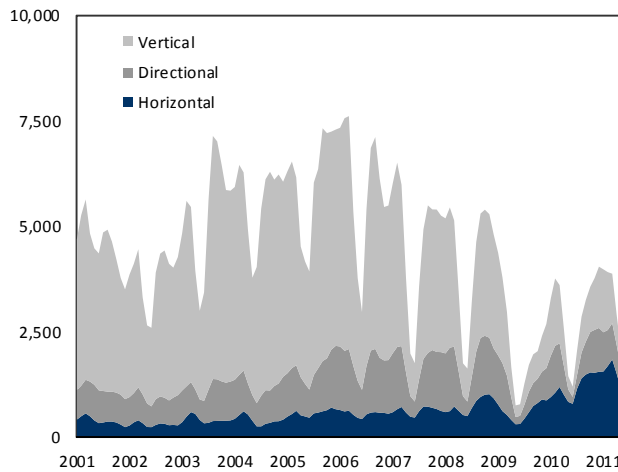
a. WCSB Well Completions (3-M RT)



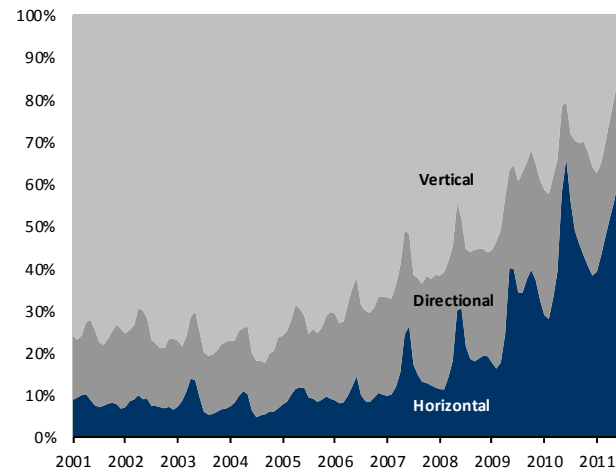
b. WCSB Well Completions (%)



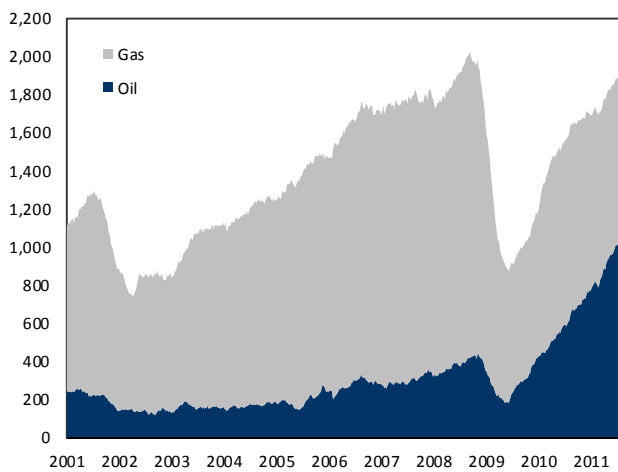
c. WCSB Well Completions by Type (3-M RT)



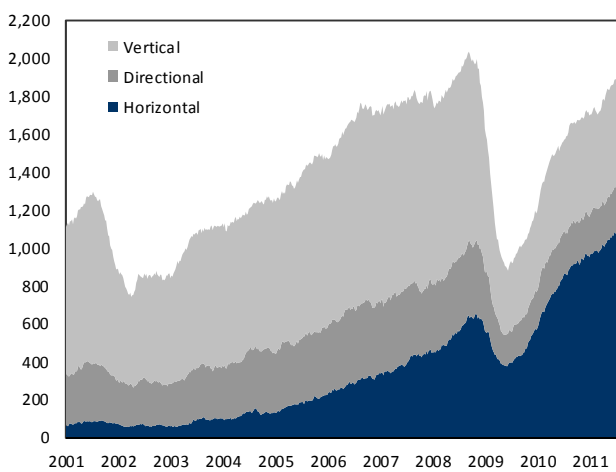
d. WCSB Well Completions by Type (%)



