PCS BROKERS LLC
Merger & Acquisition Advisors

Oil Patch NEWS
VOLUME 2 ISSUE 2
www.oilfieldbiz.net
www.oph.hotlineprinting.com

Big Dollars For ND Leases

Diamond Resources of Williston dominated the high bidding for oil and gas leases offered by North Dakota, paying a record high bonus of $13,600 an acre for McKenzie County leases.

Even so, Wildcat Oil and Gas paid a record high $21,000 an acre for two lots in Stanley in Sec. 21, T156N-R91W.

The Feb. 7 sale by the ND Dept. of Trust Lands in Bismarck brought in a record $85.2 million, with bids averaging $1,219/acre for leases on 69,942 acres in 14 counties.

Diamond's high bid covered six tracts totaling 174 acres in sections 6 and 7, T152N-R93W.

McKenzie County led all counties, with bonuses totaling $31.9 million and bids averaging $7,860/acre.

High Bids Paid For North Dakota Leases

Diamond posted the second highest bid in that county, paying $11,700/acre for three tracts totaling 216 acres along the Missouri River in Sec. 10, T153N-R94W. Diamond paid a high bonus of $11,600/acre for four tracts totaling 640 acres, also along the Missouri River, in Sec. 3, T153N-R94W.

Empire Oil paid $11,600/acre for a 20-acre tract in Sec. 5, T149N-R95W.

In Williams County, where bonuses totaled $22,075,487 with an average bonus of $3,282/acre for 6,724 acres, Diamond was also high bidder.

Diamond paid $11,400/acre for 40 acres in Sec. 35, T153N-R99W. Agri Properties LLP also paid $11,400/acre for three tracts totaling 80 acres in Sec. 2, T155N-R101W.

Diamond came in with the second highest bid of $11,100/acre for three tracts totaling 122 acres in sections 33 and 34, T153N-R99W. Hess Corp. paid $10,200/acre for 20 acres in Sec. 13, T153N-R99W.

In Divide County, bids averaged $1,760/acre with bonuses totaling $13,601,213 for leases on 7,725 acres. Again, Diamond was the high bidder, paying $5,000/acre for 88 acres in Sec. 25, T160N-R97W. Diamond was the successful bidder at $4,900/acre for 80 acres in Sec. 23, T160N-R97W, and paid $4,700/acre for 80 acres in Sec. 22, T160N-R97W.

In Mountrail County, bids averaged $1,709/acre, bringing in a total of $8.7 million for leases on 5,093 acres. Following Wildcat, Davis Exploration LLC paid a high bid of $10,000/acre for 140 acres in Sec. 36, T151N-R92W.

LSM Energy was high bidder at $8,800/acre for 80 acres in Sec. 11, T151N-R91W, while Herco paid $8,500/acre for 160 acres in Sec. 31, T151N-R91W.

New Production Pushes Continental To The Top

Citing successes with higher initial production rates and more potential from the Three Forks, Continental Resources of Enid, OK soared ahead as the leading producer in North Dakota, averaging 80,000 BOPD in January.

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The company plans to add two additional rigs later this month to increase its North Dakota fleet to 22, while the number of rigs drilling in Montana remains at two.

Overall, Continental said initial production rates in North Dakota averaged 1,129 BOEPD on 24-hour tests, and the company is estimating the ultimate recovery per well has increased to 603,000 barrels with lateral frac stages averaging 24.5.

Continental RESOURCES

Among the ten operated wells with the highest one-day IP rates were: Dvirnak 3-7H in Dunn County at 2,115 BOEPD; Dvirnak 2-7H in Dunn County at 2,094 BOEPD; Durham 1-2H in McKenzie County at 2,003 BOEPD; Entzel 1-26H in Dunn County at 1,726 BOEPD and the Pletan 4-18H in Dunn County at 1,618 BOEPD.

