

Entry and Exit Strategies in International Shale Opportunities*

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General Comments

In emerging unconventional plays, liquids most commonly precede or “spark” the development of infrastructure. There are often three periods of intense activity.

1. Land acquisition frenzy
2. Successful proof of productivity
3. Access shortage

Strategies may be categorized as:

- Go big
- Go small
- Sample and test
- Wait for others

In all strategies, there is a need to attract and retain good people.

Entry and Exit Strategies in International Shale Opportunities



Patrick Burdett, Engagement Leader

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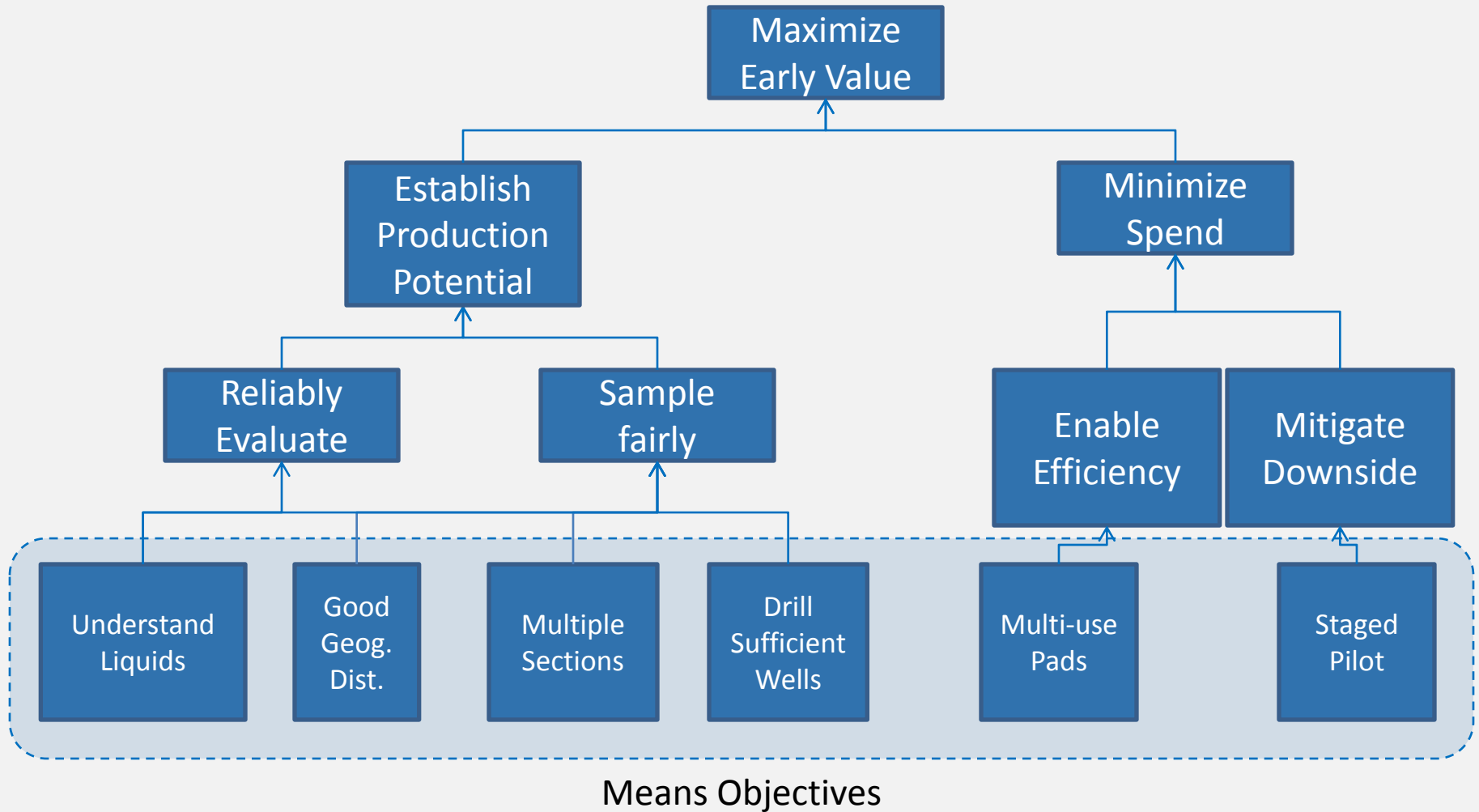
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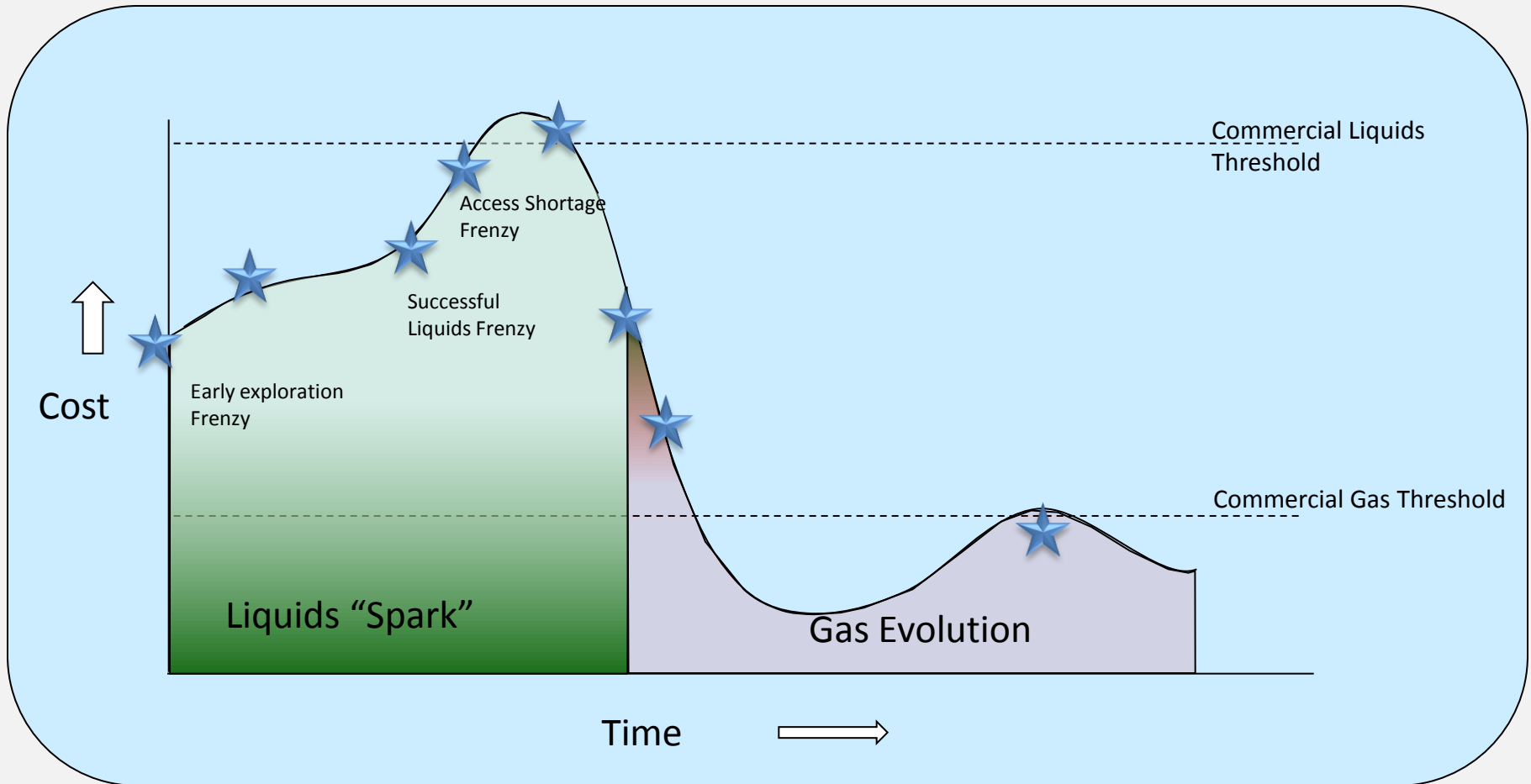
CONFIDENCE THROUGH CLARITY

