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Industry Comment

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Oil & Gas Energy Services

Weekly Oilfield Bulletin; High Rig Counts Too Readily Dismissed as a Q2 "Catch-Up"

The Canadian oilpatch quietly went about the business of establishing a new activity record this past week. You can see it in chart "a" on page four (4) of this report. The Canadian rig count stood at 519 rigs on Friday – 553 rigs if we include equipment moving between jobs or rigging-in on-site. This is the highest-ever rig count recorded for this time of the year, and the mid-week counts suggest that it's still trending higher.

Not that the equity markets have taken much notice. Most Canadian drillers are down anywhere from 9-15% month-to-date. Which is a little perplexing in its own right, but at the same time the US drillers are down only 1-5%. Why would the US drillers outperform by a 4-14% margin, even if it is on the downside? Well, it isn't because the US rig count is rising faster than the Canadian rig count. The U.S. rig count is actually flat to slightly down over the last four weeks.

But back to the Canadian rig count, why shouldn't it be increasing? 69% of rigs in Canada are targeting explicitly oil bearing formations. Many of the 31% of rigs that are nominally gas are targeting high liquids-content gas, where their economics are underpinned by the more attractive pricing in the liquids, not the natural gas itself. And while October crude at Cushing, Oklahoma is priced at US$88.74/bbl, Edmonton par is priced at C$92.88/bbl. We're hard-pressed to think of an important active play in Canada today that can't beat its cost of capital at $92-oil. Given this fact-pattern, if the rig count weren't rising, well that would be surprising.

For sure, what we are seeing is *partly* a function of the catch-up from a protracted spring and rainy season. But at the same time we are suspicious that the market is too easily dismissing the high rig count as purely a catch-up phenomenon. Consider that drilling activity is up 88% year-over-year. Can we really just chalk that entirely up to a 2Q catch-up? As it was, the June and July rig counts were about 60 and 20 rigs lower respectively than we would have expected under more reasonable weather conditions. But in August the rig count was 110 rigs higher that we expected. So far in September, it's averaging about 170 rigs higher. At what point can we safely say we're caught-up? Besides, given producers' general fixation on achieving exit rate targets/guidance, **we don't expect this rig count to slow down meaningfully until next spring**, save for a 1-2 week slowdown over Christmas.

Company	Ticker	Sep-14-11 Price	Target Price (6-12 mths)	Dividend Yield	Total Return To Target	Rating
Contract Drillers						
Ensign Energy Services	ESI-TSX	$15.39	$24.25	2.5%	60%	Outperform 2
Precision Drilling Corporation	PD-TSX | PDS-NYSE	$11.75	$18.25	0.0%	55%	Outperform 2
Savanna Energy Services	SVY-TSX	$7.68	$12.25	0.0%	60%	Outperform 2
Trinidad Drilling Ltd.	TDG-TSX	$6.86	$12.50	2.9%	85%	Strong Buy 1
Tuscany International Drilling Inc.	TID-TSX	$0.83	$1.10	0.0%	33%	Outperform 2
Western Energy Services Corp.	WRG-TSXV	$7.53	$12.00	0.0%	59%	Outperform 2
Pressure Pumpers						
Calfrac Well Services	CFW-TSX	$32.12	$55.00	0.5%	72%	Strong Buy 1
Canyon Services Group Inc.	FRC-TSX	$11.29	$22.25	0.9%	98%	Strong Buy 1
GasFrac Energy Services Ltd.	GFS-TSX	$7.97	$12.50	0.0%	57%	Outperform 2
Trican Well Service	TCW-TSX	$19.12	$31.00	0.5%	63%	Strong Buy 1
Completion Services						
Essential Energy Services Ltd.	ESN-TSX	$1.90	$3.10	0.0%	63%	Strong Buy 1
Pure Energy Services Ltd.	PSV-TSX	$6.90	$12.00	0.0%	74%	Strong Buy 1
Field Services						
Black Diamond Group Ltd.	BDI-TSX	$14.70	$17.50	3.9%	23%	Outperform 2
Enerflex Ltd.	EFX-TSX	$9.51	$13.25	2.5%	42%	Outperform 2
Mullen Group Ltd.	MTL-TSX	$20.74	$23.25	4.8%	17%	Market Perform 3
Secure Energy Services Inc.	SES-TSX	$7.38	$10.25	0.0%	39%	Outperform 2
Strad Energy Services Ltd.	SDY-TSX	$4.33	$6.75	0.0%	56%	Strong Buy 1

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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	12,293	-4.0	-3.8	+0.5
TSX Oilfield index	1,439	-5.4	-12.9	+26.5
OSX	234	-0.6	-3.5	+24.2
WTI (US$/bbl)	88.91	-0.5	+1.2	+17.0
C Par @ Edm. ($/bbl)	92.88	-5.9	+9.6	+27.5
NYMEX (US$/mcf)	4.04	+2.5	+0.4	+1.1
AECO-C ($/GJ)	3.55	+3.2	+3.5	-1.7
USD/CAD	1.01	-0.6	-1.0	+3.7

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	552	561	328	459
Total Fleet	811	813	807	812
Utilization	68%	69%	41%	56%
Active Service Rig Count	592	574	481	516
Total Fleet	912	929	890	904
Utilization	65%	62%	54%	57%

Canadian Wells & Licenses

	Year to Date 2011	2010	13-Wk Total 2011	2010
Total Completions	9,614	6,969	2,659	1,845
%Oil	57	49	64	65
%Horizontal + Directional	74	66	86	79
%Vertical	26	34	14	21
Well Licenses	11,003	9,215	3,914	3,433
Total Meters Drilled (000s)	15,844	11,630	4,423	3,472
%Developement	82	79	83	79
Avg. Well Depths (meters)	2,866	2,478	767	731