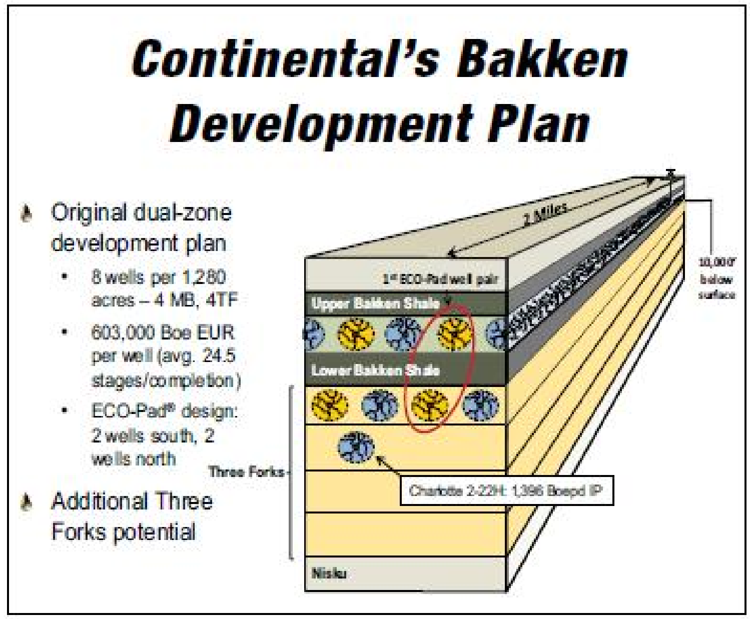
In Richland County, high IP rates were reported by the Jeannette 2-11H at 793 BOEPD, Harold 1-14H at 632 BOEPD, and the Thelma 2-14H at 510 BOEPD.

Continental Targets Deeper Three Forks

Continental said it was a non-operating partner in the Sunline 11-1TF-2SH, producing from the second bench of the Three Forks with an IP of 1,023 BOEPD. That well is 20 miles east of its Charlotte 2-22H, which was its first test of the lower Three Forks benches.

"Two years ago, we announced a five-year plan to triple production and proved reserves by year end 2014," said chairman and CEO Harold Hamm. "Since December 2009, we have already doubled production. We're clearly ahead of the plan to better well performance and increased operating efficiency."

Continental's 2011 full year production total 22.6 million barrels of oil—a 43% increase over 2010—and its proved reserves increased to 508 MMBOE, a 39% increase. The company also has holdings in Colorado and Oklahoma.



Denbury's Bakken Production Soars

Denbury Resources of Plano, TX said fourth quarter production from its Bakken wells in North Dakota went up 19% to 11,892 BOED, with 2011 capital expenditures totaling $440 million.

"Bakken has resulted in our modestly exceeding our budgeted January production levels," said President and CEO Phil Rykhoek. The company's year-end proved Bakken reserves were 93.9 MMBOE, about double the level for 2010.

The company expects to add a fourth drilling rig in North Dakota in the second half of 2012.

In addition, Denbury said it added 1.0 Tcf to its working interest in CO_2 reserves in Wyoming's Riley Ridge. With the acquisition at Riley Ridge, Denbury also saw an increase of 68% in its helium reserves.

The company's total estimated proved reserves were 357.7 million barrels of oil and natural gas liquids, and 625.2 Bcf of natural gas. The company said it wants to sell its non-operated interest the Greater Aneth oil field in Utah.

"We look forward to more positive results in 2012 as we continue to build on our highly profitable, low-risk oil platform," Rykhoek said.

New Crude Line Runs Under ND Lake

Enbridge Pipelines is expected to get approval from the ND Public Service Commission for $135.6 million crude oil pipeline carrying 60,000 barrels a day from McKenzie County, crossing two miles under Lake Sakakawea.

The 42-mile pipeline connecting, with the Beaver Lodge Station at Tioga, is designed to move oil out from production in the Southern Nesson Anticline and the Fort Berthold Indian Reservation.

The section under Lake Sakakawea will be drilled horizontally, and will include the installation of a new pump station and two 30,000-barrel storage tanks at Johnson Corner.

The beginning section of the ten-inch line will connect with the Saddle Butte and Arrow Pipeline stations. From there, a 12-inch line will run north from Johnson Corner, crossing Lake Sakakawea.