e. U.S. Active Rig Count



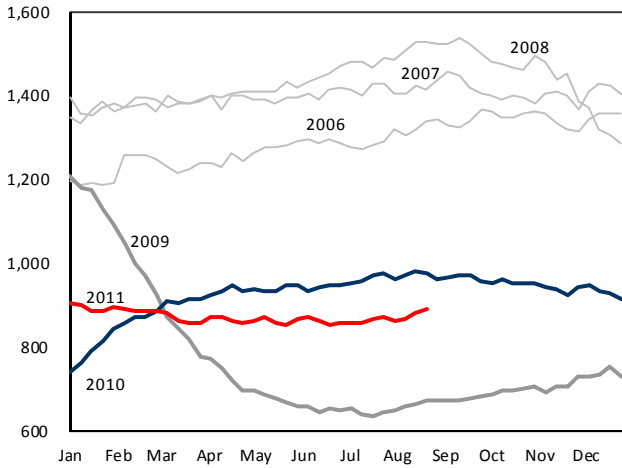
f. U.S. Active Rig Count by Well Type



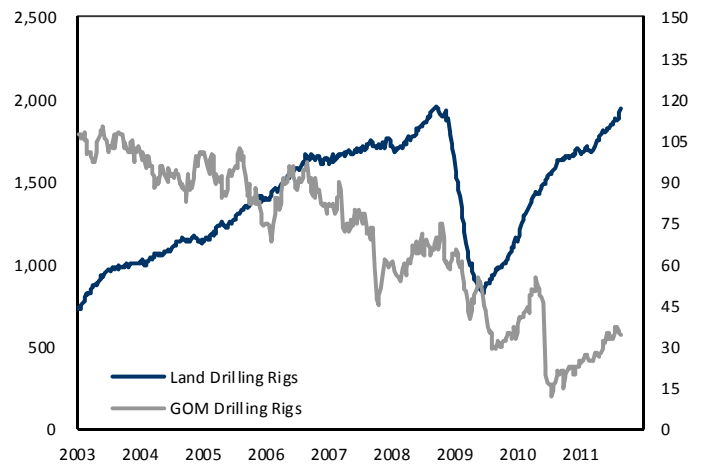
Sources: Nickle's Energy Group, Baker Hughes