Simplified Objectives Hierarchy Example



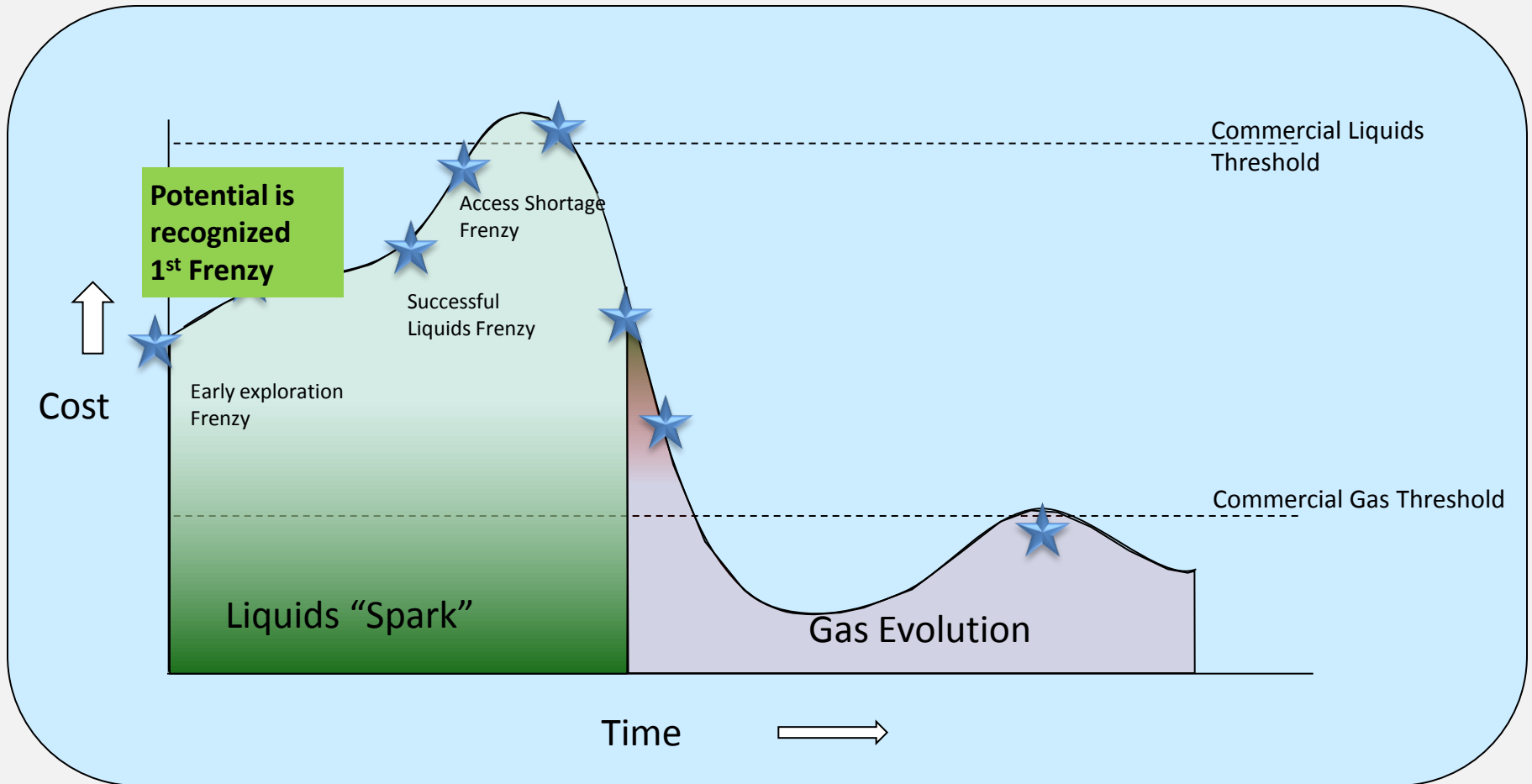
Life Cycle For Shale Gas

- Liquids “spark” the development of infrastructure
- Three periods of high activity