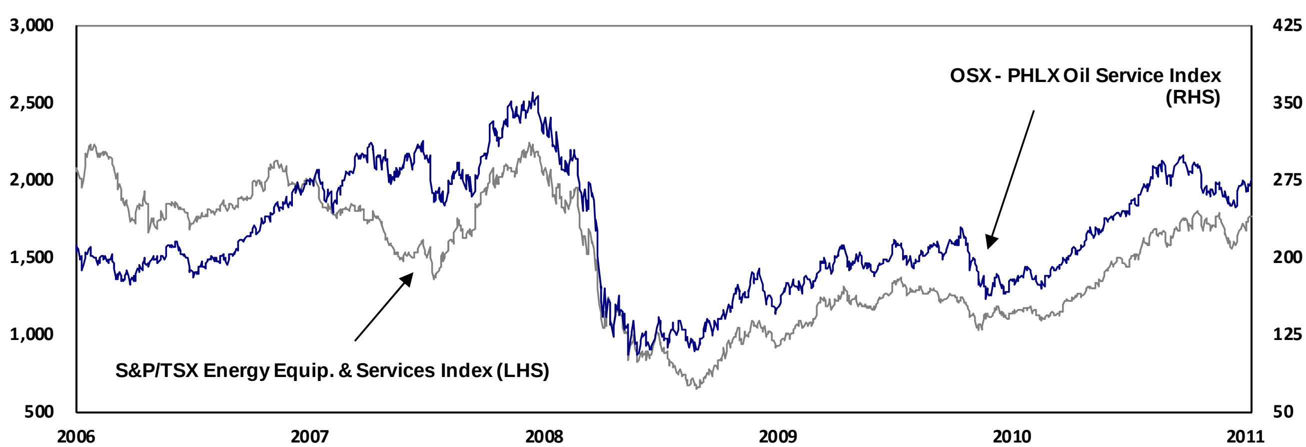
US Active Rig Count

	This Wk	Last Wk	Last Yr	13-Wk M.A
Total US Rig Count	1,958	1,968	1,654	1,923
%Oil	54	54	40	54
%Horizontal + Directional	70	70	69	70
%Vertical	30	30	31	30
Total Land	1,926	1,935	1,633	1,889
%Oil	54	54	41	54
Gulf of Mexico	30	31	21	34
%Oil	67	68	43	55

International Active Rig Count

	Aug-11	Jul-11	Jun-11	May-11
International Rig Count	1,183	1,150	1,158	1,151
%Oil / %Land	76 / 73	79 / 73	76 / 74	76 / 73
Australia	14	13	15	10
%Oil / %Land	43 / 50	54 / 54	60 / 53	30 / 30
South America	441	438	438	410
%Oil / %Land	87 / 78	89 / 79	87 / 80	87 / 80
Continental Europe	94	90	86	77
%Oil / %Land	49 / 64	50 / 67	47 / 69	47 / 66

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



All figures in C$, unless otherwise noted.

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

Canadian Oilfield Activity Charts

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

Drilling Contractor	This Week	Last Week	Last Year	13-Week M.Avg.	2008	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009 Year	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2010 Year	2011 Q1	2011 Q2
	Weekly Observed Utilization (%)																
Akita Drilling	78	78	38	71	42	45	16	26	37	31	49	25	39	31	36	62	30
Ensign Group	71	72	33	58	36	30	7	18	25	20	42	13	31	37	31	52	16
Nabors Drilling	58	57	30	47	42	39	13	15	27	24	44	22	33	46	36	61	27
Precision Drilling	67	66	41	53	38	33	11	20	28	23	50	19	37	47	38	61	21
Savanna	57	64	40	54	42	31	5	19	31	22	54	18	40	47	40	64	22
Trinidad Drilling	81	80	56	72	55	50	14	36	43	36	67	34	56	65	55	80	31
Western (Horizon)	95	92	53	72	50	55	9	30	45	35	46	46	61	65	57	85	40
INDUSTRY	**68**	**69**	**41**	**56**	**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

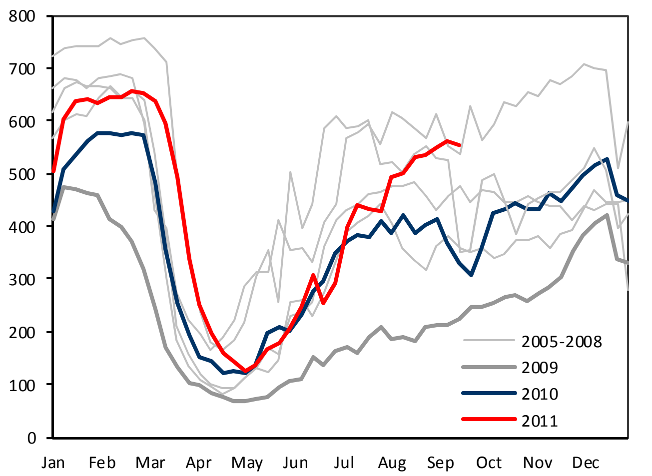
b. Drilling Contractor Utilization – Weekly Observed Rates by Depth Quartile

Depth Quartile	Depth Range (m) / Average Depth (m)		Ensign Group	Precision Drilling	Savanna	Trinidad Drilling	Western (Horizon)	INDUSTRY
Q1	80 - 1,900m / 1,398 m	Rigs (% of fleet)	40 (33%)	34 (17%)	30 (42%)	17 (31%)	0 (0%)	
		Utilization	40%	41%	20%	65%	0%	35%
Q2	2,000 - 3,000m / 2,517 m	Rigs (% of fleet)	32 (26%)	69 (34%)	9 (13%)	5 (9%)	2 (5%)	
		Utilization	88%	59%	78%	100%	100%	72%
Q3	3,000 - 3,500m / 3,274 m	Rigs (% of fleet)	36 (30%)	56 (27%)	12 (17%)	14 (26%)	20 (54%)	
		Utilization	89%	77%	83%	93%	90%	82%
Q4	3,500 - 7,000m / 4,167 m	Rigs (% of fleet)	13 (11%)	45 (22%)	21 (29%)	18 (33%)	15 (41%)	
		Utilization	77%	84%	86%	83%	100%	84%
Total	80 - 6,700m / 2,834 m	Rigs	121	204	72	54	37	811
		Utilization	71%	67%	57%	81%	95%	68%

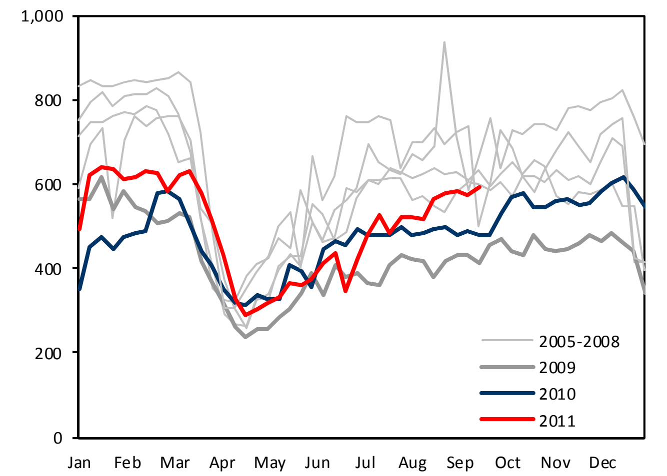
Ensign Group includes: Big Sky Drilling, Ensign Drilling and Champion Drilling
Savanna includes: Lakota Drilling and Trailblazer Drilling
Sources: JuneWarren-Nickle's Energy Group, Company reports, Raymond James Ltd.