U.S. & International Oilfield Activity Charts

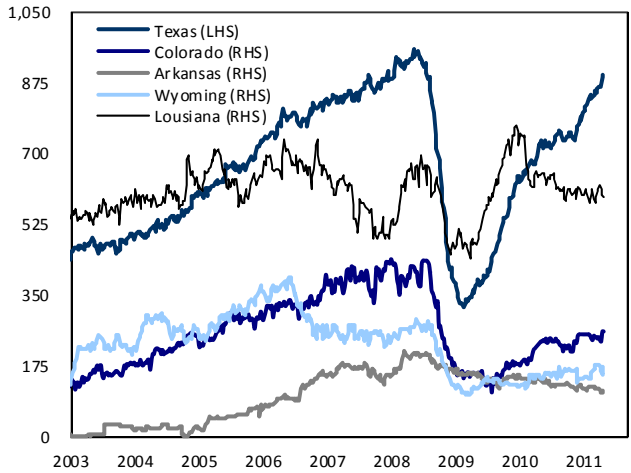
a. U.S. Active Land Rigs Targeting Gas



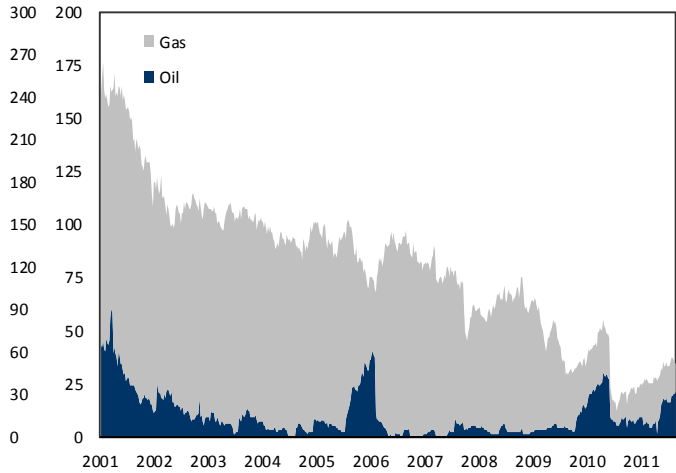
b. U.S. Active Land and GoM Rig Count



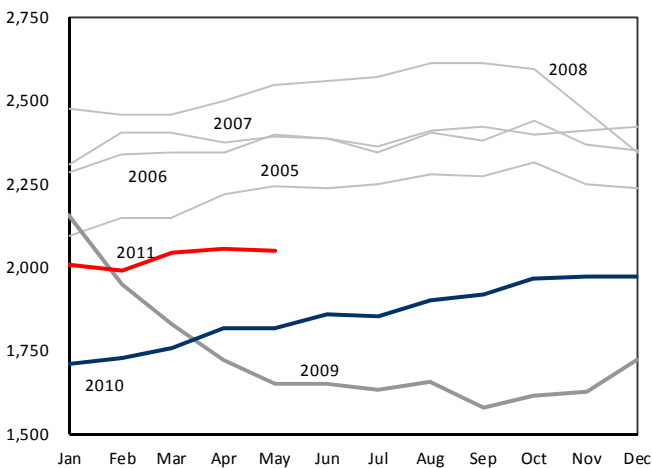
c. U.S. State Drilling Rig Counts



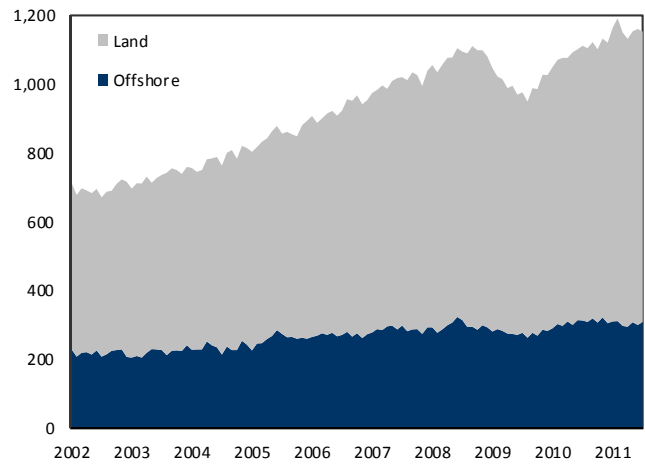
d. U.S. GoM Active Rig Count



e. U.S. Active Well Service Rig Count



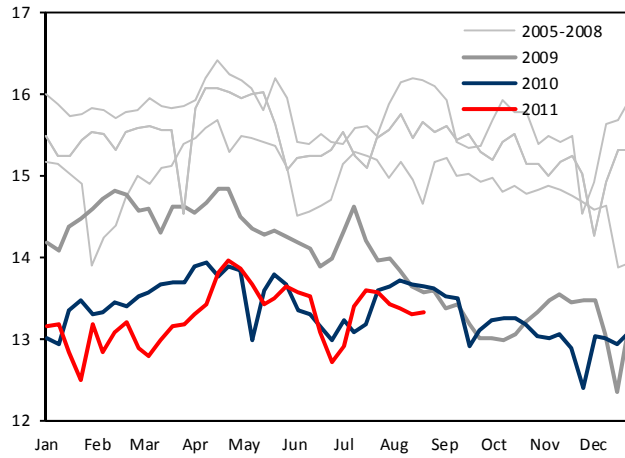
f. International Active Rig Count



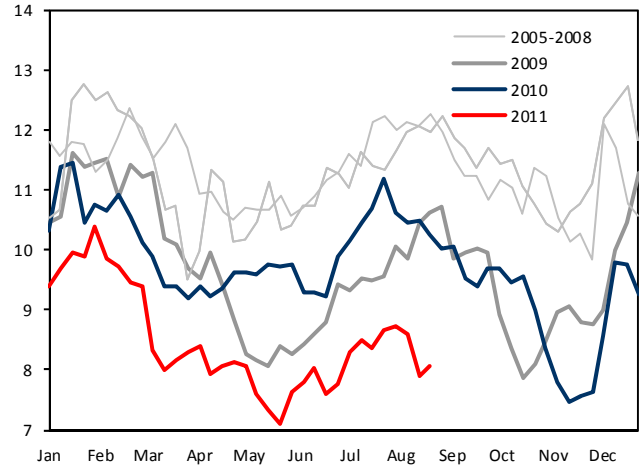
Sources: EIA, Baker Hughes, Raymond James Ltd.