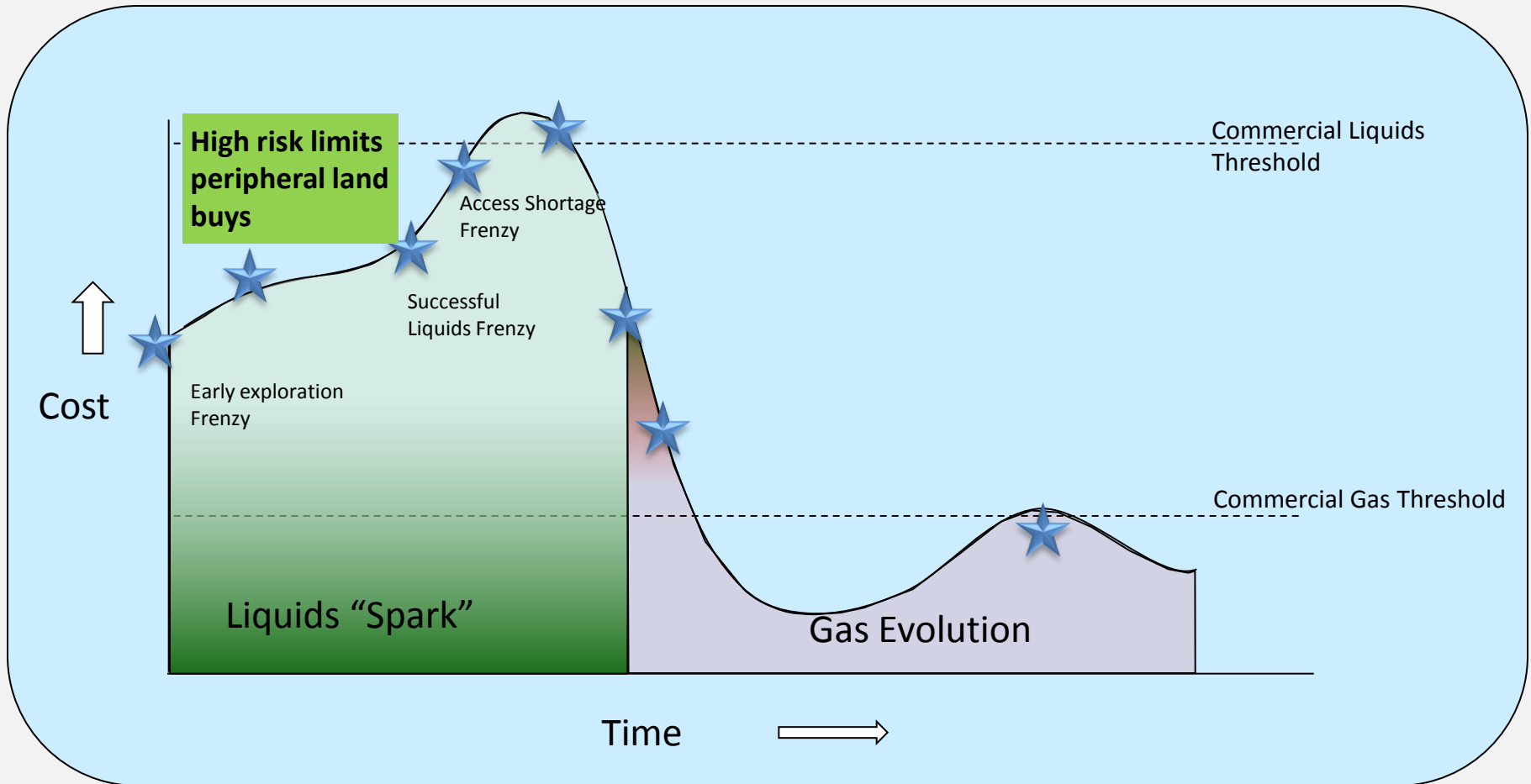
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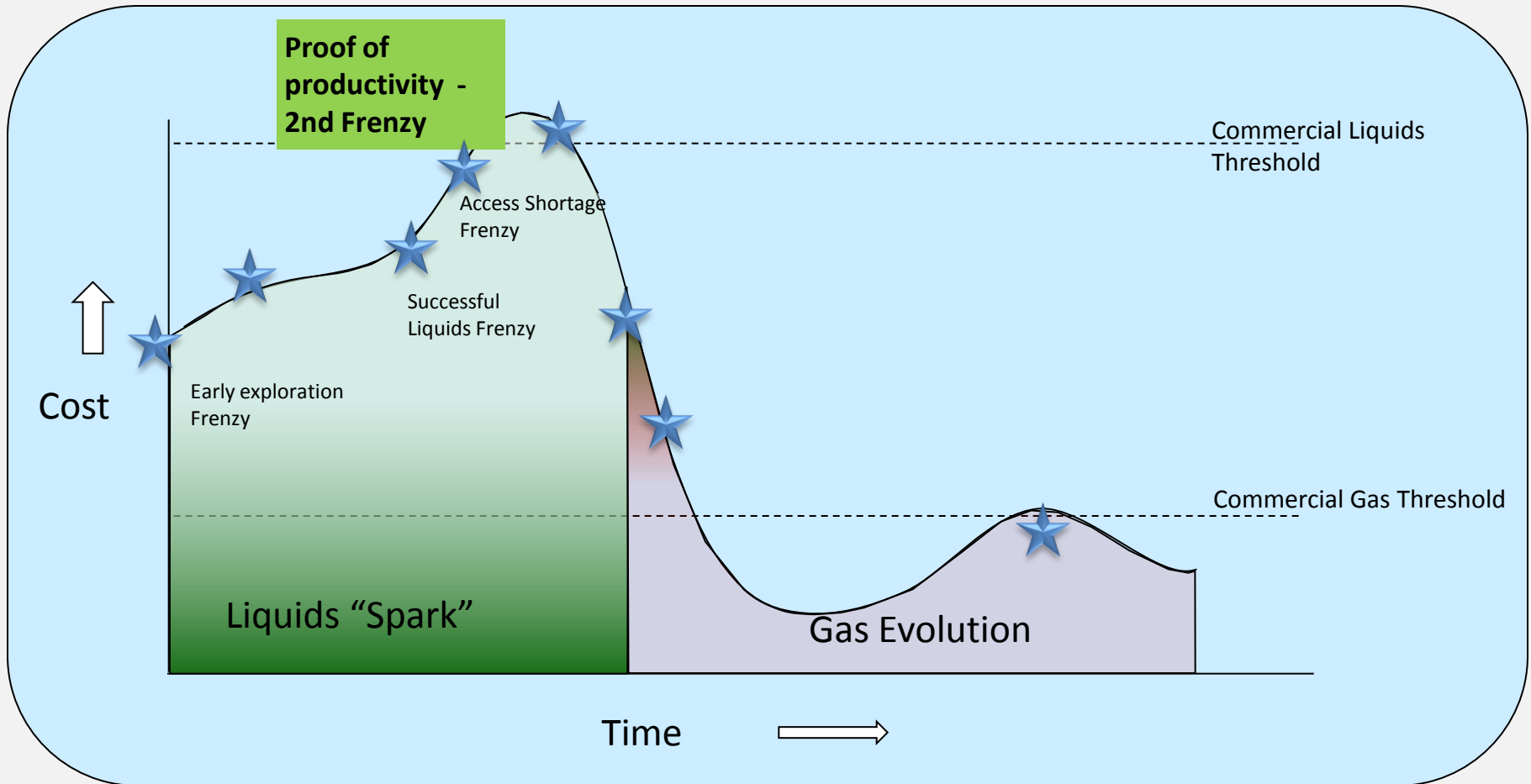
