

26 March 2009

February 2009 Cost Data

Drilling costs are estimated to have fallen in each of the last three months (December 2008 and January and February 2009). Preliminary February drilling cost estimates are down 8.2% from January signaling intensifying deflationary pressures on drilling costs due to industry cuts in activity. Data from November 2008 are still subject to revision and, at this time, it is likely that initial estimates of drilling costs for last November and December will be revised downward in the coming months.

Our estimate of the rate of inflation of composite costs of drilling and equipping onshore wells dropped sharply in February 2009, adding support to the signal from the

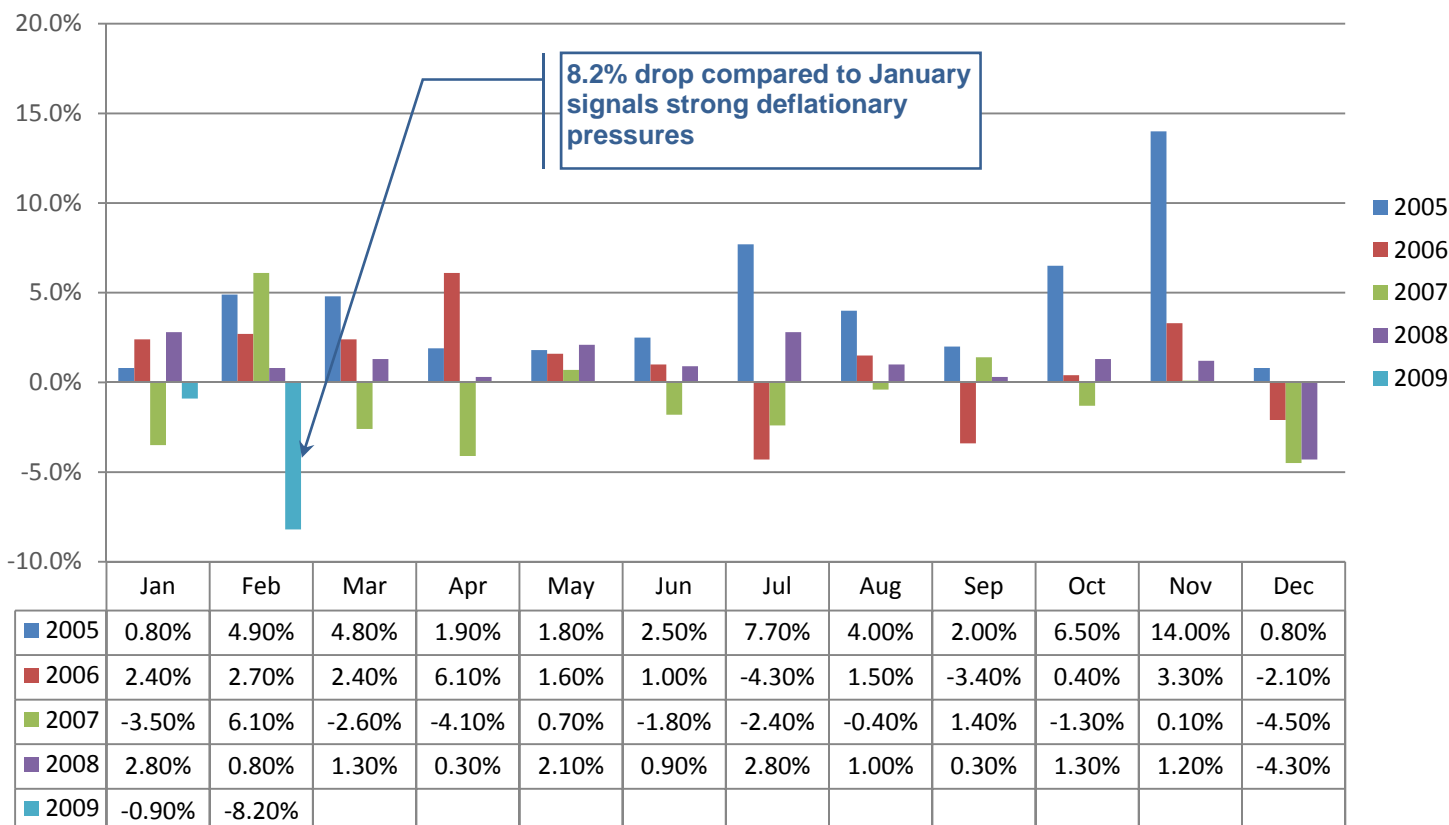
Annualized Cost Inflation Rates

Cost Component	2006/2005	2007/2006	2008/2007
Drilling Cost	37.8%	-4.6%	1.8%
O&G Support Activities	13.1%	3.6%	1.4%
Oil Field Machinery	8.7%	7.0%	7.8%
Rotary Drilling Machinery	11.5%	8.9%	5.0%