Canadian Oilfield Activity Charts (continued)

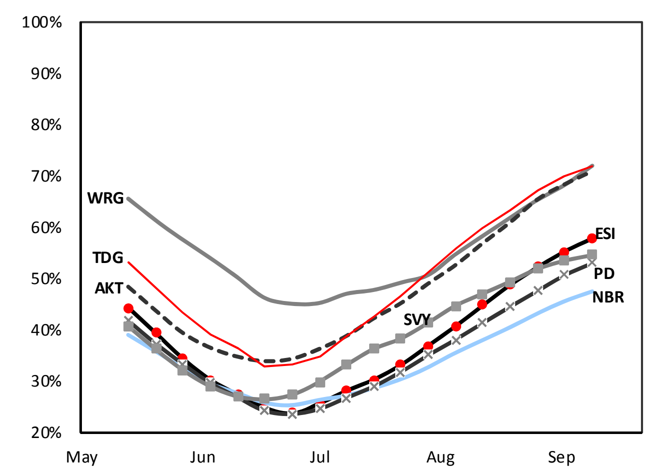
a. Weekly Rig Count



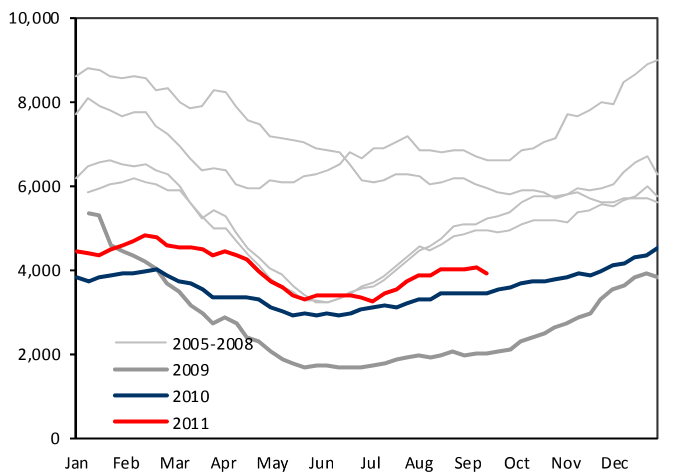
b. Weekly Service Rig Count



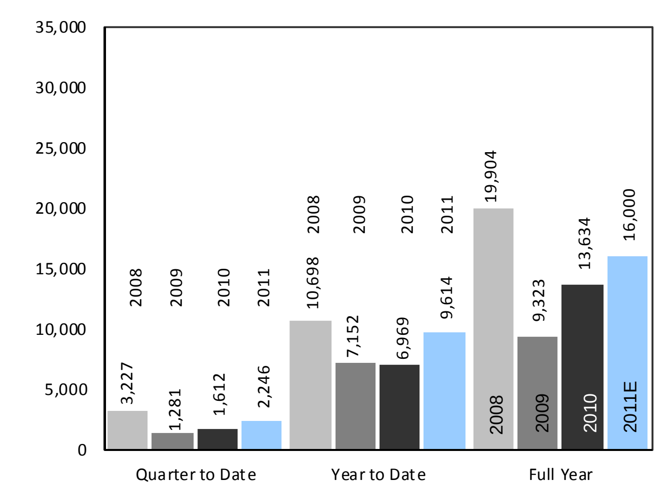
c. Contractor Utilization (13-Wk MA)



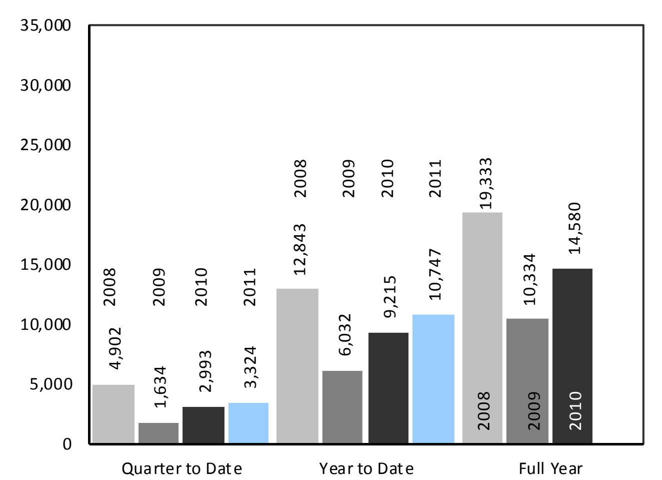
d. Well Licenses (13-Wk Total)



e. Well Completions



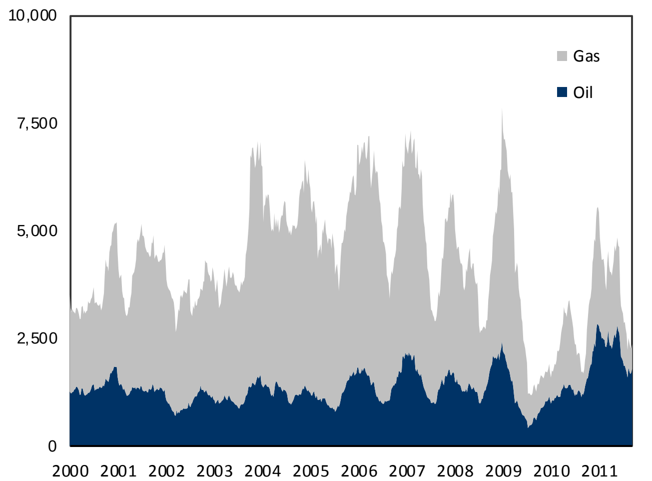
f. Well Licenses



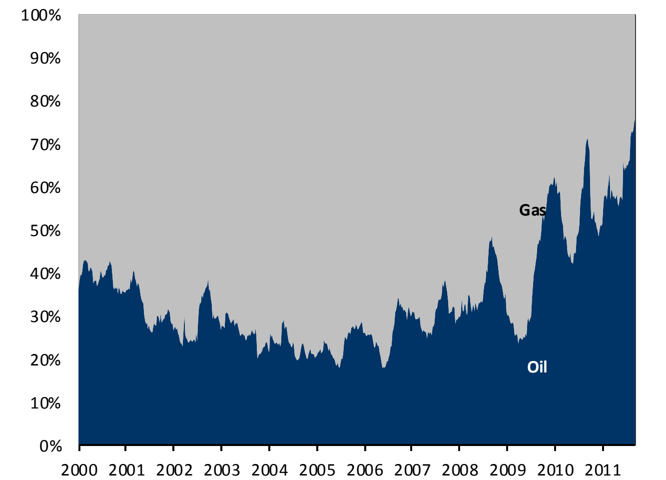
Sources: JuneWarren-Nickle's Energy Group, CAODC, Raymond James Ltd.

