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BDO 2012 ENERGY OUTLOOK

EXECUTIVE SUMMARY

OIL AND GAS COMPANIES SEE 2012 AS A YEAR FOR GROWTH

2011 PROVED TO BE A TENSE YEAR FOR THE OIL AND GAS E&P INDUSTRY. UNRELENTING TURMOIL IN THE MIDDLE EAST CREATED GLOBAL FEAR OVER THE AVAILABILITY OF OIL AND, IN THE UNITED STATES, PUT THE NATIONAL PRODUCTION OF FUEL UNDER THE MICROSCOPE.

Oil markets experienced unprecedented volatility, furthering concerns over where the industry is headed in both the long and short term. Ongoing anxiety over the state of oil turned heads toward natural gas and the burgeoning U.S. shale industry, spurring an uptick in energy deals and investments, and renewed optimism in the sector.

In November 2011, BDO conducted its fourth annual survey of 100 chief financial officers at oil and gas exploration and production companies. The survey asked them to look back at the challenges and opportunities in 2011 and provide their predictions for the industry in 2012.

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These findings are from the ***BDO 2012 Energy Outlook Survey***, which examined the opinions of 100 chief financial officers at U.S. oil and gas exploration and production companies. The survey was conducted in November 2011.

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UNCONVENTIONAL RESOURCES DRIVING INDUSTRY GROWTH

E&P companies are increasingly diversifying their businesses by making unconventional resources part of their production strategy. CFOs polled in our survey expect the discovery of significant new resource plays to be one of the major drivers of overall industry growth in 2012.

CFOs believe that both global and domestic demand for natural gas will outweigh the demand for oil in the coming year. Investment plans for 2012 reflect the push to natural gas. Forty percent of CFOs plan to increase their capital investment in unconventional resources, such as shale plays, compared to the 10 percent who will increase investment in domestic and foreign offshore exploration operations. The greatest number of survey respondents (29 percent) also note that they will focus on unconventional resources as a way to increase value for stakeholders.

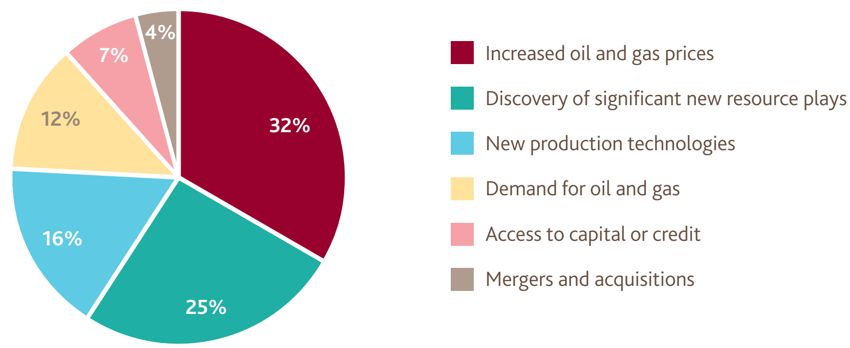
Foreign investment in U.S. shale drilling operations will play a growing role in the demand for natural gas. On the first day of trading in 2012, two major foreign oil companies announced their respective partnerships in U.S. shale plays: China-based Sinopec announced its $2.2 billion joint-venture with the U.S. firm Devon, and French firm Total publicized its $2.3 billion payment to U.S. firm Chesapeake.

The influx of natural gas production has come with rising environmental concerns about hydraulic fracturing or "fracking." CFOs report fracking as the biggest environmental challenge facing their business in 2012.

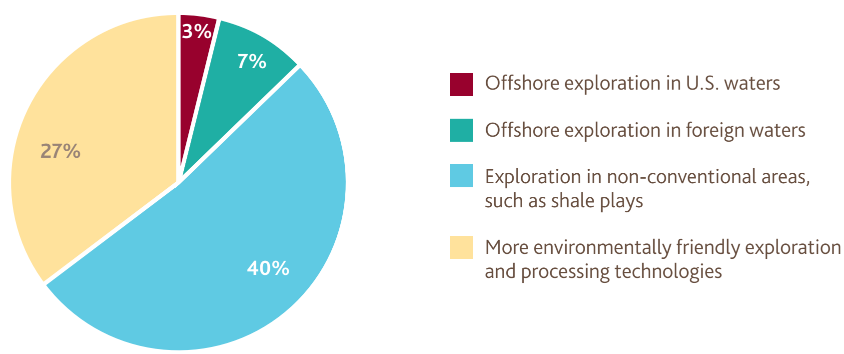
"For oil and gas companies, unconventionals pose a particularly attractive opportunity for expansion and we're seeing that response not only from U.S. entities but from international ones, like China, as well. Shale is the name of the game, and everyone wants to play."