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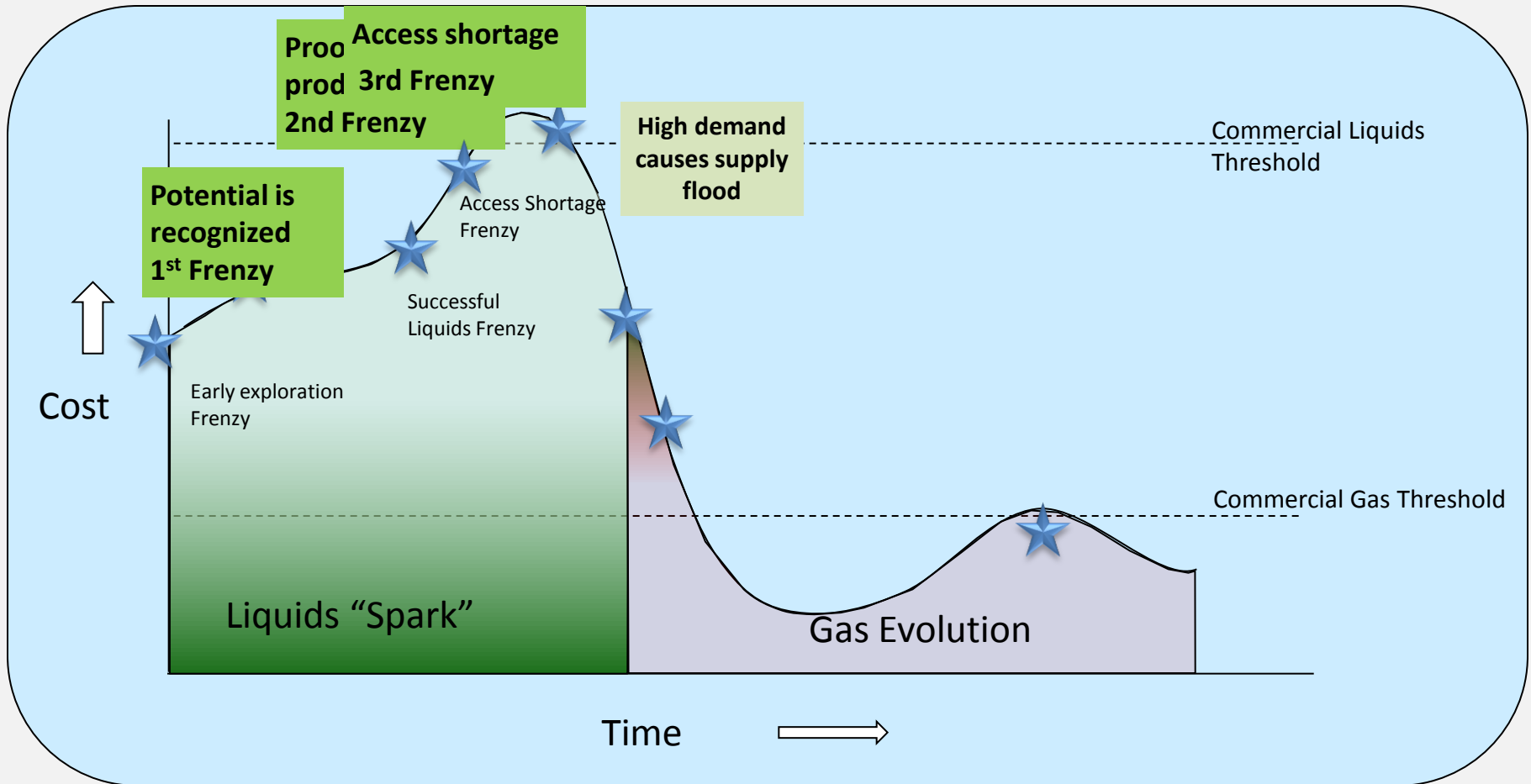
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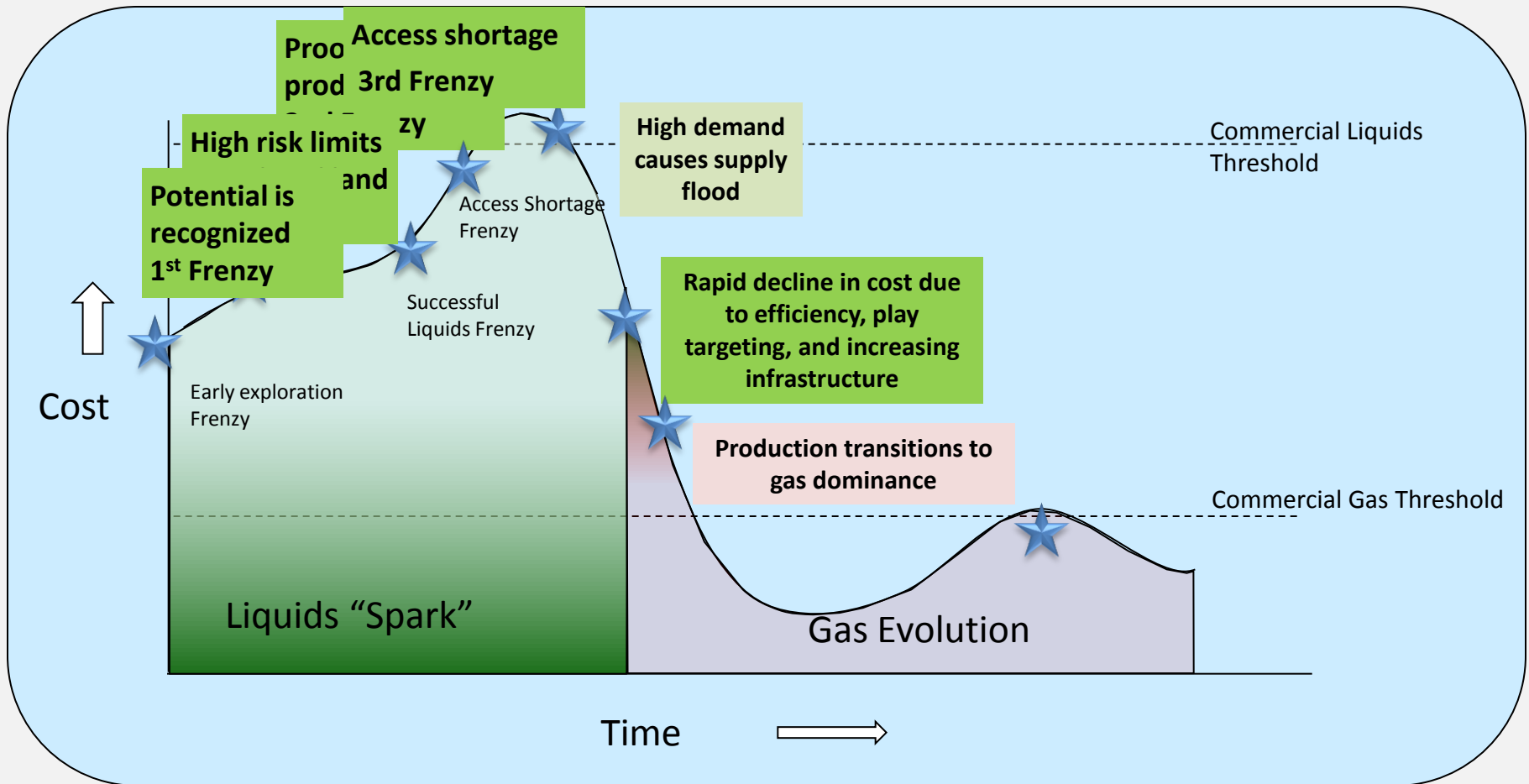
