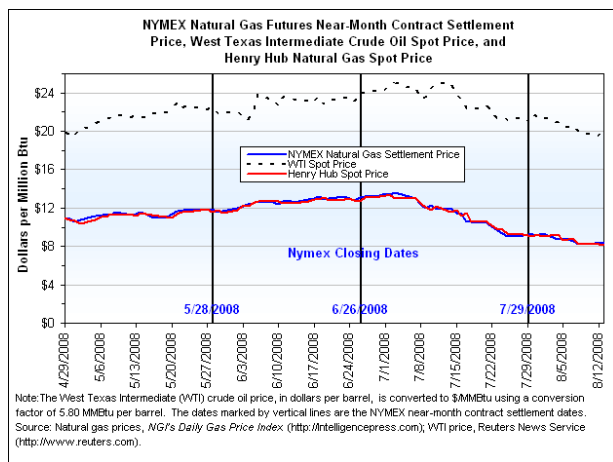


INTRODUCTION

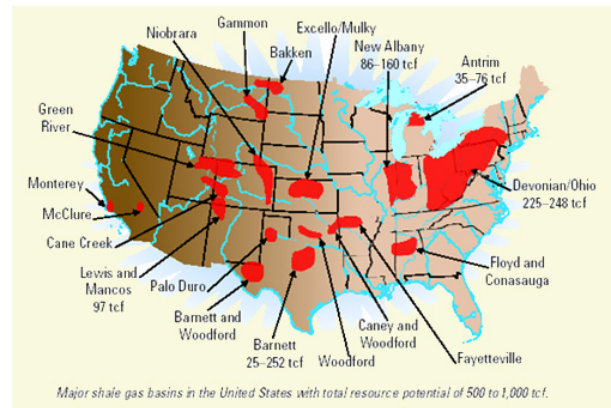
Over the past 18 months, the price of oil and natural gas have been on an accelerated pace to record levels. Oil has approached \$150 per barrel. Natural gas has inverted its usual cycle of lower summer prices and maintained a price in excess of \$8 per Mcf. This shift in economics has contributed to the “perfect storm” environment that the onshore drilling rig industry has witnessed over the past 18 months. As a result, Victory Partners (“VP”) believes that this industry will remain a strong investment opportunity for the foreseeable future.



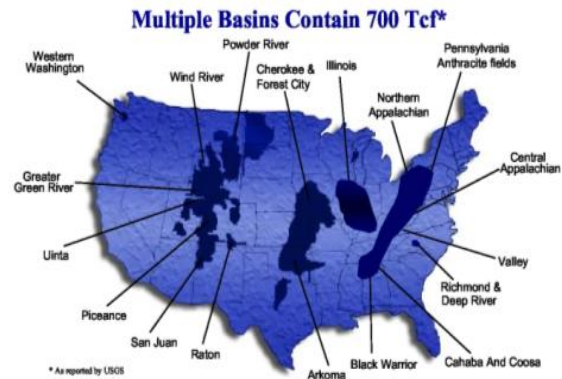
INDUSTRY OVERVIEW

The reality of increased gasoline prices casts light on the continued need for discovery and recovery of domestic oil and gas deposits and on the investment opportunity that abound in this space. The onshore drilling rig industry has been a necessary participant in the expansion of domestic resource development and has seen a resultant expansion in the number of contractors offering their services. According to *WTRG Economics*, recent rig activity has exceeded the record levels of 2007 with around 1,925 active units. This activity is heavily influenced by the vast natural gas fields formed beneath shale and coal bed methane formations and the recent advancements in drilling techniques to achieve economically viable wells. In particular, the Barnett Shale in north Texas remains the most active natural gas shale play domestically, having produced around 3.5 Tcf of natural gas and is expected to produce another 30 Tcf in the future. Estimations are that the Haynesville shale formation in northern Louisiana and northeast Texas will eclipse the Barnett Shale in the coming years and could contain as much as 44 Tcf in unproven natural gas reserves.

The following graphics depict the current proven reserves of shale and coal bed methane formations in the United States with the exception of the Haynesville field in Northeast Texas/North Louisiana.