– **ROCKY HORVATH**, partner in BDO's Natural Resources practice.

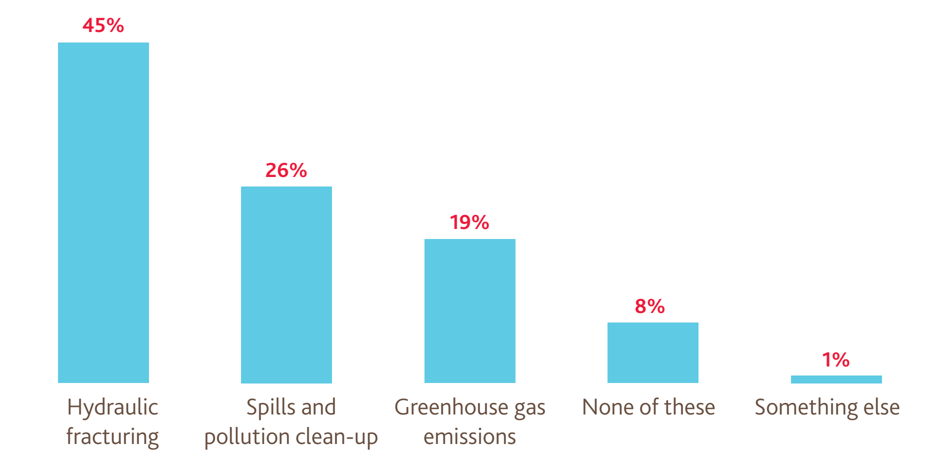
Factors Driving 2012 Industry Growth



Areas for Increased Capital Investment in 2012



Environmental Concerns that May Affect Corporate Oil & Gas Operations in 2012



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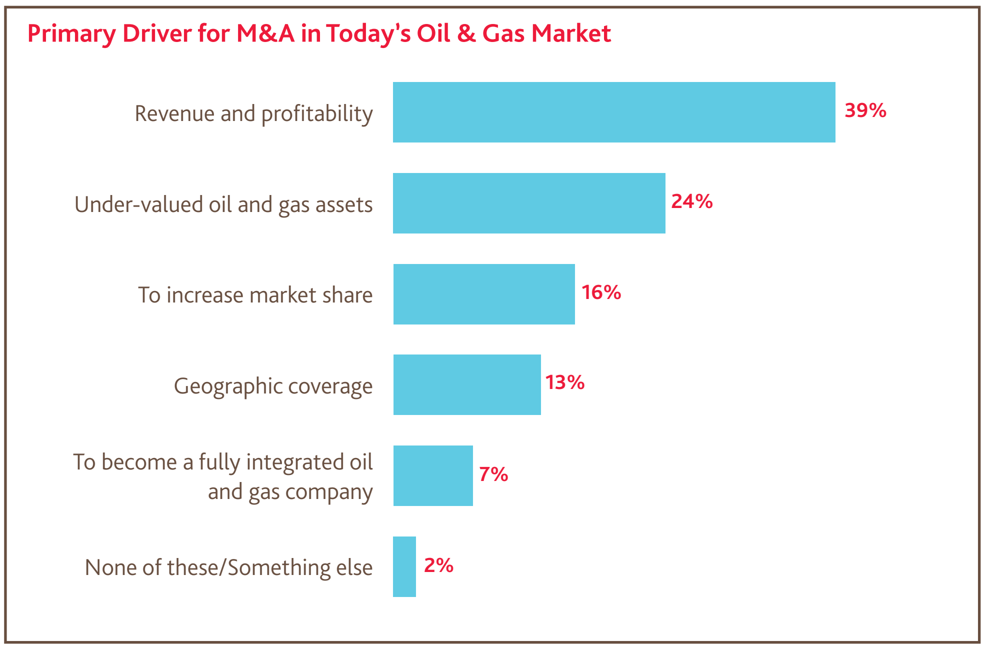
Among alternative energy sources, wind power is expected to contribute most to the world's future energy needs over the next five years.

▶CAPITAL ACCESS AND M&A ACTIVITY REFLECT SIGNS OF GROWTH

In an industry where capital drives the ability to participate in and fund projects, access to capital is consistently a concern for CFOs and our research points to a positive outlook for 2012. The majority of respondents (73 percent) are feeling better and more confident about their organizations' ability to access capital and credit in 2012, and 98 percent expect M&A activity to either increase (52 percent) or stay the same (46 percent). Deal activity will be largely motivated by the desire for greater revenue and profitability, as well as by under-valued oil and gas assets. With greater access to capital, 54 percent of respondents project increasing the number of oil rigs operated by their company this year, as opposed to 34 percent in 2011.