Canadian & U.S. Oilfield Activity Charts

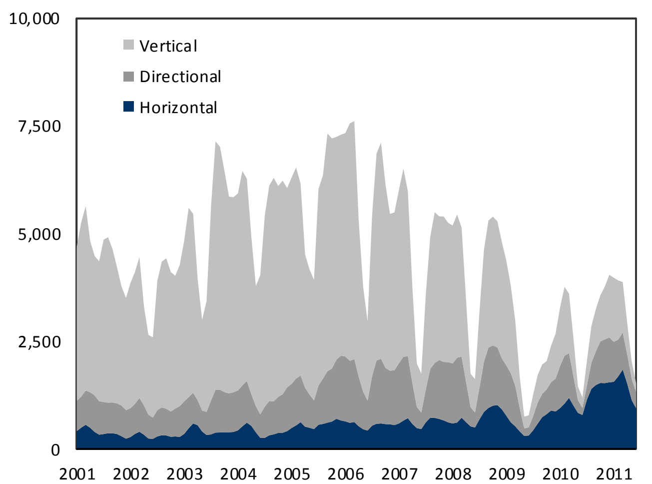
a. WCSB Well Completions (3-M RT)



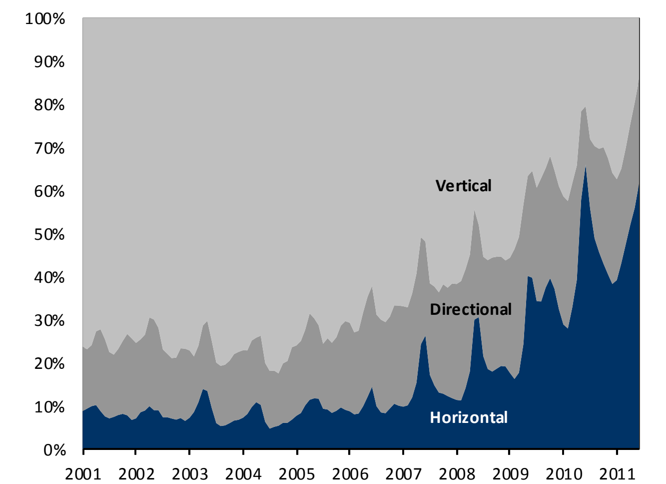
b. WCSB Well Completions (%)



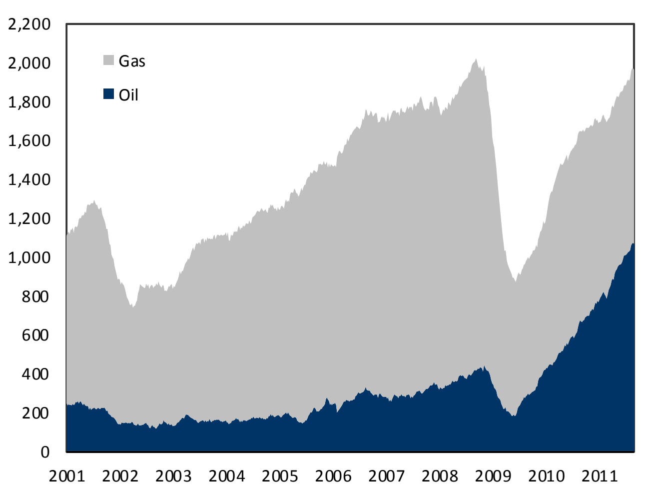
c. WCSB Well Completions by Type (3-M RT)



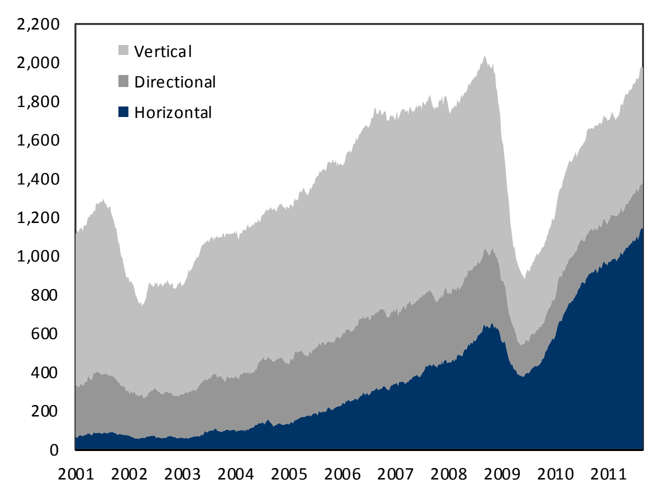
d. WCSB Well Completions by Type (%)



e. U.S. Active Rig Count



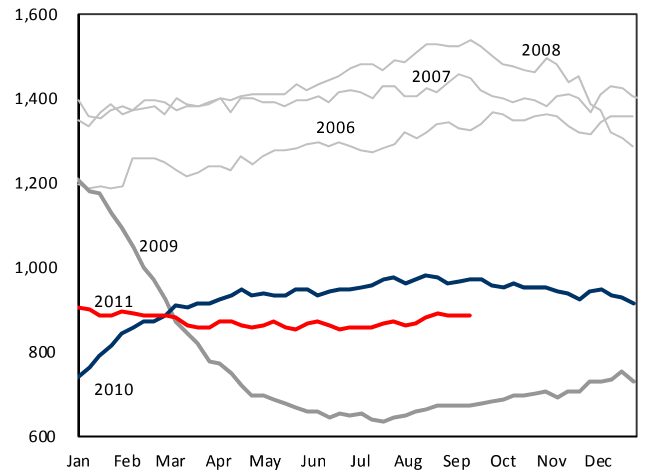
f. U.S. Active Rig Count by Well Type



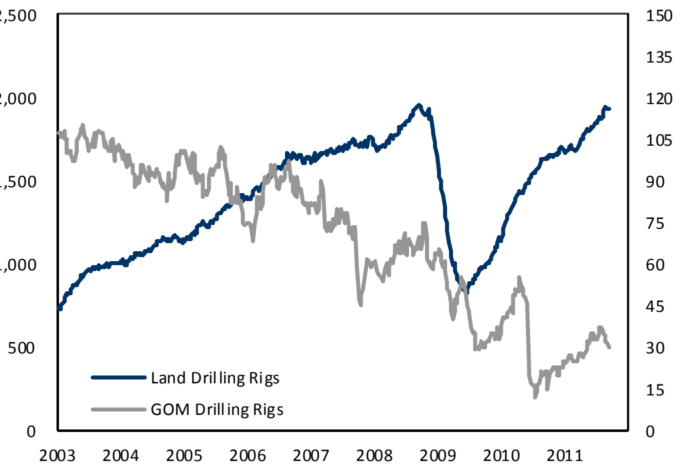
Sources: JuneWarren-Nickle's Energy Group, Baker Hughes

