

# Cline Shale Region Update for July 2014



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# Drilling Activity Increase Continues

## Cline Region Rig Count



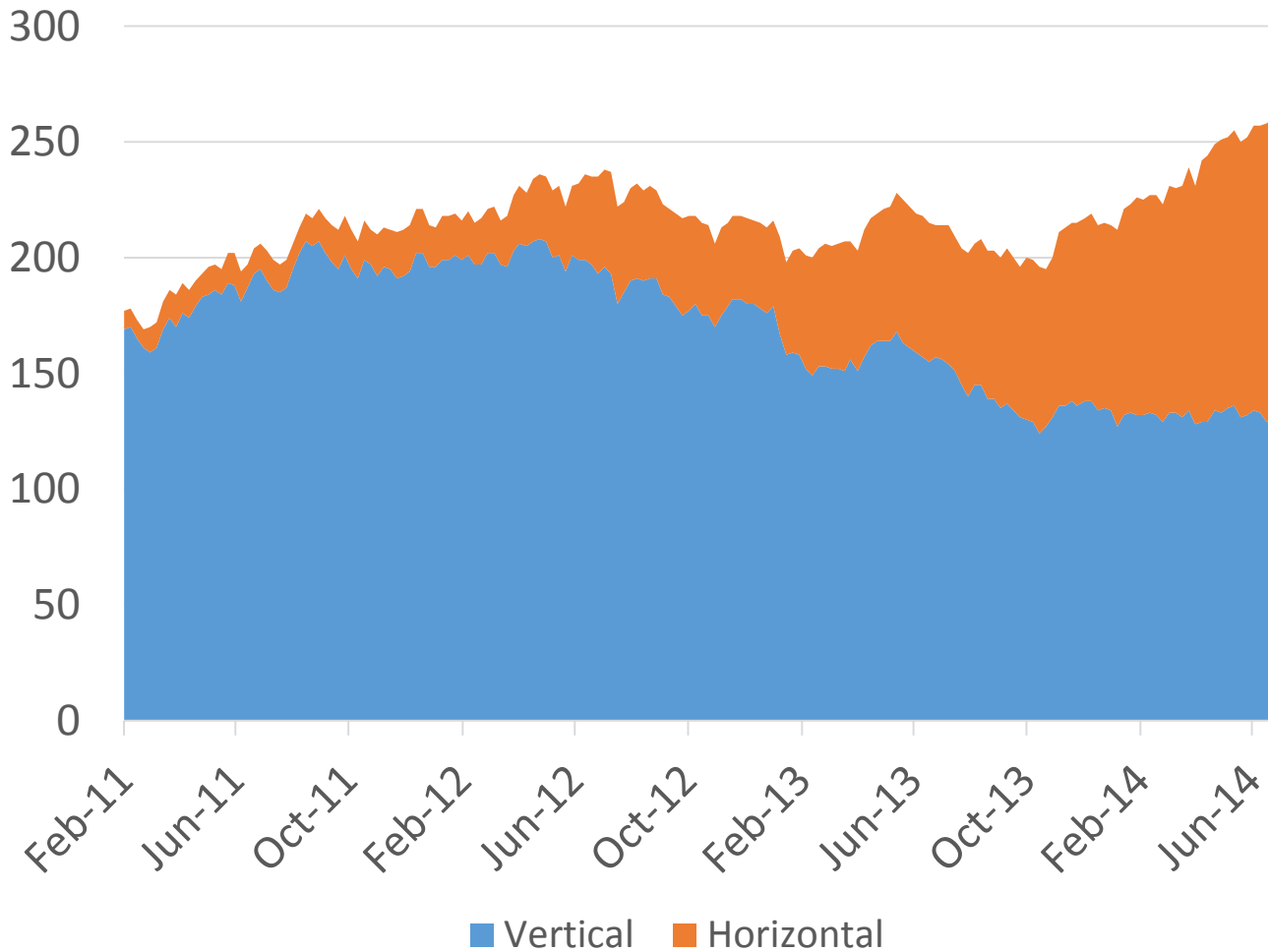
- Drilling activity has been on a **steady increase for the past year** topping 260 for the first time last week.
- Low natural gas prices reduced exploration for dry gas in 2012 and 2013.
- New interest in the Cline shale and other stacked layers has driven the pickup in activity in the region.