Natural Gas Charts

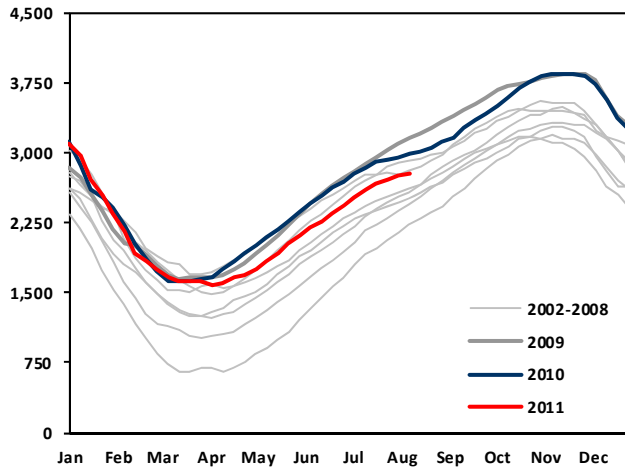
a. Cdn Natural Gas Production (Bcf/d)



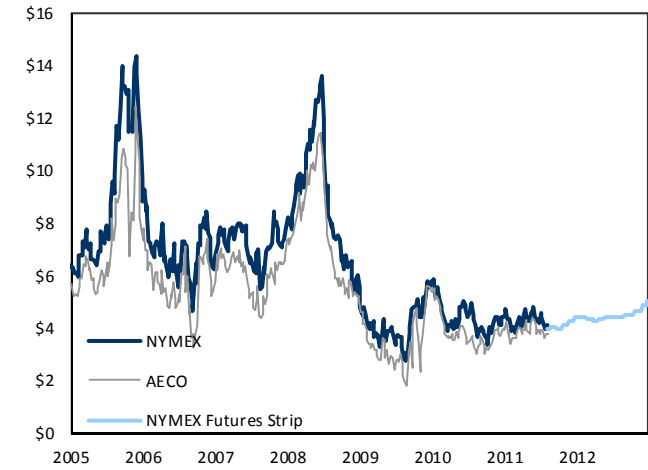
b. Cdn Natural Gas Exports to U.S. (Bcf/d)



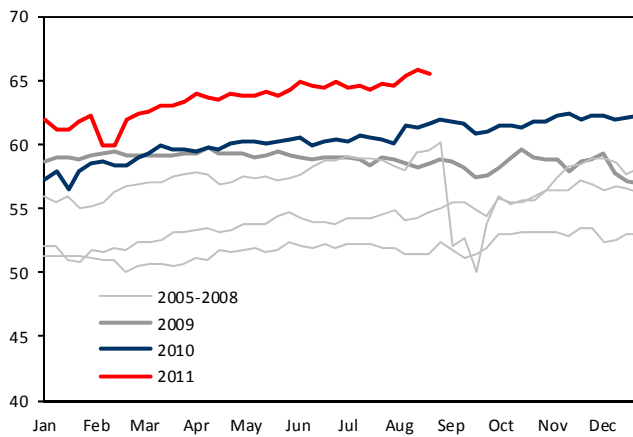
c. US Natural Gas Storage (Bcf)



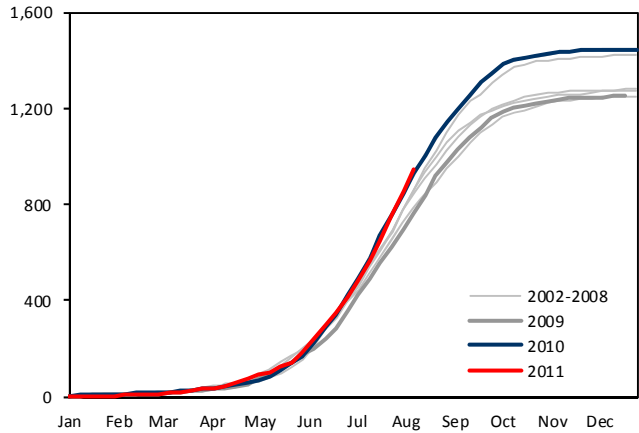
d. North American Gas Prices (US\$/mcf)



e. U.S. Natural Gas Production (Bcf/d)



