

Director's Cut

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Jul Oil 20,963,713 barrels = 676,249 barrels/day

Aug Oil 21,735,166 barrels = 701,134 barrels/day (preliminary)(NEW all-time high)

Jul Gas 22,295,369 MCF = 719,205 MCF/day

Aug Gas 23,616,598 MCF = 761,826 MCF/day (preliminary)(NEW all-time high)

Jul Producing Wells = 7,467

Aug Producing Wells = 7,701 (preliminary)(NEW all-time high)

Jul Permitting: 183 drilling and 0 seismic

Aug Permitting: 261 drilling and 1 seismic

Sep Permitting: 273 drilling and 0 seismic (NEW all-time high)

Jul Sweet Crude Price = \$71.13/barrel

Aug Sweet Crude Price = \$80.65/barrel

Sep Sweet Crude Price = \$84.98/barrel

Today Sweet Crude Price = \$89.50/barrel ND (all-time high was \$136.29 July 3, 2008)

Jul rig count 211

Aug rig count 198

Sep rig count 190

Today's rig count is 186 (all-time high was 218 on May 29, 2012)

Comments:

August weather was great for drilling and hydraulic fracturing resulting in a 3.7% oil production increase from July to August. A combination of several factors has led to lower stable drilling activity, but continued rapid production growth. Rig count has stabilized at around 190 as operators transition to higher efficiency rigs and implement cost cutting measures. The idle well count decreased significantly indicating an estimated 300 wells (a 25% decrease) waiting on fracturing services. Rapidly escalating well costs that consumed capital spending budgets faster than many companies anticipated and uncertainty surrounding future federal policies on hydraulic fracturing are impacting capital investment decisions. Over 95% of drilling still targets the Bakken and Three Forks formations.

Crude oil take away via pipeline is now 43% of daily production, but transportation by rail at 46% and truck at 2% plus Tesoro refining 9% are adequate to keep up with near term production projections.

Rig count in the Williston basin is stable. Utilization rate for rigs capable of +20,000 feet is stable at about 90%, but for shallow well rigs that drill to 7,000 feet or less utilization remains about 60%.

Drilling permit activity has increased to accommodate more multi-well pads and the need to build locations before winter weather comes.

The number of rigs actively drilling on federal surface in the Dakota Prairie Grasslands is up to 7.

The number of rigs drilling on the Fort Berthold Reservation has dropped to 27 with 0 on fee lands and 27 on trust lands.

There are now 706 wells (101 on trust lands & 605 on fee lands)

Producing 119,644 barrels of oil per day (7,309 from trust lands & 112,925 from fee lands)

139 wells are waiting on completion

259 approved drilling permits (244 on trust lands & 15 on fee lands)

1,566 additional potential future wells (1,426 on trust lands & 140 on fee lands)

Seismic remains busy with 7 surveys active/recording, 1 remediating, 0 suspended, and 6 permitted.

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

Daily natural gas production is increasing slightly faster than oil production. This indicates that gas oil ratios may be increasing and more gathering and processing capacity will be needed. Construction of processing plants and gathering systems is in full swing due to the dry summer weather. US natural gas storage has dropped to 8% above the five-year average but this still indicates 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 up to \$2.96/MCF. This results in a current oil to gas price ratio of 30 to 1, but the high liquids content makes gathering and processing of Bakken gas economic. Additions to gathering and processing capacity are helping and the percentage of gas flared dropped 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 has given no indication of when a final rule will be published.

Draft EPA Guidance for permitting hydraulic fracturing using diesel fuel has been published. The comment period closed at 5pm EDT on August 23, 2012. There is no indication from EPA of when a final guidance document will be published.