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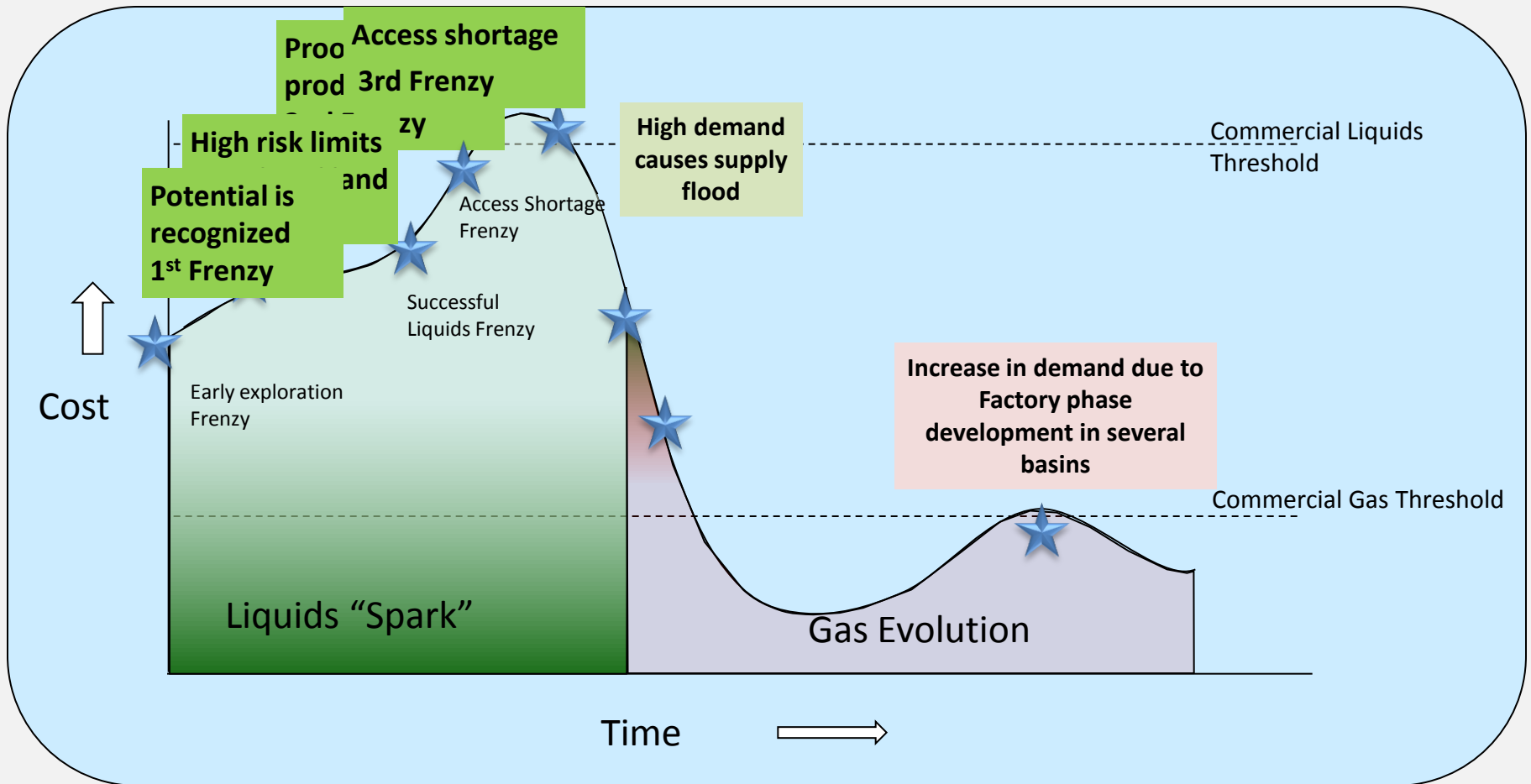
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