Construction on the Sanish Pipeline Project will start in September, and is expected to be completed in the fourth quarter of 2013.

Slawson Expects 300,000 EUR

Slawson Exploration Co., Inc. of Denver estimated it would recover 300,000 barrels of oil from new horizontal wells drilled in McKenzie and Williams counties.

At a hearing before the ND Oil and Gas Division in January, Slawson requested approval of 1280-acre spacing for the wells, which would each cost $10.2 million.

Spacing approval was sought for the Crossbow #1-7-6H in Sec. 7, T149N-R102W in sections 16 and 21, T157N-R91W in Mountrail County. Six wells would be drilled in this unit, with an expected ultimate recovery of 350,000 barrels.

In addition, Slawson said operating costs for the first 16 months for the wells will run $25,000 a month.

Slawson also asked for approval of the Wolverine Federal #1-31-30H in Sec. 31, T153N-R93W in McKenzie County, after noting that while the Bureau of Land Management had approved the location, the US Forest Service said it was not possible to monitor culture resources because the ground was frozen.

Plains Plans Huge Gas-Crude Rail Complex

Plains All American Pipeline LP plans a huge multi-million dollar gas plant and crude rail loading facility on a 350-acre site at Ross, ND.

The company said it has already signed a contract with an anchor customer and is looking for more for the gas plant, that will process 50 to 75 Mmcf a day and be on line in early 2013.

Plains said its crude loading facility that will move 20,000 barrels a day as well as 8500 barrels of NGLs a day will be done by late this year.

It will be able to load unit trains up to 65,000 barrels a day, and will be served by a 16-mile crude oil pipeline running from its Stanley connection at Robinson Lake to Ross. Construction on the $13.6 million pipeline, which will move 47,000 barrels a day, will be completed by the end of the year.

"The addition of gas processing and fractionation capability at our Ross Complex complements our expanding Bakken area crude oil and NGL operations, strengthening PAA's ability to provide a wide range of services for hydrocarbons produced in the region," said president and COO Harry N. Pefanis.

The new plant will be able to produce stabilized condensate, purity ethane, and specification propane, as well as butane.

Williston Basin Interstate Pipeline will handle the residue gas through its system.

PAA described the new facility as a cryogenic gas processing plant with deep cut ethane.

Hess Sees 60,000 BOEPD From ND

Hess Corp. said it plans to increase its daily oil production in North Dakota from 50,000 to 60,000 BOEPD, tied to a $1.9 billion spending program, 16 rigs under contract, and five dedicated frac crews.

According to Greg Hill, president of worldwide exploration and production, the company hopes to reach 120,000 BOEPD by 2015.

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The company said its most recent 76 completed wells, subjected to more stage fracs on longer laterals, had 30-day IP rates of 1,000 BOEPD. It is estimated that its Bakken wells could have an ultimate recovery of 550,000 barrels, and Hill said those estimates could increase as well.

Hill told Wall Street analysts during a conference call that Hess plans to drill one well per 1,280-acre spacing on two-thirds of its 900,000 net acres. The company said well costs are running $10 million.

"We can bring the well cost closer to $9 million on pads," Hill said. He told analysts that there would probably not be any price increase on drilling unless the price of oil increases.

Hill said the new crude oil rail loading facility at Tioga will be fully operational by February, and the company anticipates running unit trains to move out 54,000 barrels. According to Hill, Hess has already received "premium Gulf Coast pricing" for Bakken crude sent by rail earlier this year.

ND Senator Leads Push For Keystone

More than 44 Republican senators have signed on to legislation that authorizes construction of the Keystone XL Pipeline that was rejected by the Obama administration.

At the same time, TransCanada Corp. said it will apply again for the international permit from the US Secretary of State to build the $7 billion pipeline.

Sen. John Hoeven (R-ND) introduced the legislation authorizing the pipeline, which will carry 830,000 barrels of crude oil along with 100,000 barrels from the Williston Basin at a connecting link in Baker, MT.

Hoeven said the Congressional Research Service confirmed the ability of Congress to draft the legislation.