U.S. & International Oilfield Activity Charts

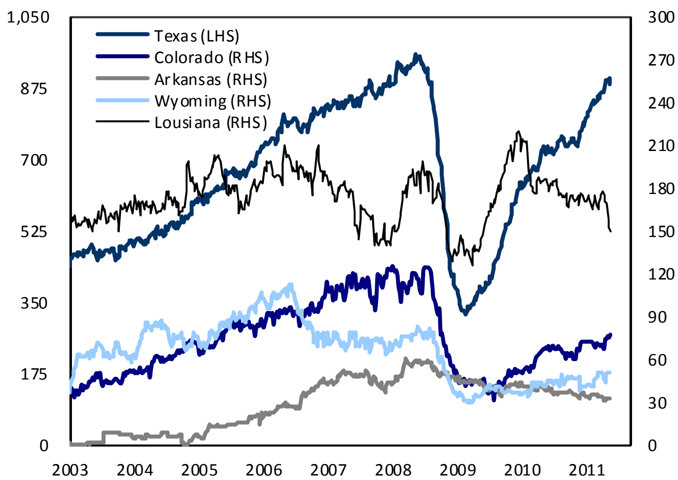
a. U.S. Active Land Rigs Targeting Gas



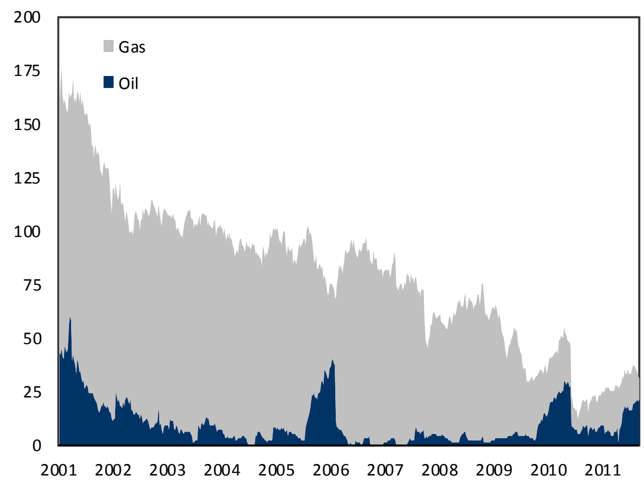
b. U.S. Active Land and GoM Rig Count



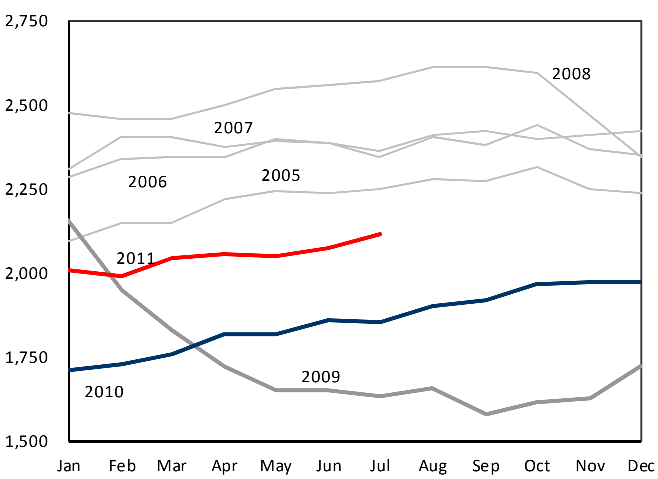
c. U.S. State Drilling Rig Counts



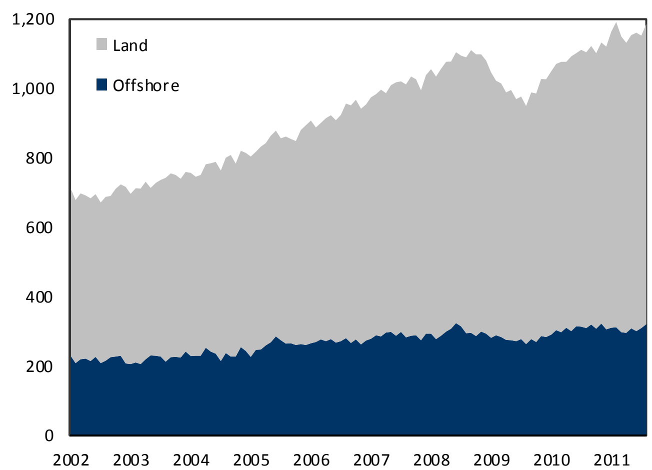
d. U.S. GoM Active Rig Count



e. U.S. Active Well Service Rig Count



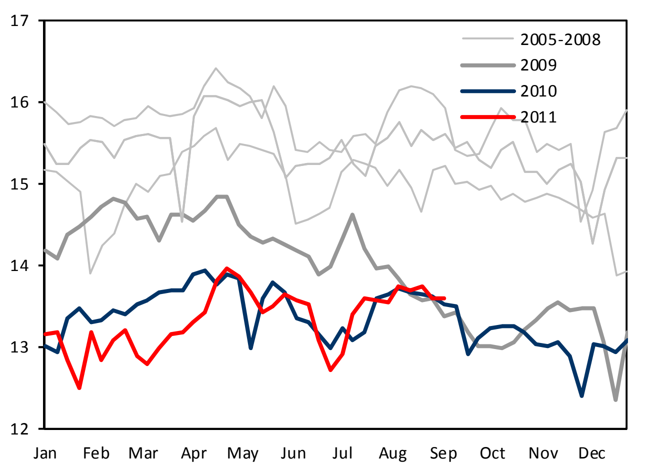
f. International Active Rig Count



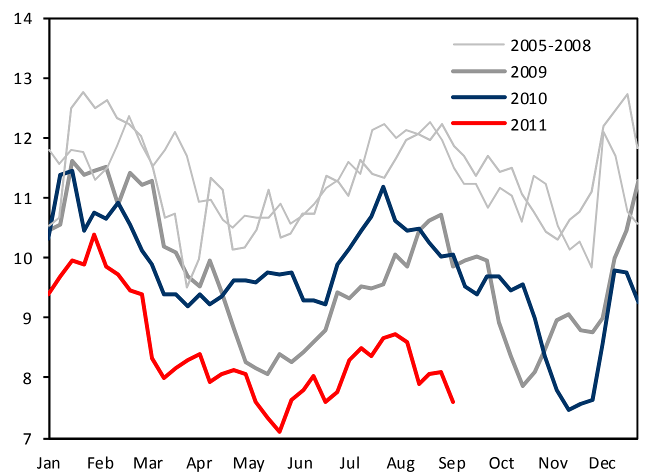
Sources: EIA, Baker Hughes, Raymond James Ltd.

