

Director's Cut

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Oct Oil 23,225,571 barrels = 749,212 barrels/day
Nov Oil 21,992,345 barrels = 733,078 barrels/day (preliminary)
(all-time high was 749,212 in October 2012)

Oct Gas 24,731,342 MCF = 797,785 MCF/day
Nov Gas 23,481,782 MCF = 782,726 MCF/day (preliminary)
(all-time high was 797,785 in October 2012)

Oct Producing Wells = 8,035
Nov Producing Wells = 8,101 (preliminary)(NEW all-time high)

Oct Permitting: 370 drilling and 0 seismic
Nov Permitting: 211 drilling and 0 seismic
Dec Permitting: 154 drilling and 1 seismic (all time high was 370 in Oct 2012)

Oct Sweet Crude Price = \$87.00/barrel
Nov Sweet Crude Price = \$80.86/barrel
Dec Sweet Crude Price = \$77.09/barrel
Today Sweet Crude Price = \$87.25/barrel (all-time high was \$136.29 July 3, 2008)

Oct rig count 188
Nov rig count 186
Dec rig count 184
Today's rig count is 181 (all-time high was 218 on May 29, 2012)

Comments:

November saw a small decline in drilling with a very large decline in hydraulic fracturing resulting in a 2.2% decline in oil production rate from October. More operators are transitioning to higher efficiency rigs and implementing cost cutting measures at the end of their 2012 capital budgets, but the primary reason was winter storm Brutus. Williams County was impacted the most with November 10, 2012 being the snowiest day since 1901. The idle well count rose sharply indicating an estimated 410 wells waiting on fracturing services. Rapidly escalating well costs consumed capital spending budgets faster than many companies anticipated and uncertainty surrounding future federal policies on taxation and hydraulic fracturing impacted capital investment decisions. Over 95% of drilling still targets the Bakken and Three Forks formations.

Crude oil take away capacity remains adequate to keep up with projected production with a majority of oil now shipped by rail to east coast, gulf coast, and west coast destinations.

Rig count in the Williston basin is stable. Utilization rate for rigs capable of +20,000 feet is down to about 80% and for shallow well rigs (drill to 7,000 feet or less) utilization remains about 60%.

Drilling permit activity was lower in December due to the number of holidays. We continue to have a sufficient permit inventory to accommodate more multi-well pads, the desire to not build locations during winter, and the time required to publish hydraulic fracturing rules if required.

The number of rigs actively drilling on federal surface in the Dakota Prairie Grasslands is down to 0.

The number of rigs drilling on the Fort Berthold Reservation has increased to 28 with 4 on fee lands and 24 on trust lands.

There are now 793 active wells (96 on trust lands & 697 on fee lands)

Producing 135,380 barrels of oil per day (6,730 from trust lands & 128,650 from fee lands)

113 wells are waiting on completion

291 approved drilling permits (266 on trust lands & 25 on fee lands)

1,479 additional potential future wells (1,426 on trust lands & 53 on fee lands)

Seismic activity is steady with 4 surveys active/recording, 1 remediating, 0 suspended, and 6 permitted.

North Dakota leasing activity is very slow, mostly renewals and top leases in the Bakken - Three Forks area.

Construction of processing plants and gathering systems was also severely affected by weather. US natural gas storage is up to 11% above the five-year average. This indicates continuing low prices for the foreseeable future. North Dakota shallow gas exploration is not economic at near term gas prices.

Natural gas delivered to Northern Border at Watford City is down to \$2.85/MCF. This results in a current oil to gas price ratio of 31 to 1, but the high liquids content makes gathering and processing of Bakken gas economic. Additions to gathering and processing capacity are helping with the percentage of gas flared dropping to 29%. The historical high was 36% in September 2011.

Draft BLM regulations for hydraulic fracturing on federal lands were published in the Federal Register. The comment period closed at 5pm EDT on September 10, 2012. BLM received over 170,000 comments and has indicated a final rule will be published mid-2013.

Draft EPA Guidance for permitting hydraulic fracturing using diesel fuel has been published. The comment period closed at 5pm EDT on August 23, 2012. EPA received over 97,000 comments and has set a target of spring 2013 for final guidance document publication.