Despite these signs of confidence, there is still a sense of worry over the economy. More than half of CFOs polled (64 percent) are feeling worse about the general state of the economy and its impact on the demand for oil and gas.



"Due to the nature of oil and gas as commodities, economic concerns are not always mirrored in the way capital is viewed. As long as demand and interest in the industry remain high, companies can expect enough deal-flow and investments to remain both financially stable and competitive."

– **CHARLES DEWHURST**, partner and practice leader in BDO's Natural Resources practice.

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▶LEGISLATIVE CONCERNS AND INDUSTRY CHALLENGES

In the face of rising political tensions, legislation was top of mind for the CFOs polled in our survey; 51 percent cite it as the overriding factor inhibiting growth of the U.S. oil and gas industry. Additionally, CFOs note legislative changes as the greatest financial hurdle to corporate operations this year (38 percent). They also see low oil and gas prices (33 percent) and oilfield E&P equipment costs (16 percent) as potential challenges.

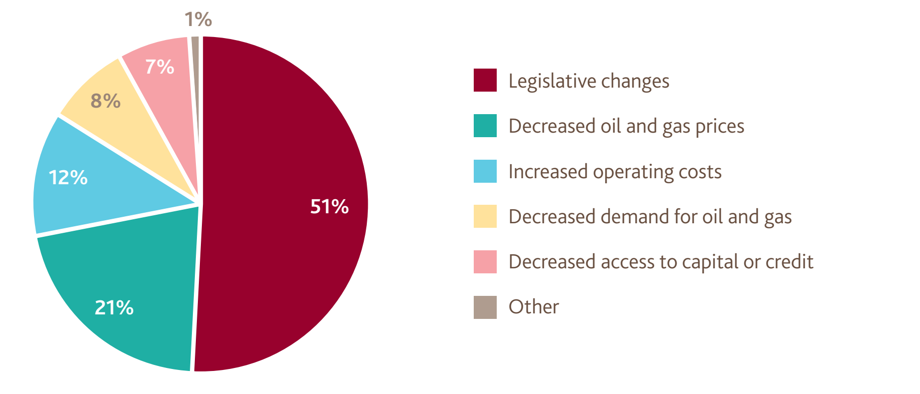
Economic, tax and political issues are largely fueling concerns over how legislation may impact the oil and gas industry in 2012. CFOs report that tax proposals targeting the energy industry are their greatest political concern for this year (39 percent), followed by partisan politics (29 percent) and the federal budget deficit (27 percent). Among those that experienced a project delay or termination during 2011, 56 percent point to federal and/or state regulations as a reason.

> "Throughout the years, we have seen issues relating to legislation and any changes thereto as a major concern for oil and gas CFOs. This is logical for an industry that largely relies on how the wind blows in Washington."
>
> – **CHARLES DEWHURST**, BDO

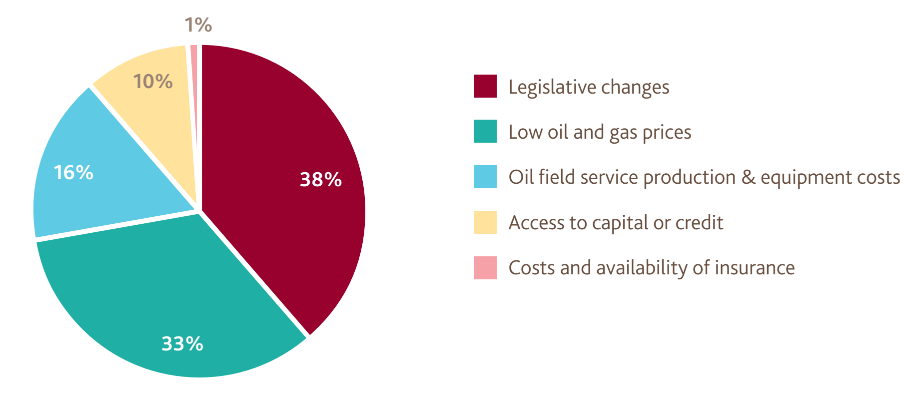
CFOs are also concerned about the costs for oil and gas drilling and exploring – a sentiment that has risen steadily over the past four years. In the most recent survey, 73 percent of CFOs expect costs for drilling projects to increase, versus only 4 percent who anticipate a decrease.

International unrest, both politically and financially, continues to weigh heavily on the minds of CFOs. The majority of respondents (71 percent) believe that in 2012, geopolitical unrest will have the greatest impact on energy supply interruptions. The impact on pricing is a worry as well. Thirty-five percent say that the potential for a double-dip recession would have the biggest effect on pricing volatility, followed closely by turmoil in the Middle East (27 percent).