Natural Gas Charts

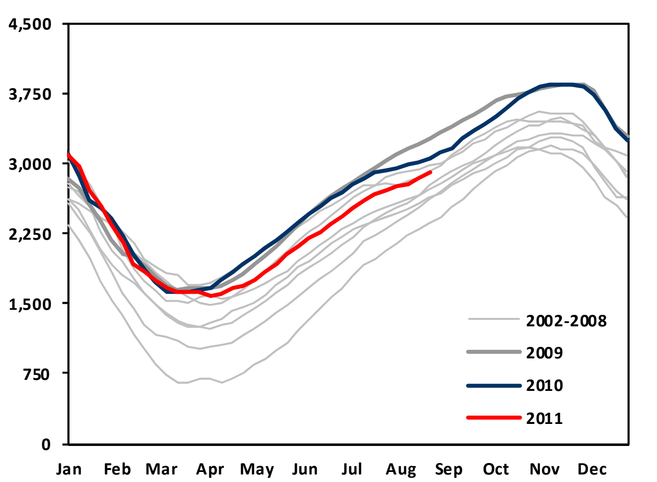
a. Cdn Natural Gas Production (Bcf/d)



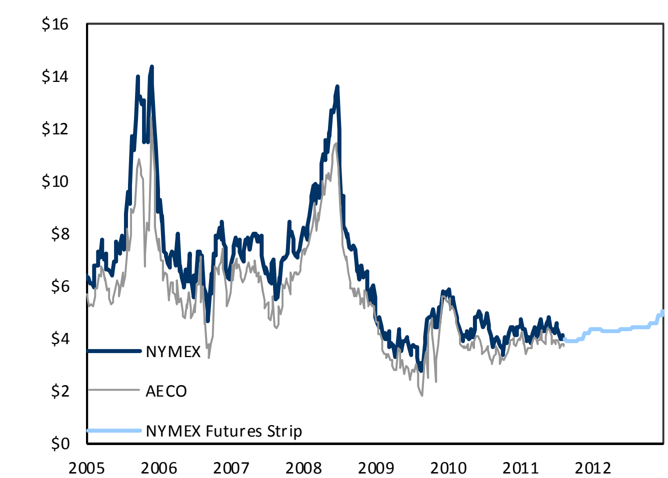
b. Cdn Natural Gas Exports to U.S. (Bcf/d)



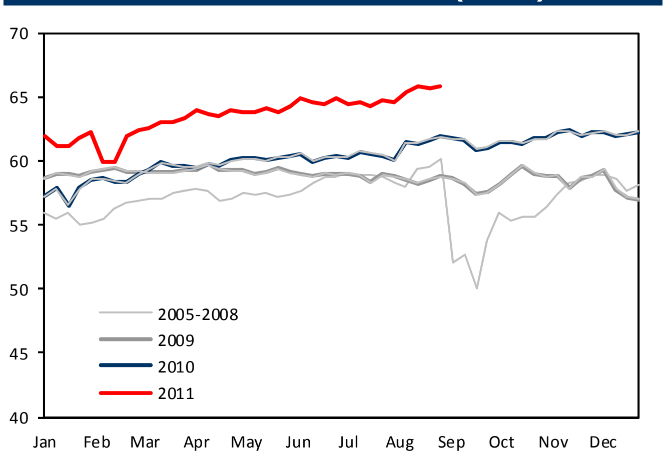
c. US Natural Gas Storage (Bcf)



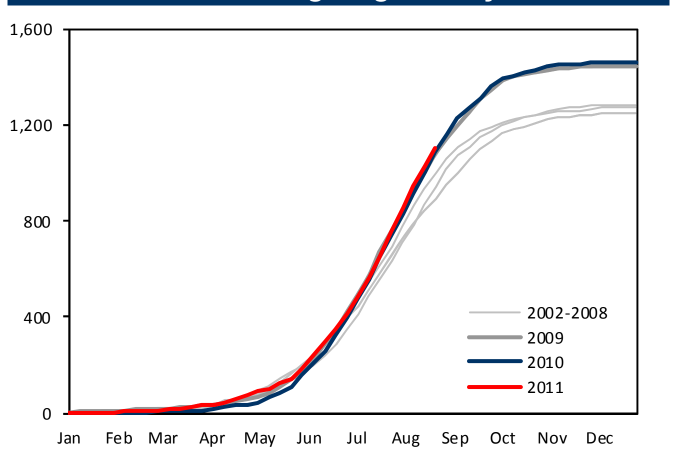
d. North American Gas Prices (US$/mcf)



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



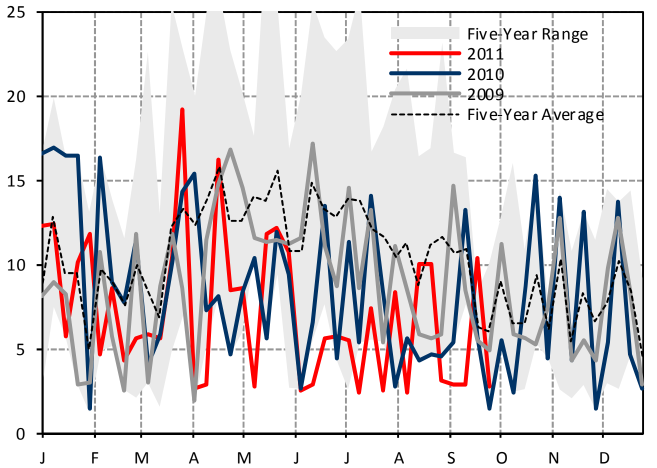
f. Cumulative Cooling Degree Days



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

Natural Gas Charts (continued)

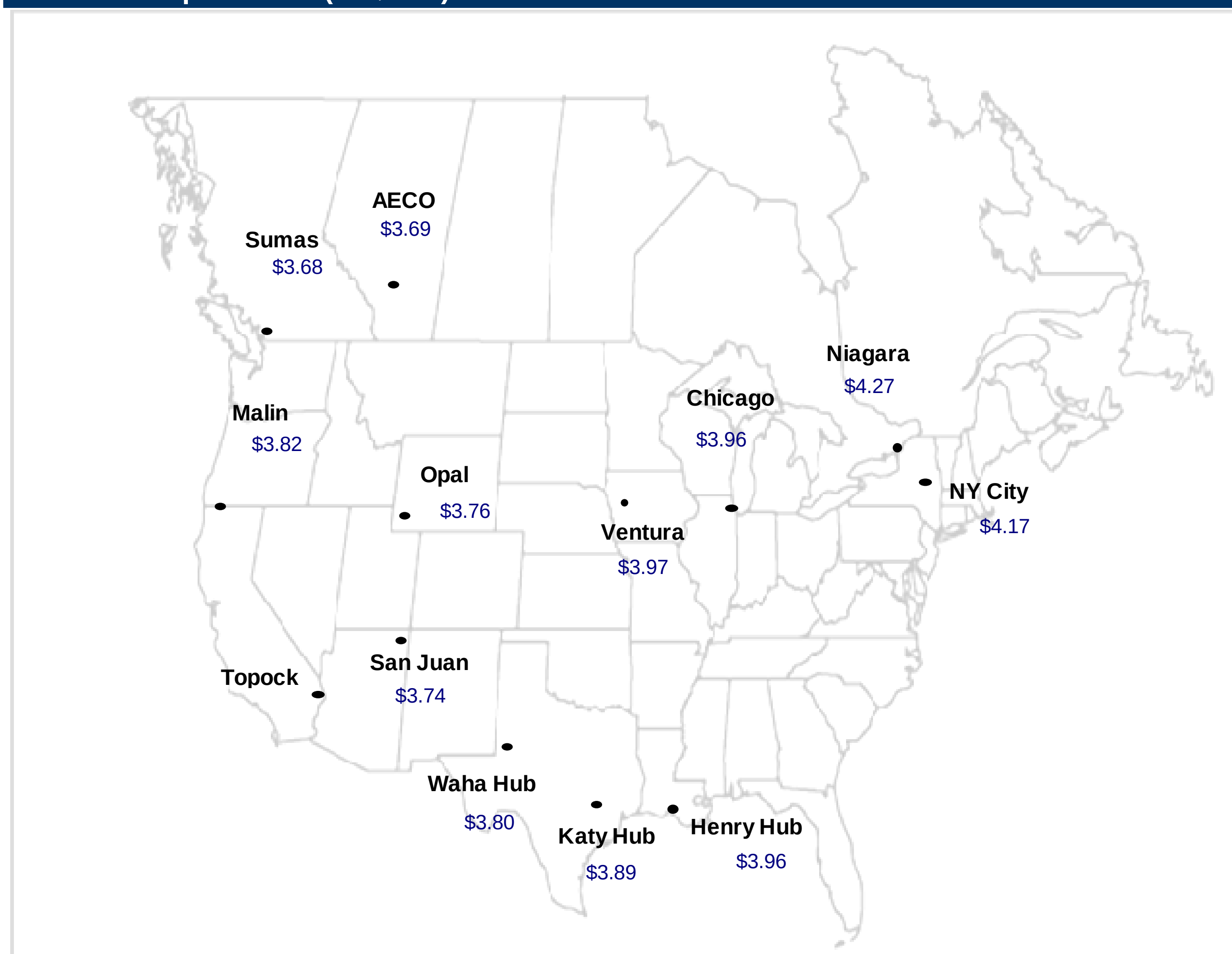
a. Weekly U.S. LNG Imports (Bcf)