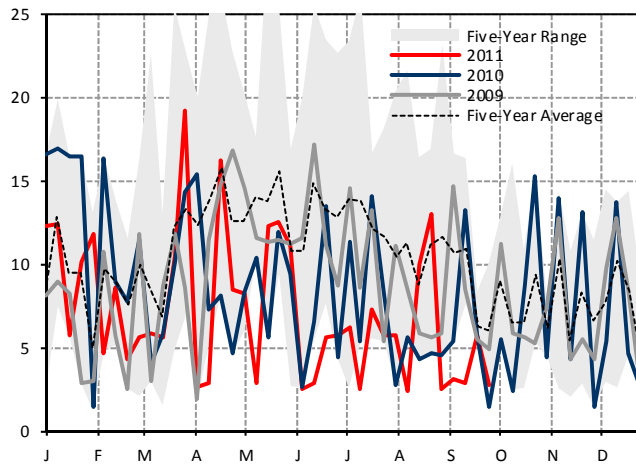
f. Cumulative Cooling Degree Days



Sources: Bloomberg, NOAA, Bentek Energy, Raymond James Ltd.

Natural Gas Charts (continued)

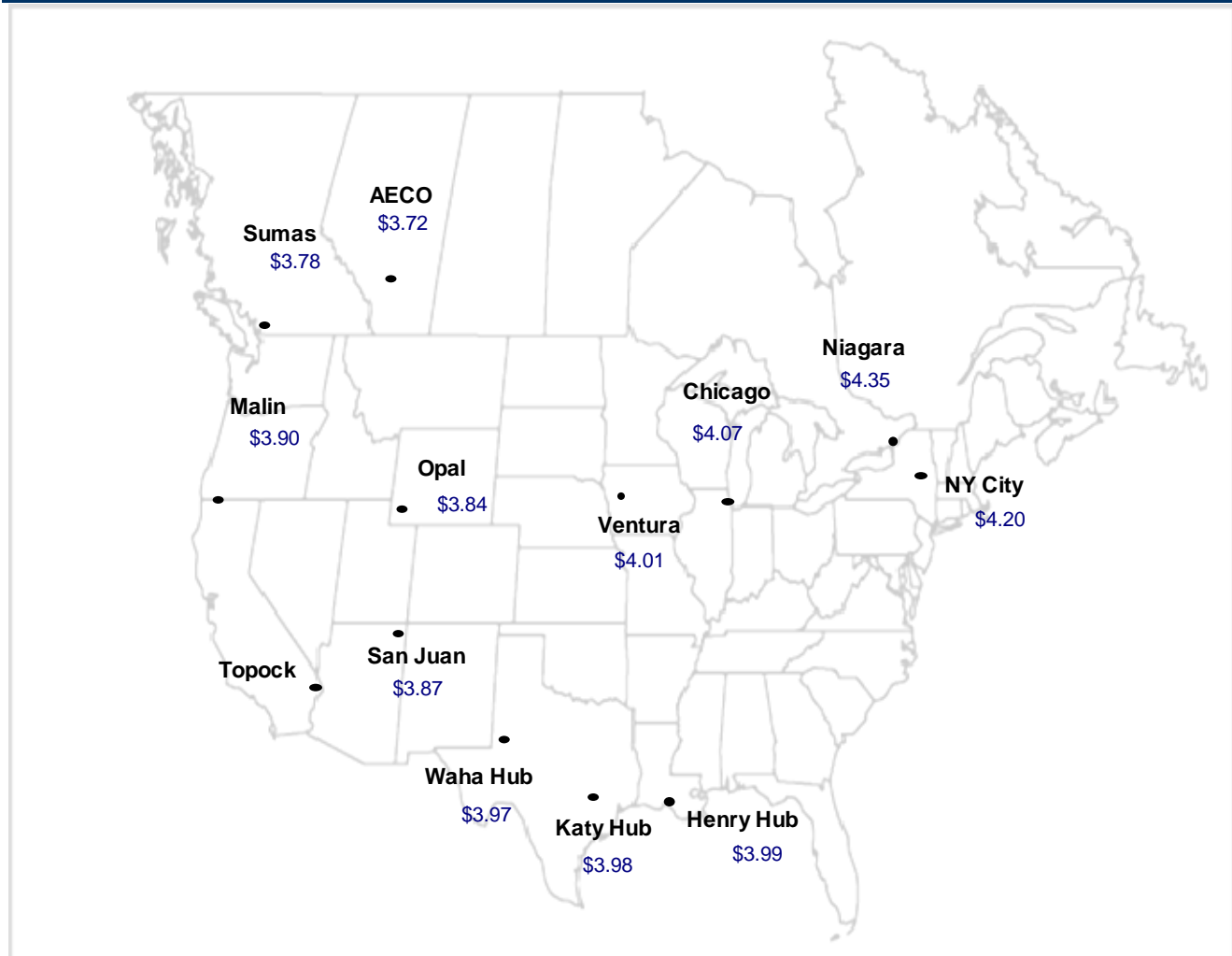
a. Weekly U.S. LNG Imports (Bcf)