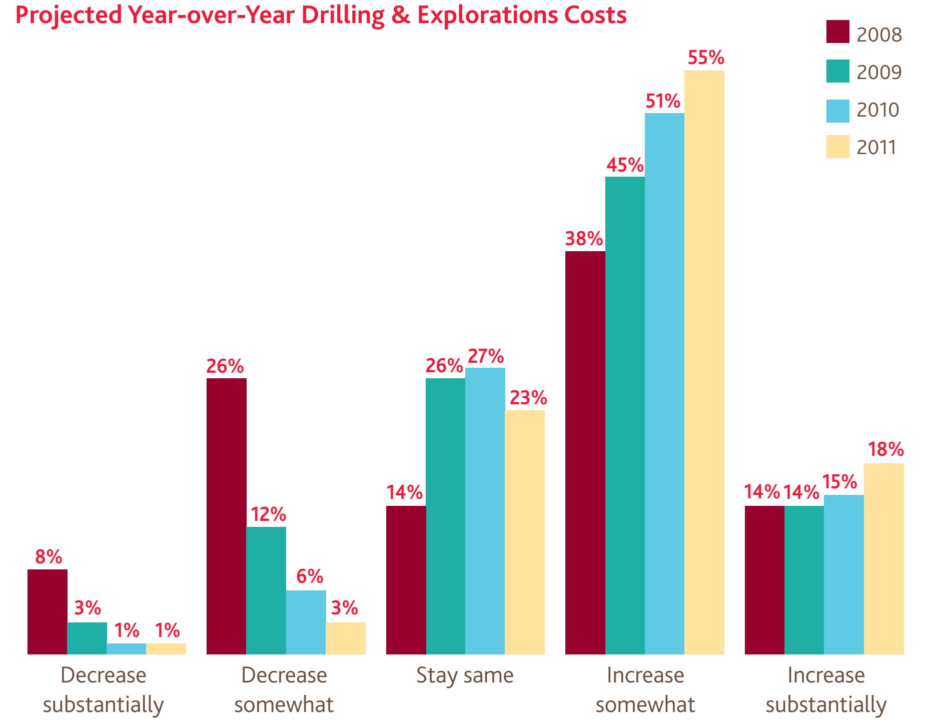
Factors Impacting 2012 Industry Growth



Outlook: Greatest Financial Challenge in 2012



Projected Year-over-Year Drilling & Explorations Costs



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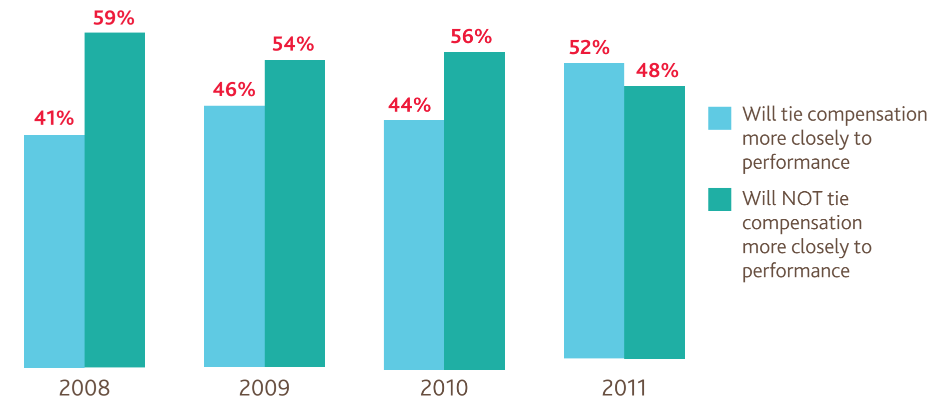
EXECUTIVE COMPENSATION AND HIRING

Even with increased confidence over access to capital and the ability to fund more projects, most CFOs polled expect that the number of personnel employed by their companies will remain level with last year, while 26 percent anticipate an increase. When it comes to compensating employees, all CFOs polled forecast rises in salary increase budgets; given current market trends, BDO believes these percent increases will be greater than in prior years. Respondents also anticipate that bonuses will be similar to those in 2011.

At the executive level, 52 percent of CFOs indicate that compensation was tied more closely to performance in 2011, and 47 percent project an increase in their own compensation this year.

Year-over-Year Projections for Tying Compensation to Performance



"Given the industry's strength and the returns being realized by investors in 2011, it should come as no surprise that executives are expecting a commensurate compensation increase."

– **LANCE FROELICH**, senior director in BDO's Executive Compensation practice.

BDO NATURAL RESOURCES PRACTICE

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