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# Surge of Horizontal Drilling

## Drilling Trajectories



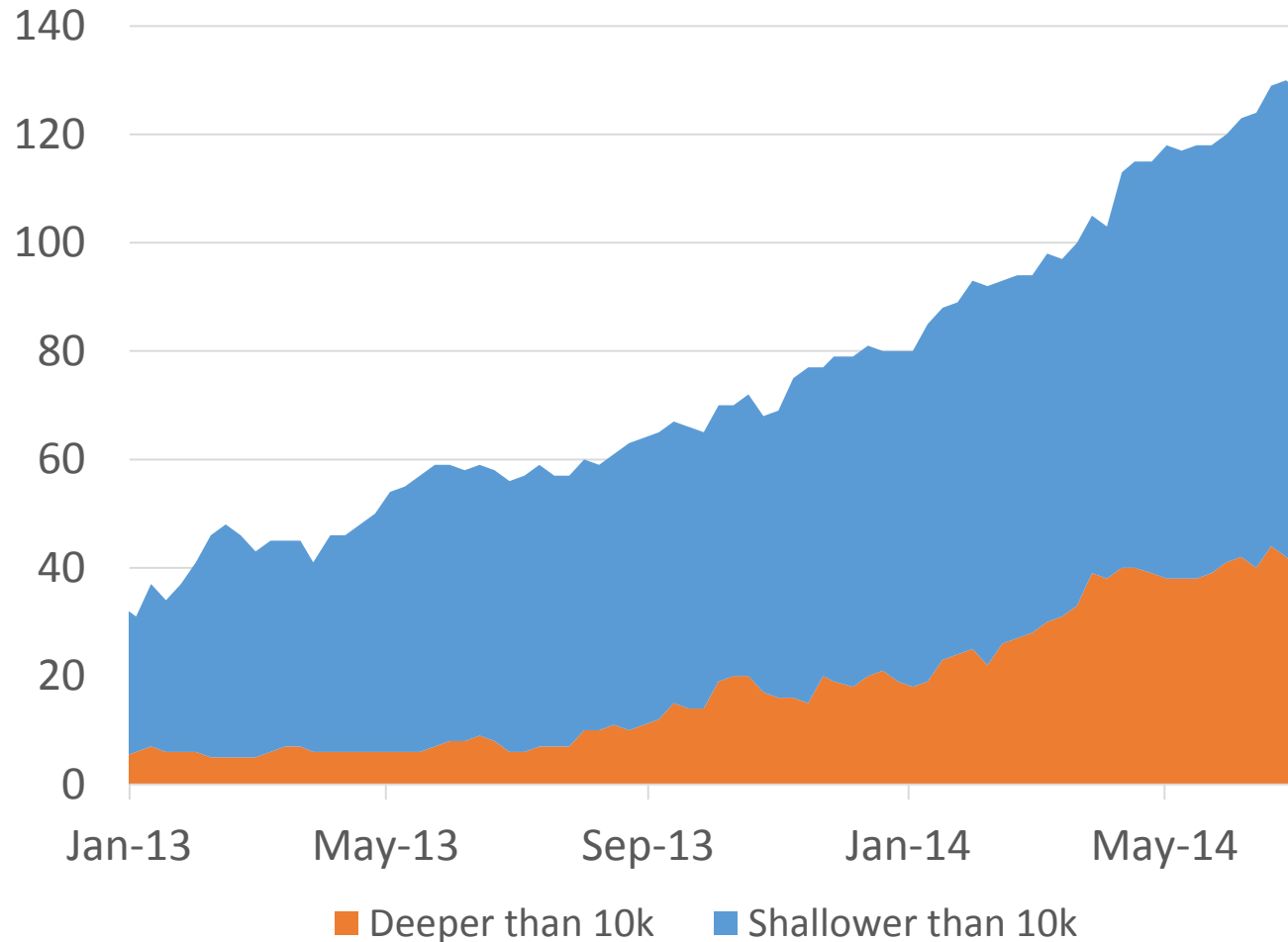
- During the surge in exploration over the past year, **nearly all of the increase has come from higher horsepower horizontal rigs.**
- These more sophisticated units are equipped to target shale plays with horizontal laterals more than a mile long creating much more prolific wells.