b. LNG Netbacks - Landed (US\$/mcf)

Destination Port	Jun-11	Jul-11	Aug-11
Cove Point	\$4.40	\$4.39	\$3.93
Altamira	\$4.57	\$4.53	\$4.14
Lake Charles	\$3.93	\$3.89	\$3.54
Spain	\$9.15	\$9.18	\$9.62
Belgium	\$9.07	\$8.63	\$9.00
UK	\$8.99	\$8.39	\$8.43
India	\$12.00	\$13.73	\$13.44
Japan	\$13.10	\$14.47	\$15.22
Korea	\$13.10	\$14.38	\$15.22

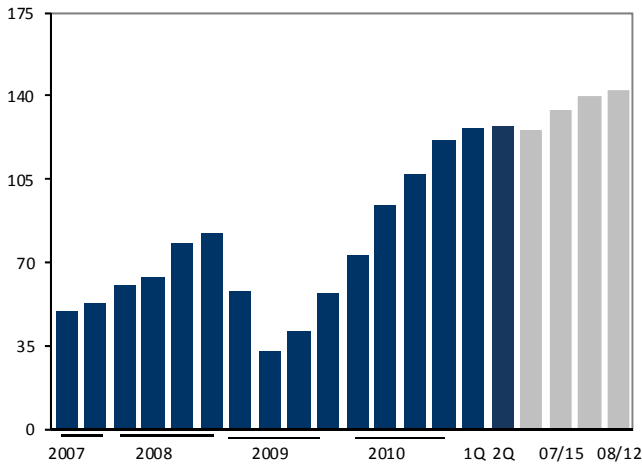
c. N.A. Gas Spot Prices (US\$/mcf)



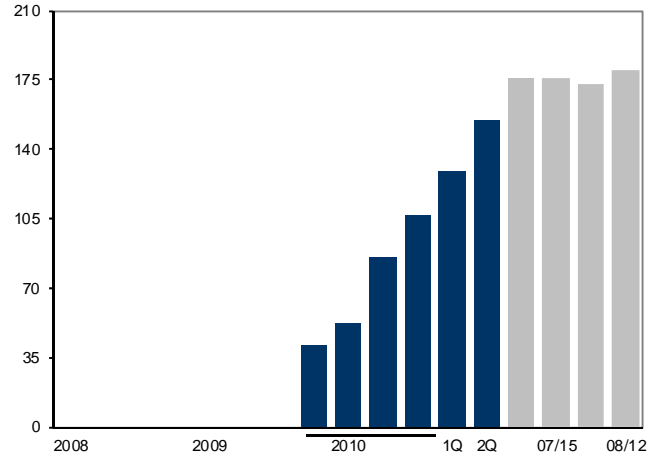
Sources: Bloomberg, Waterborne Energy, Raymond James Ltd.