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

Destination Port	Jul-11	Aug-11	Sep-11
Cove Point	$4.39	$4.04	$4.01
Altamira	$4.53	$4.25	$4.13
Lake Charles	$3.89	$3.64	$3.53
Spain	$9.18	$10.90	$10.85
Belgium	$8.63	$9.89	$10.19
UK	$8.39	$10.40	$10.16
India	$13.73	$14.44	$14.83
Japan	$14.47	$16.00	$16.60
Korea	$14.38	$16.00	$16.60

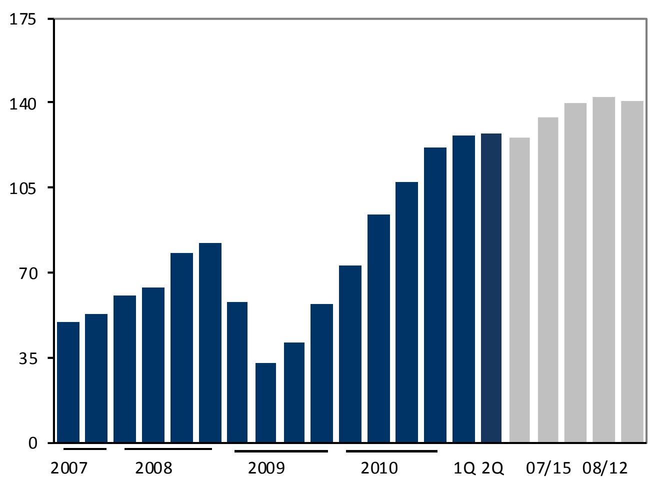
c. N.A. Gas Spot Prices (US$/mcf)



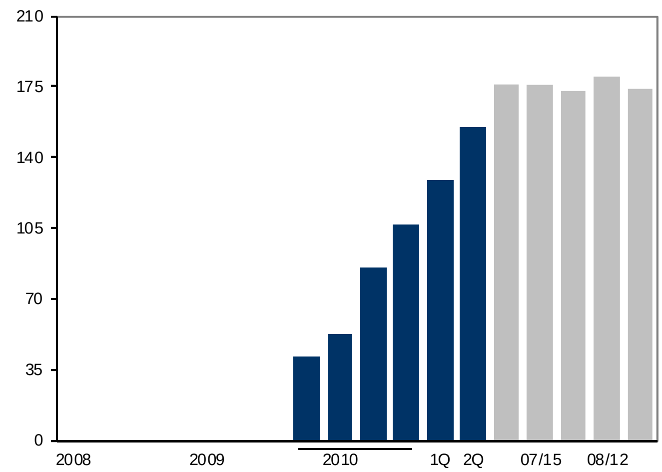
Sources: Bloomberg, Waterborne Energy, Raymond James Ltd.