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# Operators Looking Deeper

## Horizontal Well Targeted Depth



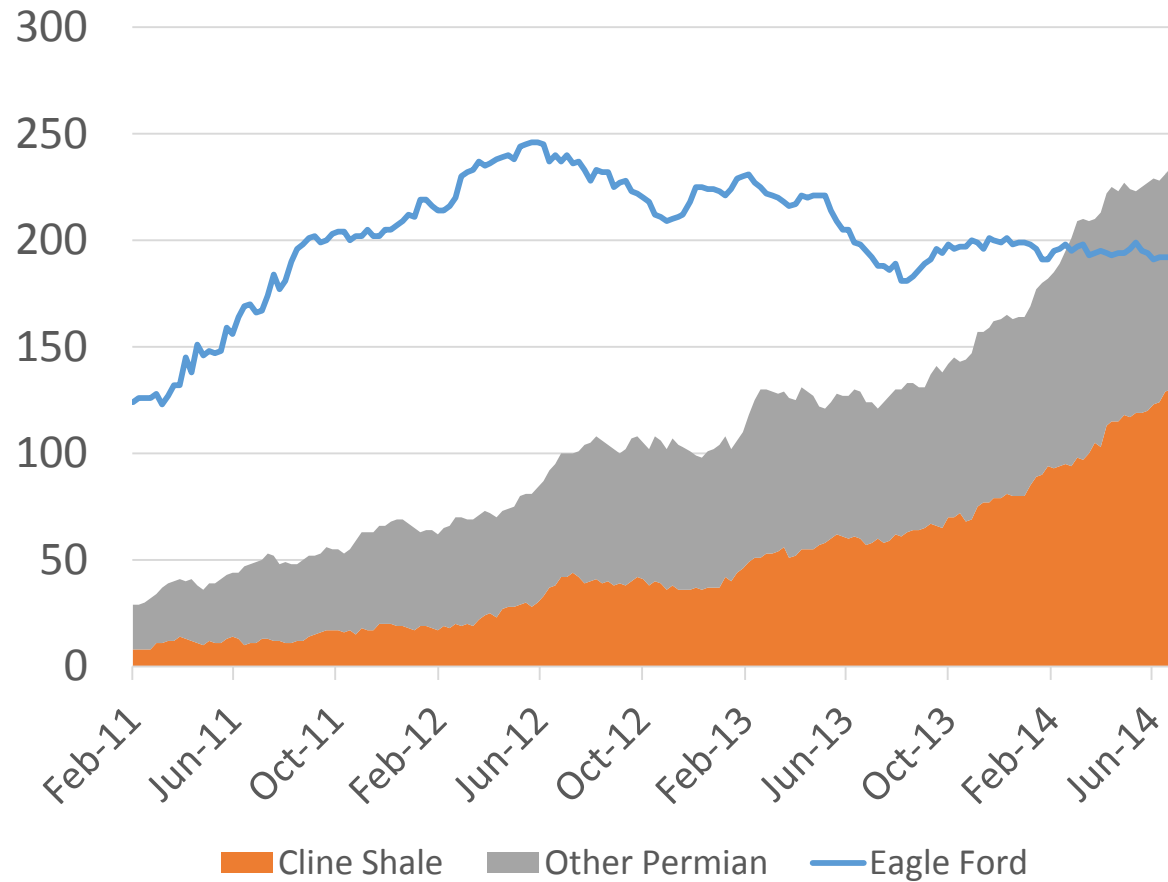
- At the beginning of last year, there were only 5 horizontal rigs targeting depths below 10k feet where the Cline lays under many other productive layers.
- Much of the **growth over the past year has been at well sites tapping into those deeper formations** such as the Cline shale.