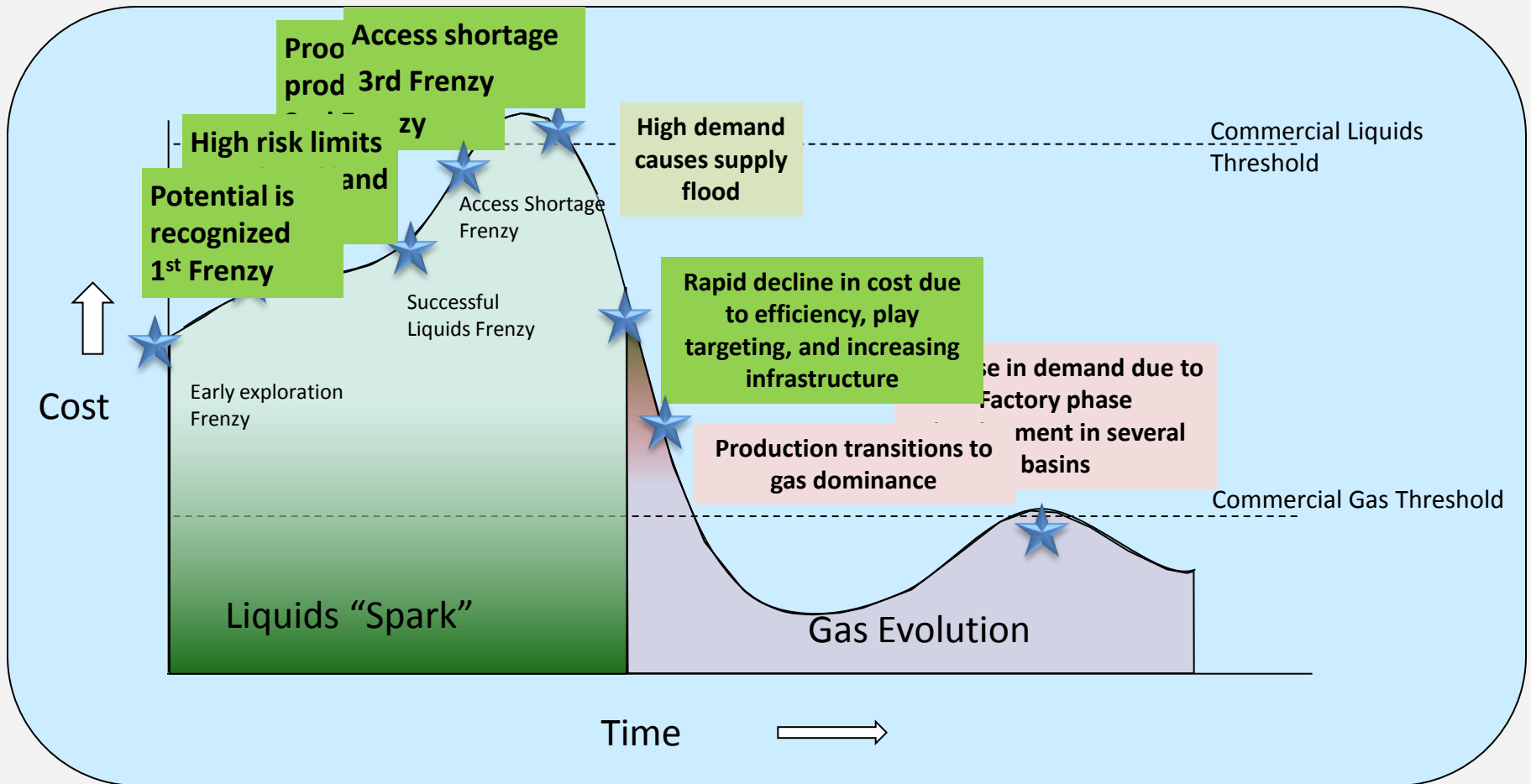
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Play Entry – The “Three Frenzies” Model