U.S. Unconventional Rig Counts

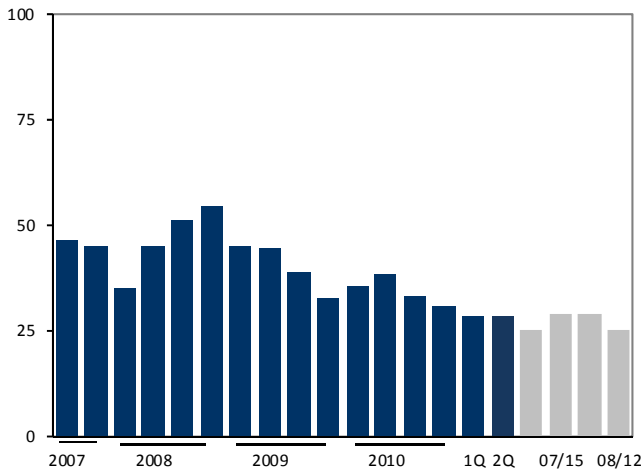
a. U.S. Bakken Shale Active Rigs



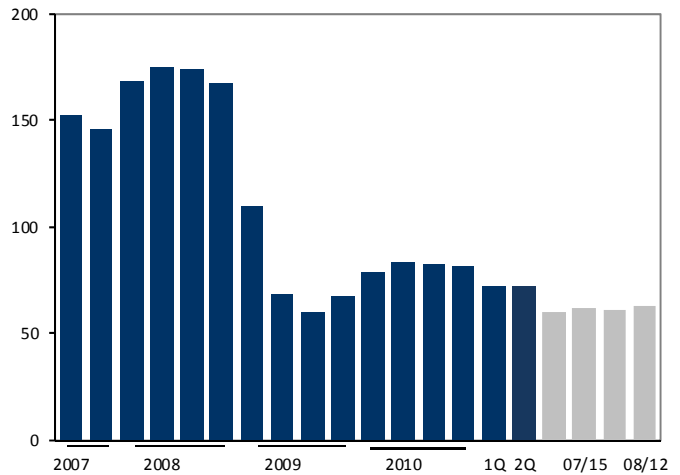
b. Eagle Ford Shale Active Rigs



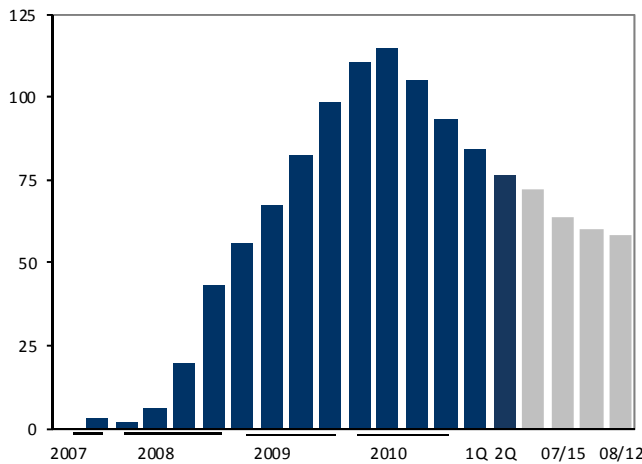
c. U.S. Fayetteville Shale Active Rigs



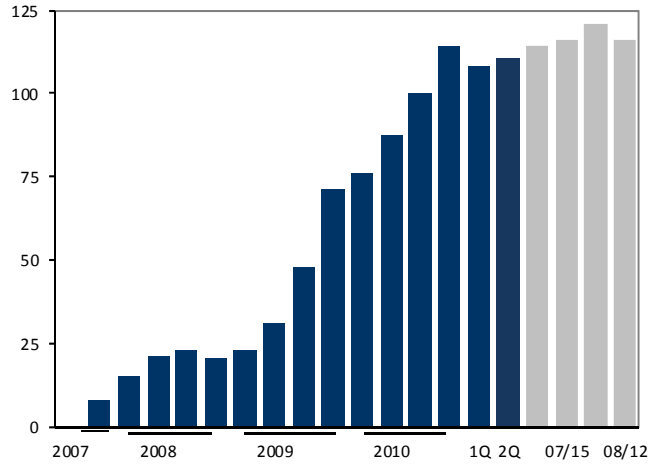
d. U.S. Barnett Shale Active Rigs



e. U.S. Haynesville (La.) Shale Active Rigs



f. U.S. Marcellus Shale Active Rigs



Sources: The Land Rig Newsletter

Energy Services

Company Name	Symbol	Closing Price	Target Price	Stock Rating	Target Return	Mkt Cap (\$mln)	Dividends		EPS (\$)		P/E (x)		EBITDA		EV/EBITDA		ROIC		Analyst
							S/sh	Yield	I/E	I2E	I/E	I2E	I/E	I2E	I/E	I2E	I/E	I2E	
Contract Drillers																			
Ensign	ESI	\$15.48	\$24.25	OP 2	59.1%	\$2,362	\$0.38	2.5%	\$1.46	\$2.01	10.6x	7.7x	\$496	\$636	5.4x	4.4x	12.4%	14.4%	AB
Precision	PD	\$12.01	\$18.25	OP 2	52.0%	\$3,313	\$0.00	0.0%	\$0.94	\$1.29	12.8x	9.3x	\$882	\$840	6.0x	5.0x	11.7%	13.5%	AB
Savanna	SVY	\$8.14	\$12.25	OP 2	50.5%	\$689	\$0.00	0.0%	\$0.54	\$0.88	15.2x	9.2x	\$133	\$180	6.1x	4.6x	6.0%	8.6%	AB
Trinidad	TDG	\$7.67	\$12.50	SB 1	65.6%	\$927	\$0.20	2.6%	\$0.58	\$0.83	13.2x	9.2x	\$253	\$300	5.8x	4.5x	7.8%	10.0%	AB
Western	WRG	\$8.50	\$12.00	OP 2	41.2%	\$498	\$0.00	0.0%	\$1.00	\$1.01	8.5x	8.4x	\$89	\$125	5.9x	4.8x	14.6%	12.3%	AB
Pressure Pumpers																			
Calfrac	CFW	\$31.73	\$55.00	SB 1	73.8%	\$1,389	\$0.15	0.5%	\$3.60	\$4.90	8.8x	6.5x	\$373	\$504	4.5x	3.4x	19.4%	21.2%	AB