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# Outpacing The Eagle Ford

## Texas Horizontal Rigs




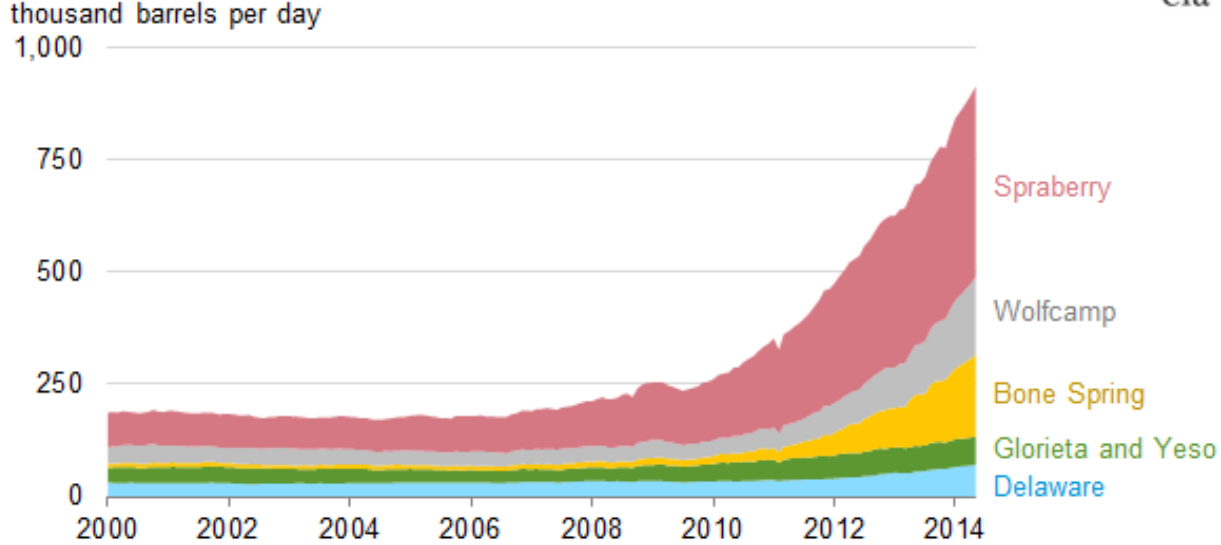
- The Eagle Ford is a very successful play that is transforming the economy of South Texas, but exploration is well below its peak and has been steady for the past year.
- At the beginning of this year, the **Greater Permian region surpassed the horizontal drilling activity of the Eagle Ford** with the Cline shale counties accounting for most of the growth.
- Rig counts are showing no signs of slowing down in the Cline with the potential for many years and even decades left of prosperity.




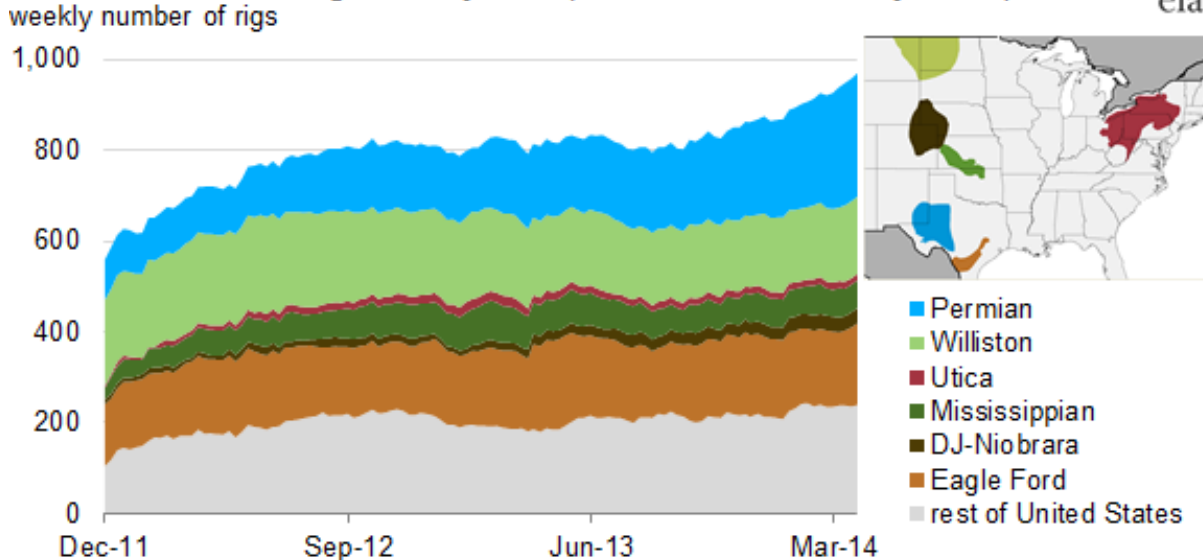
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# Permian Takes the Lead