US Geological Survey; Schlumberger, E&T

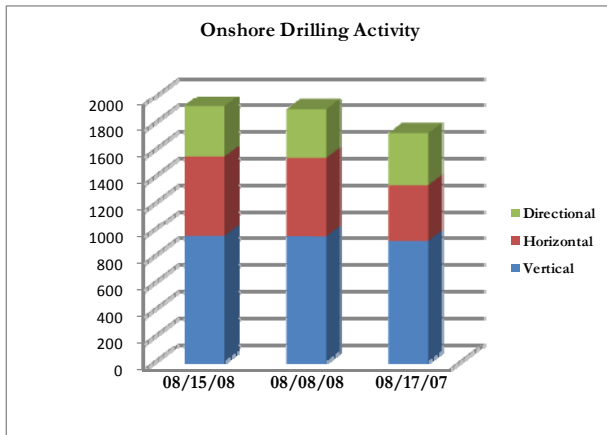


East Reg. AAPG

Despite the extensive operations that are occurring at these fields and the obvious economic benefits to the bottom lines of the domestic drilling rig contractors and operators, the first two quarters of 2008 have demonstrated an increase in competition for drilling contracts. Due to the seasonal nature of drilling in Canada, many Canadian firms have transported their rig fleet into the fields of the southern United States rather than stacking the rigs. This has resulted in drilling rig utilization rates in the US of approximately 70% which in turn places downward pressure on the drilling day rates. While the day rates remain higher than past averages, contractors have begun to explore differentiating techniques and technologies that expand the pay-zone and/or present a faster total time on-hole, translating to a higher day rate for the contractors.

DIRECTIONAL/HORIZONTAL DRILLING

As of August 15, 2008, directional/horizontal drilling activity account for 970 of the total domestic activity of 1,924, an increase of 19.24% over the same time last year.



The expanding horizontal and directional drilling activity is being driven by the structure of the fields and the evolving technology of modern drilling rigs. Recent efforts have been made to increase the length of the horizontal wellbore in order to maximize the pay zone and number of wells that can be drilled from a single pad site. These techniques become more necessary as fields continue to encroach on populated areas and limit pad site availability.

CHANGING RIG TECHNOLOGY

In fields such as the Arkoma Basin, it is paramount that rigs have the ability to achieve a horizontal or near horizontal wellbore at a shallow depth to capitalize on the shallow pay zone. The Arkoma Basin currently has completion depths between 250 ft and 2,400 ft and averages around 950 ft. In order to achieve horizontal wellbores at these shallow depths, contractors must consider the weight on bit necessary to maintain a steady rate of penetration. To this end, contractors are utilizing top drive technologies to maintain even pull/push rates, along with techniques such as slant drilling.

Further, consideration is being given to the environment that these fields sit under and the footprint that is necessary for the drilling rigs. Drilling in western Texas with its flat mesquite fields, a rig footprint is not much of a concern. While, when drilling in the populated DFW metroplex, or the Arkoma Basin with its mountainous terrain, footprints become vastly more important. Contractors are exploring the combination of smaller footprints and more shallow horizontal depth in some new rig designs.

Recently, the market has seen the expansion of minimal footprint top drive units that are specially designed to be minimally environmentally invasive while obtaining constant rate of penetration on a shallow horizontal

wellbore. One technique that has been explored is the use of a rack and pinion system, which allows constant pressure to be placed on the bit whether in a vertical, slanted or horizontal position, resulting in a smoother wellbore and diminishing the chance of getting the bit stuck and losing the hole.



An additional concern to the modern day contractor is the lack of experienced hands. As a direct result, the introduction of fully automated pipe handling systems has been utilized on a number of newer rigs. These units can be operated with limited numbers of roughnecks on the drilling floor. Typically such automated units are limited to a single stand of drilling pipe, however innovations continue.

RECENT ONSHORE OIL & GAS DRILLING RIG TRANSACTIONS

Predictably, the onshore drilling rig market has experienced continued consolidation. Since January 1, 2007, the market has announced or closed around \$11.2 billion worth of transactions in the United States alone. Of this, \$7.2 billion is the announced public offering of National Oilwell Varco, Inc. (NYSE:NOV) and the merger between Smith International, Inc. (NYSE:SII) and W-H Energy Services, Inc. (NYSE:WHQ). The other \$4 billion worth of deals is spread amongst 28 other transactions with an average of roughly \$150M per transaction and a multiple of roughly 1.7 times revenue.

The recent activity in the marketplace lends credence to VP's belief that the present is an opportune time for mergers, acquisitions and other strategic transactions. Despite the high multiples in an acquisition transaction, the future earning power of this industry provides solid investment returns to those desiring to enter this space.

Victory Partners, LLC is actively involved in analyzing and representing companies in the Oil & Gas industry, having provided financial advisory services, performed recapitalizations, and completed M&A transactions for middle market companies.

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