Canyon	FRC	\$11.62	\$22.25	SB 1	92.3%	\$706	\$0.10	0.9%	\$1.39	\$2.09	8.4x	5.6x	\$149	\$229	4.6x	2.9x	35.1%	37.6%	AB
GasFrac	GFS	\$7.95	\$12.50	OP 2	57.2%	\$489	\$0.00	0.0%	\$0.05	\$1.05	nmf	7.6x	\$24	\$125	18.6x	3.9x	2.3%	22.4%	AB
Trican	TCW	\$21.22	\$31.00	SB 1	46.6%	\$3,091	\$0.10	0.5%	\$1.81	\$2.02	11.7x	10.5x	\$578	\$750	5.6x	4.7x	21.2%	18.6%	AB
Completion Services																			
Essential	ESN	\$1.71	\$3.10	SB 1	81.3%	\$211	\$0.00	0.0%	\$0.19	\$0.30	8.9x	5.7x	\$61	\$95	3.8x	3.1x	7.8%	10.7%	AB
Pure	PSV	\$6.91	\$12.00	SB 1	73.7%	\$167	\$0.00	0.0%	\$0.82	\$1.27	8.4x	5.4x	\$47	\$67	4.0x	2.6x	14.5%	20.2%	AB
Field Services																			
Black Diamond	BDI	\$14.76	\$17.50	OP 2	22.4%	\$548	\$0.57	3.9%	\$1.06	\$1.18	14.0x	12.5x	\$88	\$103	7.0x	5.9x	13.0%	13.7%	AB
Enerflex	EFX	\$10.13	\$13.25	OP 2	33.2%	\$782	\$0.24	2.4%	\$0.61	\$0.82	16.6x	12.4x	\$113	\$129	8.1x	6.4x	4.8%	6.2%	AB
McCoy	MGB	\$4.17	\$5.50	OP 2	32.9%	\$112	\$0.04	1.0%	\$0.41	\$0.48	10.2x	8.7x	\$21	\$24	4.6x	3.5x	15.8%	16.8%	SH/BC
Mullen	MTL	\$20.15	\$23.25	MP 3	20.3%	\$1,611	\$1.00	5.0%	\$1.20	\$1.18	16.8x	17.1x	\$265	\$279	7.7x	7.3x	11.0%	10.6%	AB
Secure	SES	\$8.00	\$10.25	OP 2	28.1%	\$713	\$0.00	0.0%	\$0.42	\$0.65	19.2x	12.4x	\$64	\$100	9.7x	6.8x	11.8%	15.5%	AB
Sirad	SDY	\$4.25	\$6.75	SB 1	58.8%	\$158	\$0.00	0.0%	\$0.42	\$0.64	10.1x	6.6x	\$49	\$65	4.0x	3.1x	9.8%	12.5%	AB
Median					52.0%			0.5%	\$0.82	\$1.05	11.1x	8.7x	5.8x	4.5x			11.8%	13.7%	

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