Director's Cut

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Aug Oil 13,829,114 barrels = 446,122 barrels/day
Sep Oil 13,923,650 barrels = 464,122 barrels/day (preliminary) (all time high)

Aug Gas 14,349,802 MCF = 462,897 MCF/day
Sep Gas 14,552,239 MCF = 485,075 MCF/day (preliminary) (all time high)

Aug Producing Wells = 5,951
Sep Producing Wells = 6,071 (all time high)

Aug Permitting: 207 drilling and 1 seismic
Sep Permitting: 176 drilling and 1 seismic (all time high 245 Nov 2010)

Aug Sweet Crude Price = $81.43/barrel
Sep Sweet Crude Price = $83.50/barrel
Today Sweet Crude Price = $87.00/barrel ND (all time record high $136.29 July 3, 2008)

Aug rig count 192
Sep rig count 197
Oct rig count 197
Today's rig count is 199 (all time record high 201 Aug 29-31, 2011)

Comments:
The current window of good weather is continuing to push hydraulic fracturing activity and production upward. Even though rig count was flat, daily production increased 4% due to high levels of hydraulic fracturing activity. Bakken and Three Forks formations continue to be the target of over 95% of drilling activity. Bowman County Red River production was stable at about 26,000 barrels per day with no drilling. The idle well increased again to 762 wells, approximately 300 above the normal 450, indicating that drilling continues to outpace fracturing services and a need to add approximately 10 crews.

Crude take away capacity with pipeline, rail, and truck transportation is adequate for near term production projections. North Dakota Sweet posted price versus NYMEX-WTI is up slightly to -9%.

Rig counts in the Williston basin are holding at recent record levels with more rigs scheduled to be built and transported here by year end. Utilization of rigs capable of

+20,000 feet is over 95%, but for shallow well rigs that can drill to 7,000 feet or less utilization remains approximately 50%.

The efforts to regulate hydraulic fracturing under the safe drinking water act are increasing with EPA now looking at using the diesel fuel provision in the 2005 energy policy act.

Drilling permit activity is high, but still below record levels. As fall approaches and the rig count rises permit activity is expected to increase so locations can be built prior to winter weather.

The number of wells drilling on federal surface in the Dakota Prairie Grasslands is down to 2.

Seismic is very busy with 4 surveys active and 8 pending.

North Dakota leasing activity is focused on renewals and top leases in the Bakken - Three Forks thermal maturity area with significant activity now south of Dickinson and west of Belfield. Much of the leasing activity has shifted to Northeast Montana.

Daily natural gas production is up. Processing plant and gathering system construction activity is very high. US natural gas storage is 5.6% above the five-year average. North Dakota shallow gas exploration is not economic at the current price.

Natural gas delivery to Northern Border at Watford City price is up slightly to \$3.34/MCF. This results in the oil to gas price ratio of 26 to 1 even though the BTU ration is 6 to 1. The low value of processed natural gas does not justify investment in infrastructure, but the natural gas liquids make gathering and processing of Bakken gas economic. The policy set forth in statute for the North Dakota Industrial Commission is to promote production and to prevent waste in order that the greatest possible economic recovery of oil and gas is obtained. Up to this point in the Bakken play gas has been flared at record levels in order to promote the resource to the natural gas gathering and processing industry and demonstrate the size and potential of the resource. The result of allowing this evaluation time is a plan presented by industry to invest over \$3 billion in natural gas gathering and processing infrastructure in 2011, 2012, and 2013. Tune in to the Pipeline Authority Webinar on this subject Thursday morning 11/10/11 https://www.dmr.nd.gov/pipeline/assets/11042011/11-10-2011%20Webinar%20Info.pdf