Permian Basin oil production from six selected formations (January 2000-May 2014) 



Horizontal oil-directed rig count, by basin (December 2, 2011 to May 9, 2014) 



- Per recent U.S. Energy Information Administration reports, the Permian is now “**the nation’s most prolific oil area.**”
- The Permian Basin overtook offshore Gulf of Mexico in March 2013 and last year accounted for 18% of total crude oil production in the United States.
- Production has increased from 850,000 bbl/d in 2007 to 1,350,000 bbl/d in 2013.
- Permian horizontal oil rig counts overtook both the Eagle Ford and the Williston Basin in the past year.



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# Big Trailing Twelve for Cline / Permian Stocks

**PIONEER**  
NATURAL RESOURCES

Up over 47%

 **CONCHO**

Up over 67%

  
**devon**

Up over 40%

**Apache**  
EXPLORING WHAT'S POSSIBLE

Up over 67%

**CW**  
CLAYTON WILLIAMS ENERGY, INC.

Up over 172%

**LAREDO**  
PETROLEUM

Up over 39%



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# Recent IPOs – New Money and Locations to Drill



\$363 million IPO on August 1, 2013 at \$20 per share and **up 142%**

“As of December 31, 2013, our **1,065 gross (964 net) horizontal drilling locations** consisted of 327 gross (295 net) Wolfcamp A locations, 362 gross (330 net) Wolfcamp B locations, 136 gross (127 net) Wolfcamp C locations and 240 gross (212 net) Cline locations.”



\$1.06 billion IPO on May 22, 2014 at \$18.50 per share and **up 28%**

“We believe there are a significant number of horizontal locations on our acreage that will allow us to target the Spraberry, Wolfcamp, Upper Pennsylvanian (Cline) and Atoka shales ... Excluding our Gaines County (Midland Basin) and Southern Delaware Basin acreage, on a pro forma basis, we had **1,681 identified potential horizontal drilling locations** as of March 31, 2014.”



\$150 million IPO on June 17, 2014 at \$26 per share and **up 28%**

“Of these **322 potential locations** [as of March 31, 2014], 130 are in the Wolfcamp B or Lower Spraberry horizons, with the remaining locations in the Wolfcamp A, Clearfork, Middle Spraberry or Cline horizons.”



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# Bullish Talk on the Cline and Permian Plays

**PIONEER**  
NATURAL RESOURCES

“If you look at the Permian Basin in general, the shale opportunities are vast,” said Tim Dove, Pioneer’s president and chief operating officer. “There is a vast amount of shale to deal with. If you look at the Eagle Ford, there’s about 300 feet of shale; in the Bakken, there’s about 150-200 feet. **In the Permian Basin, there’s 3,500 to 4,000 feet, almost 10 times as much.**” (Midland Reporter Telegram, May 29, 2014)



“The total impact of oil and gas industry activity in the 10 counties in 2022 is forecasted to be **more than \$20 billion in the moderate scenario, with 30,540 jobs anticipated**, and revenues of \$664 million for the local governments and \$701 million for the state government.” (Economic Impact of Oil and Gas Activities in the West Texas Energy Consortium Study Region, May 2014)

