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Director's Cut

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Nov Oil 15,318,314 barrels = 510,610 barrels/day
Dec Oil 16,581,269 barrels = 534,880 barrels/day (preliminary) (NEW all time high)

Nov Gas 15,683,641 MCF = 522,788 MCF/day
Dec Gas 16,870,951 MCF = 544,224 MCF/day (preliminary) (NEW all time high)

Nov Producing Wells = 6,332
Dec Producing Wells = 6,471 (NEW all time high)

Nov Permitting: 169 drilling and 4 seismic
Dec Permitting: 180 drilling and 2 seismic (all time high was 245 in Nov 2010)

Nov Sweet Crude Price = $88.54/barrel
Dec Sweet Crude Price = $88.57/barrel
Today Sweet Crude Price = $84.75/barrel ND (all time record high $136.29 July 3, 2008)

Nov rig count 199
Dec rig count 199
Jan rig count 200
Today's rig count is 203(all time record high was 204 on Jan 25-27, 2012)

Comments:
The warm dry weather through the fourth quarter of 2011 increased hydraulic fracturing activity and rapidly increased production. As a result, even with rig count up very slightly daily production increased another 5%. Over 95% of drilling is still targeting the Bakken and Three Forks formations. The idle well count is up slightly. This still indicates just under 300 wells waiting on fracturing services which are now keeping up with drilling activity, but more crews are needed to catch up.

Crude oil take away capacity via pipeline, rail, and truck transportation combined is adequate for near term production projections. Due to the delayed or possible non-approval of Keystone XL the bottleneck at Cushing, OK is now resulting in a North Dakota Sweet posted price to NYMEX-WTI discount of -18% and a NYMEX-WTI to Brent discount of -19%. This is driving an increasing amount of North Dakota crude oil onto rail transportation where it can reach destinations that pay Brent price.

Rig counts in the Williston basin are increasing very slowly. Adding rigs now requires new builds since in the Rocky Mountain area utilization of rigs capable of +20,000 feet is over 95%. For shallow well rigs that drill to 7,000 feet or less utilization remains about 50%.

EPA regulation of hydraulic fracturing under the safe drinking water act through the diesel fuel provision in the 2005 energy policy act is on hold with the proposed guidance document(s) now under review at OMB. Following that review a 60 day public comment period is planned.

Drilling permit activity is high, but still well below record levels.

The number of wells drilling on federal surface in the Dakota Prairie Grasslands is up to 5.

Seismic is very busy with 6 surveys active, 1 remediating, 1 suspended, and 7 permitted.

North Dakota leasing activity is primarily renewals and top leases in the Bakken - Three Forks area.

Daily natural gas production is up. Processing plant and gathering system construction activity has slowed due to colder weather. US natural gas storage is 33% above the five-year average meaning low prices for the foreseeable future. North Dakota shallow gas exploration is not economic at the current price.

Natural gas delivered to Northern Border at Watford City price is down to $2.06/MCF. This results in the current oil to gas price ratio of 41 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 first of the new very large gas processing systems came on line January 20, 2012 adding 14% to the processing capacity in the state. This should be reflected in a declining percentage of gas being flared in the coming months.