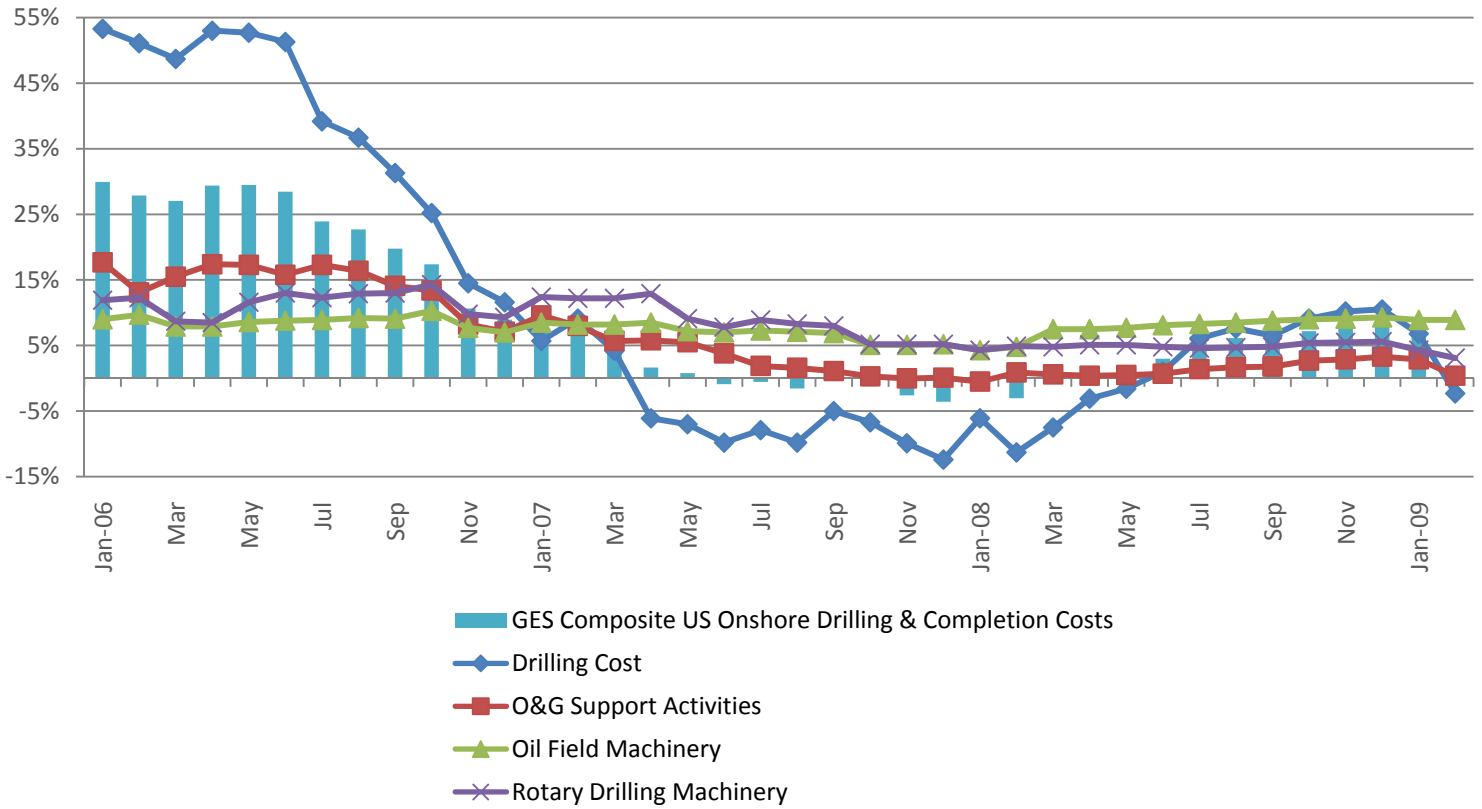
Note: 2008 inflation estimates subject to revision

January 2009 data. This reflects primarily falling drilling costs and only very minor increases in the cost of support activities. In addition, the rate of inflation of machinery costs appears to have leveled off and is showing signs of future cost reductions. February machinery costs were down marginally compared to January but the production machinery sub-group was off 2.4% on a month to month basis in February 2009.

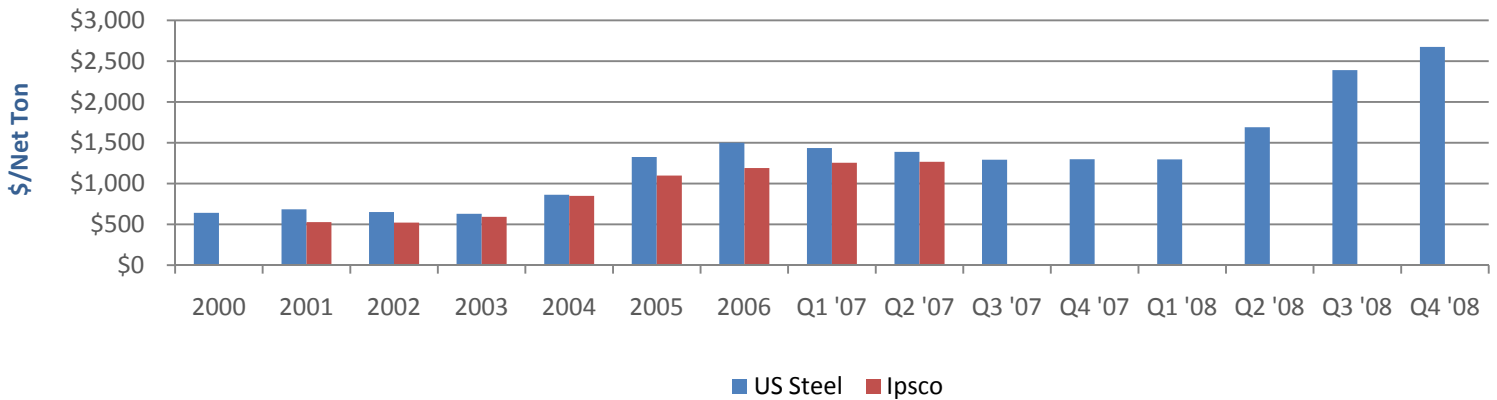
US Producer Price Index: Monthly Percentage Change in the Cost of Drilling Oil & Gas Wells



Monthly Year over Year Inflation of Selected Industry Costs



Tubular Steel Products Price



As of end of year 2008 tubular steel prices had not yet begun to respond to falling industry spending budgets and drilling plans. However, it should be noted that the primary metals manufacturing cost index was down 13% in February 2009 compared to February 2008.

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