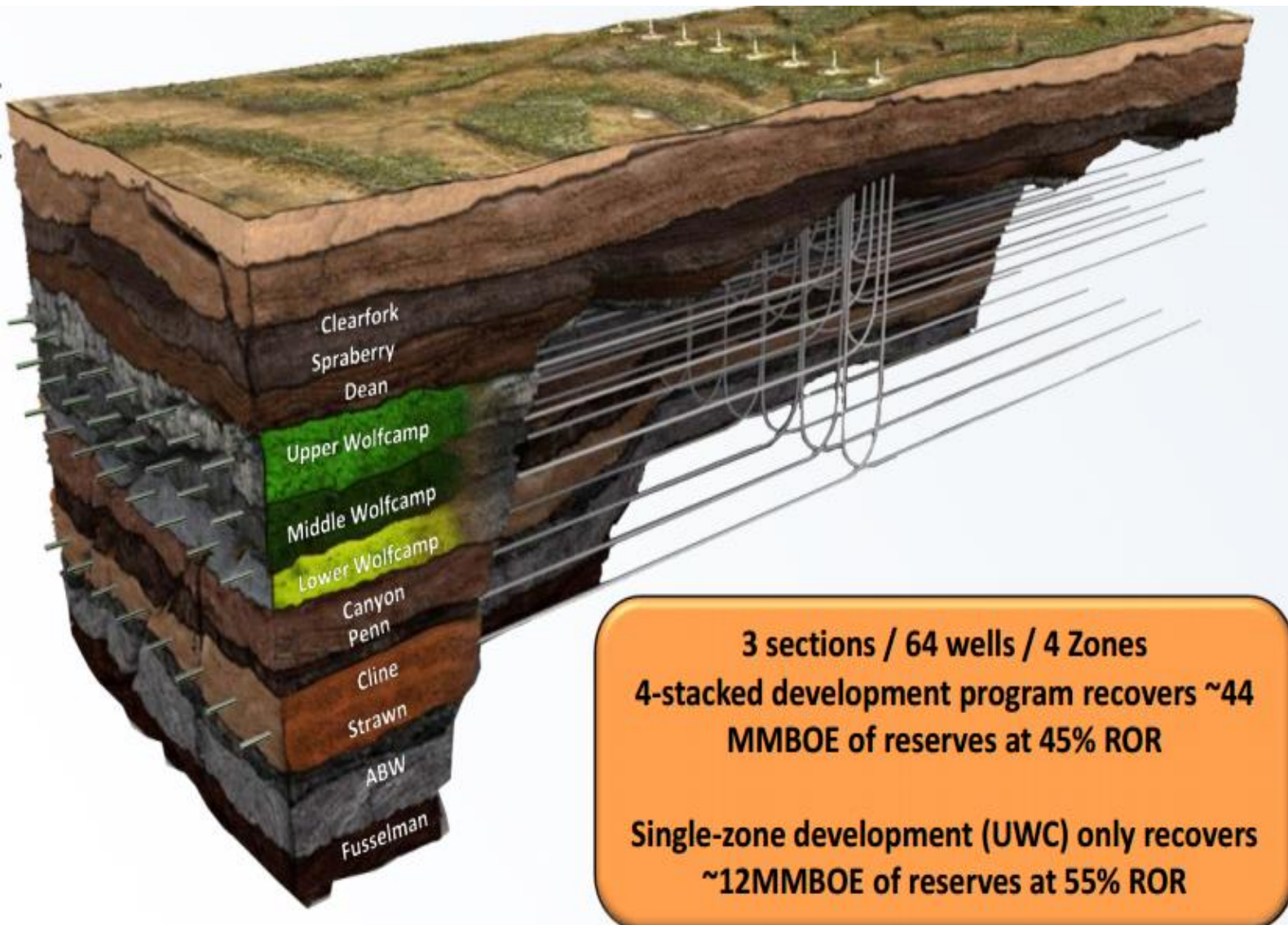


“The Midland Basin Wolfcamp/ Cline Shale Horizontal Oil play is one of the hottest in the U.S right now ... What have we learned by comparing the productivity of the Wolfcamp intervals and the Cline Shale? Long story short, the opportunity to have multiple producing intervals with solid production rates and nice rates of returns **make this play very attractive.**” (DI Analytics, March 20, 2014)



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# The Future



- The Cline and other Permian plays are **only in the initial phases** of exploration as operators define and delineate their acreage.
- In the coming years as the stacked plays move into their ‘manufacturing’ phase, oil production should soar with the potential to be the premier tight oil field in the world, also providing opportunities for transporters and suppliers.



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