Emerging Unconventional Plays often have three periods of intense activity.

Buying off-peak can reduce cost and increase the potential of obtaining material acreage

Play Entry – The “Three Frenzies” Model

Canning

Recognition of the Potential

FRENZY 1



Duvernay

Proof of Concept

FRENZY 2

“Land Cliff”



Montney

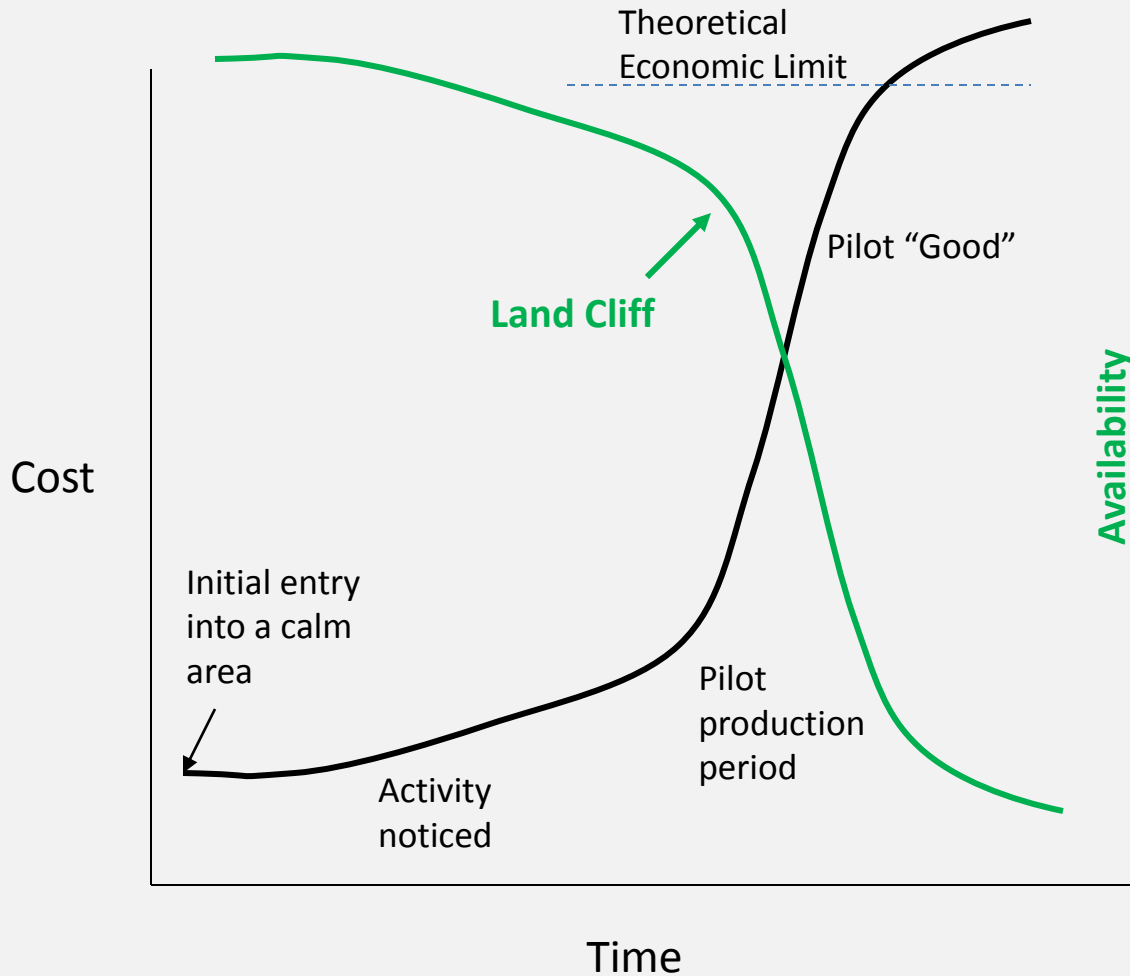
Access Shortage

FRENZY 3

*Over-spending
common*

Eagle Ford

Land Cost – Supply / Demand is Real



- High early purchase risks stranding capital or direct loss from pilot failure
- Competition reduces land availability for late acquisition
- Increased competition elevates cost

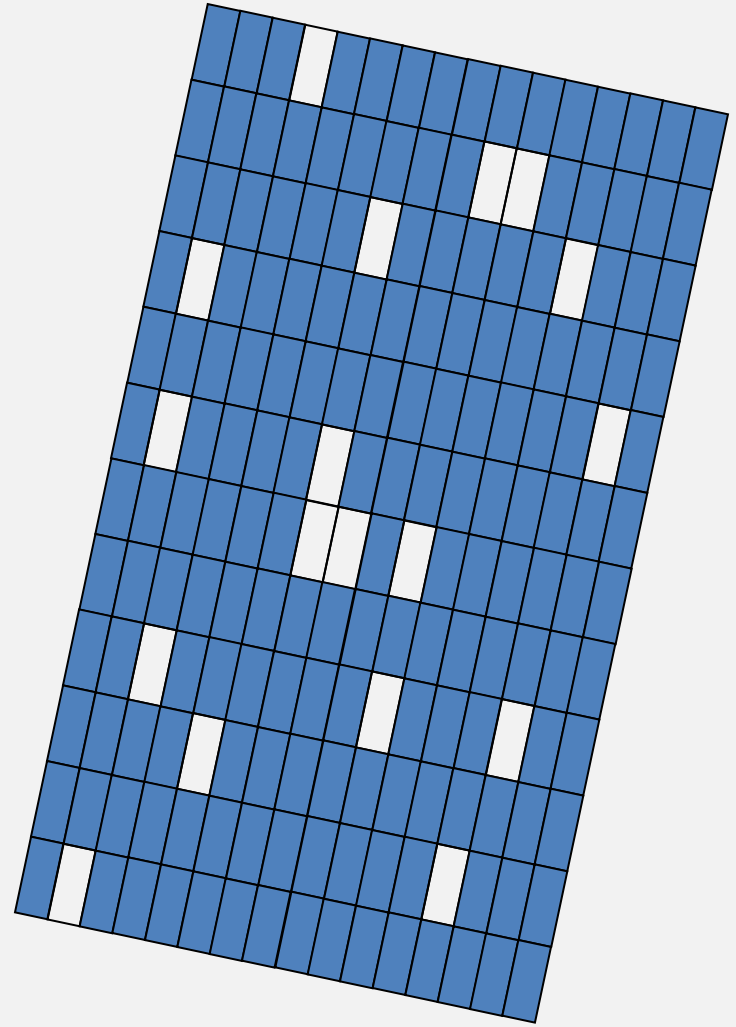
4 Simple Rules For Unconventional

- Seek Material Interest in Material Plays
- Create and Maintain Competitive Advantage
- Have an Exit Plan

Nothing can make up for bad rock!

Strategy 1: Go Big

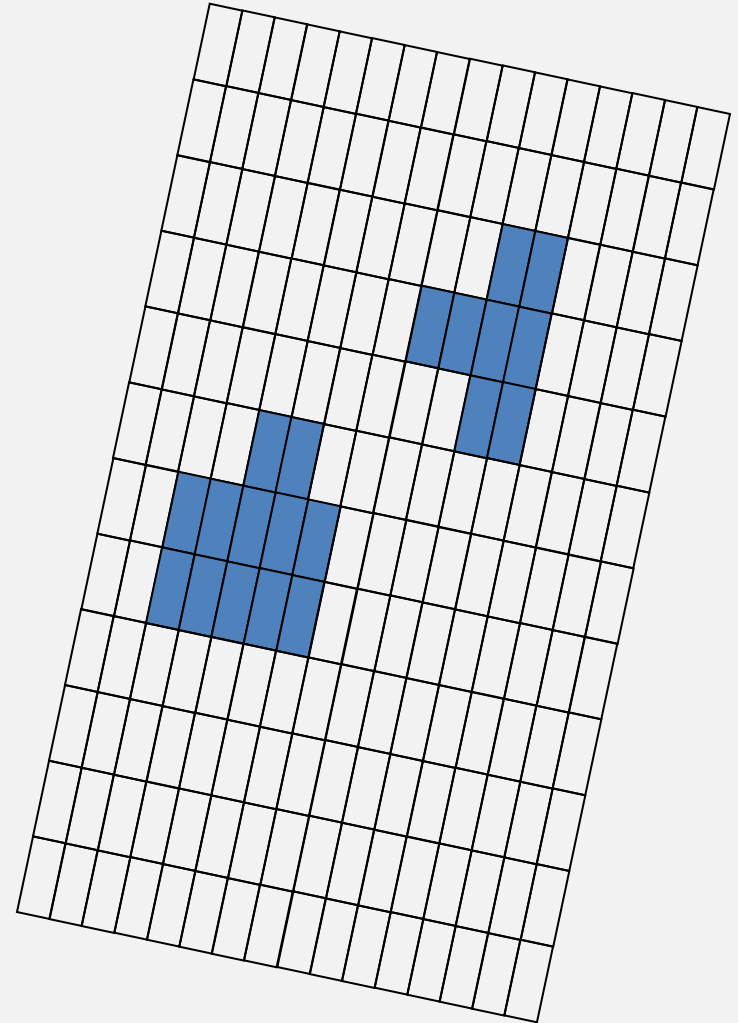
- Buy as much as possible now when land is cheap.
- Strengths:
Cheap land, control the game including infrastructure and pace of development, large upside potential, ability to divest low-grade areas.
- Weaknesses:
Large amount of risked capital exposure if play fails.
- The burden of learning is on the major landholder. Are they capable of learning on their own?