"If the Keystone XL pipeline is not built," Hoeven said, "Canadian oil will still be produced, but instead of coming to US refineries, creating American jobs and reducing our dependence on Middle Eastern oil, it will be shipped to China."

"Until this pipeline is constructed," said Russ Girling, president and CEO of TransCanada, "the US will continue to import millions of barrels of conflict oil from the Middle East and Venezuela, and other foreign countries who do not share democratic values Canadians and Americans are privileged to have."

Hess Rolls Out Nine Unit Trains

After spending $90 million on nine unit trains and $50 million on a new terminal in Tioga, Hess Corporation will be moving full steam ahead by end of the month, shipping 70,000 barrels a day out of North Dakota to St. James, LA.

At the same time, Hess is also looking at shorter destinations such as Chicago to sell its oil. Shorter trips mean a "higher netback", said Michael Lutz, commercial director for Hess. "The best long-term strategy is to look at alternatives," Lutz said.

Michael Lutz

The strategy for the company for its takeaway program is to "stay ahead of the drill bit", Lutz said.

While its first commitment is to its own production, Lutz said the company will consider shipping for other producers.

Hess banked on buying its own tanker cars that are larger than existing tank cars and with its added capacity, it is cutting rail costs by 15%, Lutz said at the **Bakken Product Markets & Takeaway Capacity** conference in Denver earlier this month.

From a long range perspective, Lutz said the company committed to capital spending for the terminal and tanker cars built by Union Tank Car instead of leasing. It decided not to buy into offloading facilities because of the cost of tankage and pipelines.

Because of the shortage of lease cars and of some of the disadvantages of pipelines, according to Lutz, Hess "decided to build its own instate loading facilities ourselves rather than try to contract for" loading terminals.

From a price standpoint, Hess is benefiting by shipping large volumes of crude to the Louisiana market. The cost for manifest trains was also much higher at $15 a barrel than unit trains at $9 a barrel, Lutz said.

Hess is also shipping some NGLs and has included acreage at its 400-acre site for offloading frac sand, tubular goods and other commodities.

Oasis Ups Basin Spending

Oasis Petroleum of Houston said it will spend $846 million this year on exploration and production in the Williston Basin, an increase over 2011 spending, which is expected to range from $660 million to $667 million. It has leases on 307,430 net acres.

While the outlook for additional production, which is now at 10,724 BOEPD from 49.2 net wells is good, one analyst, Marty Beskow with Northland Capital Markets, said the bottlenecks in well completion services and infrastructure "continue to hold back production and cash flow in the near term".

"Despite harsh operating conditions in the first half of 2011, the Oasis team pulled together and overcame daunting obstacles to achieve dramatic production growth," said Thomas B. Nusz, chairman and CEO. "Our estimated proved reserves nearly doubled to 78.7 million barrels of oil equivalent at year end 2011, up from 39.8 MMBOE at year end 2010."

Oasis plans to add an additional three rigs this year to the nine it has running now for the 80 net wells it plans to spud in 2012. Average well costs are running $9.5 million.

The guidance for Oasis to reach between 18,000 to 22,000 BOEPD is below Beskow's estimate of 22,344 BOEPD and consensus of 21,800 BOEPD.

Kodiak Ups 2012 Spending

Kodiak Oil and Gas of Denver said it will spend $585 million this year on drilling 51 net wells in North Dakota, and will add a second completion crew this month.

The company had six drilling rigs under contract in the fourth quarter of 2011, and its production averaged 7,195 BOEPD. With a recent acquisition at the end of January, daily production rose to 15,000 BOEPD.

In late 2011, Kodiak had mechanical problems with the liners on the horizontal leg in six different wells. At the same time, it had delays in getting wells onto production because of its difficulty in getting workover rigs.

"While the unforeseen mechanical issues involving the liners and swell packers had an impact on fourth quarter operations, we fully expect to resolve the mechanical issues," said CEO and Chairman Lynn Peterson.

Kodiak has doubled the number of workover rigs from three to six, and that will help it to "stay ahead of its ongoing completion activity".