U.S. Unconventional Rig Counts

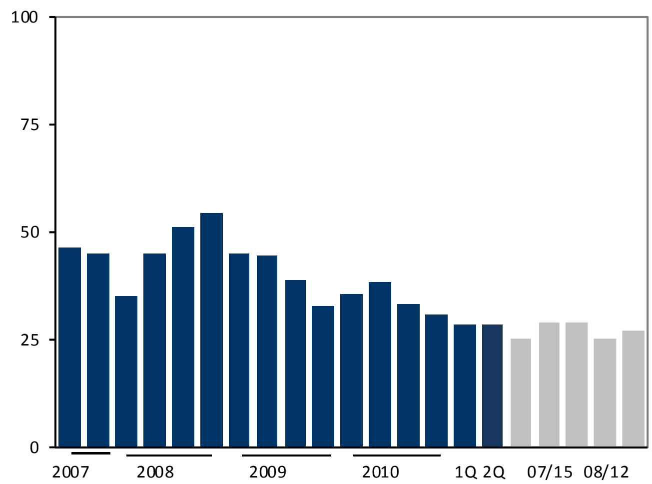
a. U.S. Bakken Shale Active Rigs



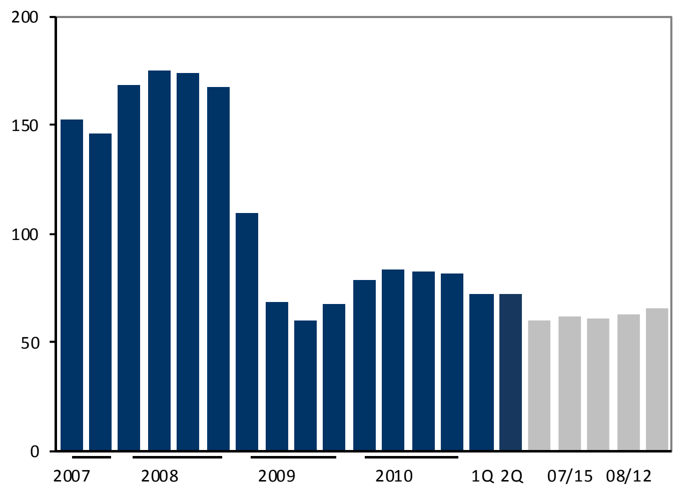
b. Eagle Ford Shale Active Rigs



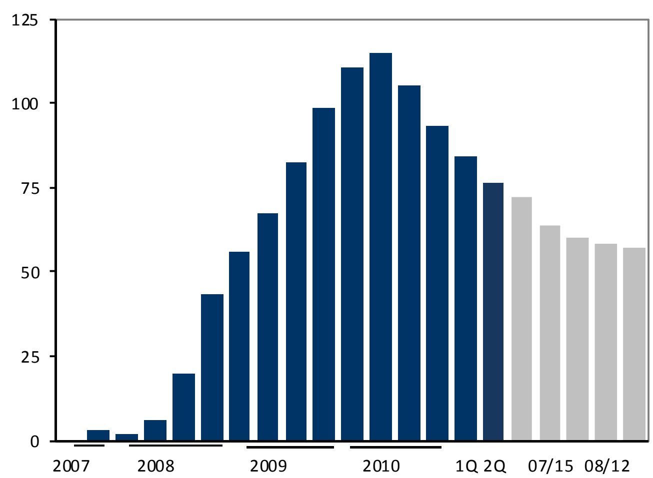
c. U.S. Fayetteville Shale Active Rigs



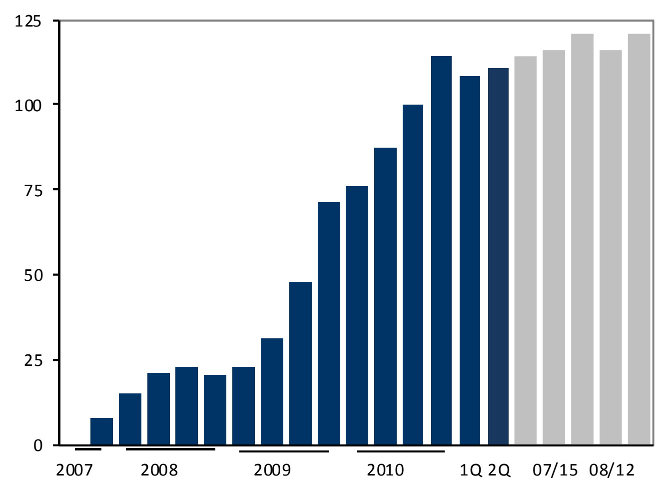
d. U.S. Barnett Shale Active Rigs



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 $/sh	Dividends Yield	EPS (fd) 11E	EPS (fd) 12E	P/E (fd) 11E	P/E (fd) 12E	EBITDA 11E	EBITDA 12E	EV/EBITDA 11E	EV/EBITDA 12E	ROIC 11E	ROIC 12E	Analyst
Contract Drillers																			
Ensign	ESI	$15.39	$24.25	OP 2	60.0%	$2,348	$0.38	2.5%	$1.46	$2.01	10.5x	7.7x	$496	$636	5.3x	4.4x	12.4%	14.4%	AB
Precision	PD	$11.75	$18.25	OP 2	55.3%	$3,242	$0.00	0.0%	$0.92	$1.25	12.7x	9.4x	$684	$847	5.8x	4.8x	11.4%	12.5%	AB
Savanna	SVY	$7.68	$12.25	OP 2	59.5%	$650	$0.00	0.0%	$0.54	$0.88	14.3x	8.7x	$133	$180	5.9x	4.4x	6.0%	8.6%	AB
Trinidad	TDG	$6.86	$12.50	SB 1	85.1%	$829	$0.20	2.9%	$0.58	$0.83	11.8x	8.3x	$253	$300	5.4x	4.2x	7.8%	10.0%	AB
Tuscany*	TID	$0.83	$1.10	OP 2	32.5%	$289	$0.00	0.0%	(US$0.04)	US$0.06	nmf	14.1x	US$37	US$91	9.0x	5.0x	1.8%	6.3%	AB
Western	WRG	$7.53	$12.00	OP 2	59.4%	$441	$0.00	0.0%	$0.99	$0.98	7.6x	7.7x	$88	$120	5.4x	4.4x	14.7%	12.3%	AB
Pressure Pumpers																			
Calfrac	CFW	$32.12	$55.00	SB 1	71.7%	$1,406	$0.15	0.5%	$3.60	$4.90	8.9x	6.6x	$373	$504	4.6x	3.4x	19.4%	21.2%	AB
Canyon	FRC	$11.29	$22.25	SB 1	98.0%	$686	$0.10	0.9%	$1.39	$2.09	8.1x	5.4x	$149	$229	4.5x	2.8x	35.1%	37.6%	AB
GasFrac	GFS	$7.97	$12.50	OP 2	56.8%	$490	$0.00	0.0%	$0.05	$1.05	nmf	7.6x	$24	$125	18.6x	4.0x	2.3%	22.4%	AB
Trican	TCW	$19.12	$31.00	SB 1	62.7%	$2,785	$0.10	0.5%	$1.81	$2.02	10.6x	9.4x	$578	$750	5.1x	4.3x	21.2%	18.6%	AB
Completion Services																			
Essential	ESN	$1.90	$3.10	SB 1	63.2%	$234	$0.00	0.0%	$0.19	$0.30	9.9x	6.3x	$61	$95	4.1x	3.4x	7.8%	10.7%	AB
Pure	PSV	$6.90	$12.00	SB 1	73.9%	$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	$14.70	$17.50	OP 2	22.9%	$546	$0.57	3.9%	$1.06	$1.18	13.9x	12.4x	$88	$103	6.9x	5.9x	13.0%	13.7%	AB
Enerflex	EFX	$9.51	$13.25	OP 2	41.9%	$734	$0.24	2.5%	$0.61	$0.82	15.6x	11.7x	$113	$129	7.7x	6.0x	4.8%	6.2%	AB
McCoy	MCB	$3.56	$5.50	OP 2	55.6%	$96	$0.04	1.1%	$0.41	$0.48	8.7x	7.4x	$21	$24	3.8x	2.8x	15.8%	16.8%	SH/BC
Mullen	MTL	$20.74	$23.25	MP 3	16.9%	$1,659	$1.00	4.8%	$1.21	$1.20	17.1x	17.3x	$268	$285	7.9x	7.4x	11.1%	10.8%	AB
Secure	SES	$7.38	$10.25	OP 2	38.9%	$658	$0.00	0.0%	$0.43	$0.61	17.3x	12.0x	$65	$104	9.0x	6.2x	12.1%	14.6%	AB
Strad	SDY	$4.33	$6.75	SB 1	55.9%	$161	$0.00	0.0%	$0.42	$0.64	10.3x	6.8x	$49	$65	4.1x	3.1x	9.8%	12.5%	AB
Median					58.1%			0.2%	$0.71	$1.02	10.5x	8.0x			5.4x	4.3x	11.7%	13.1%	

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