Strategy 2: Go Small

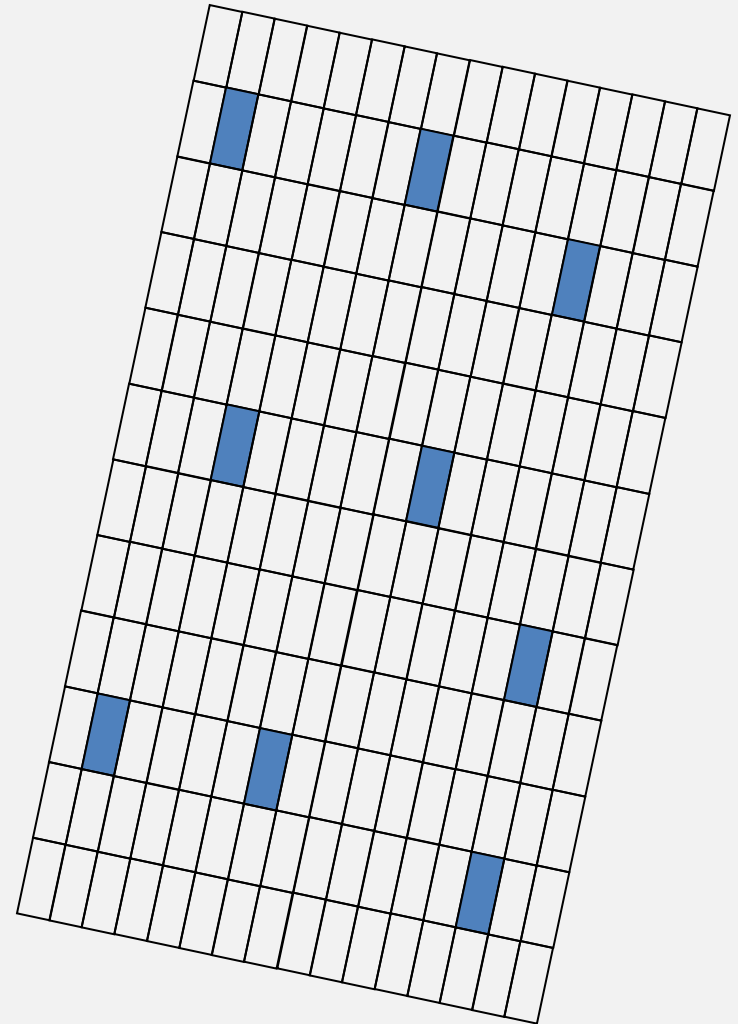
- Attempt to sweet spot the play.*
- Strengths:
Limits sunk cost, similar upside to Strategy 1 but with less capital exposure, if competition absent
- Weaknesses :
Loss of control, low probability of success due to very poor ability to define sweet spots. A focused purchase in the wrong area would gain you little play-wide information
- *This situation is often forced upon industry through government controlled lease auctions.*

*Typically not possible



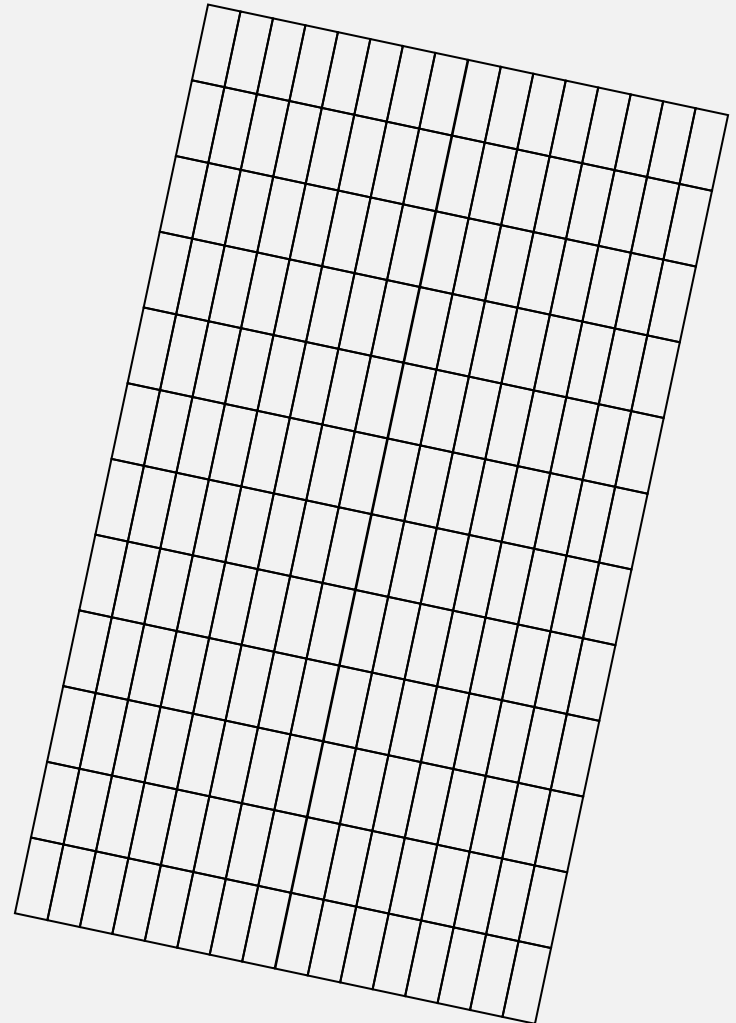
Strategy 3: Sample and Test

- Grid-based approach; buy enough for effective appraisal and pilot program, leave the option to buy more
- Strengths:
Limits sunk cost, gains information regarding possible sweet spots limiting later land purchases
- Weaknesses:
Loss of control, competition could block you out (you may teach the competition), Land Cliff increases costs
- Attractiveness varies based upon the ability to keep test information proprietary and competition

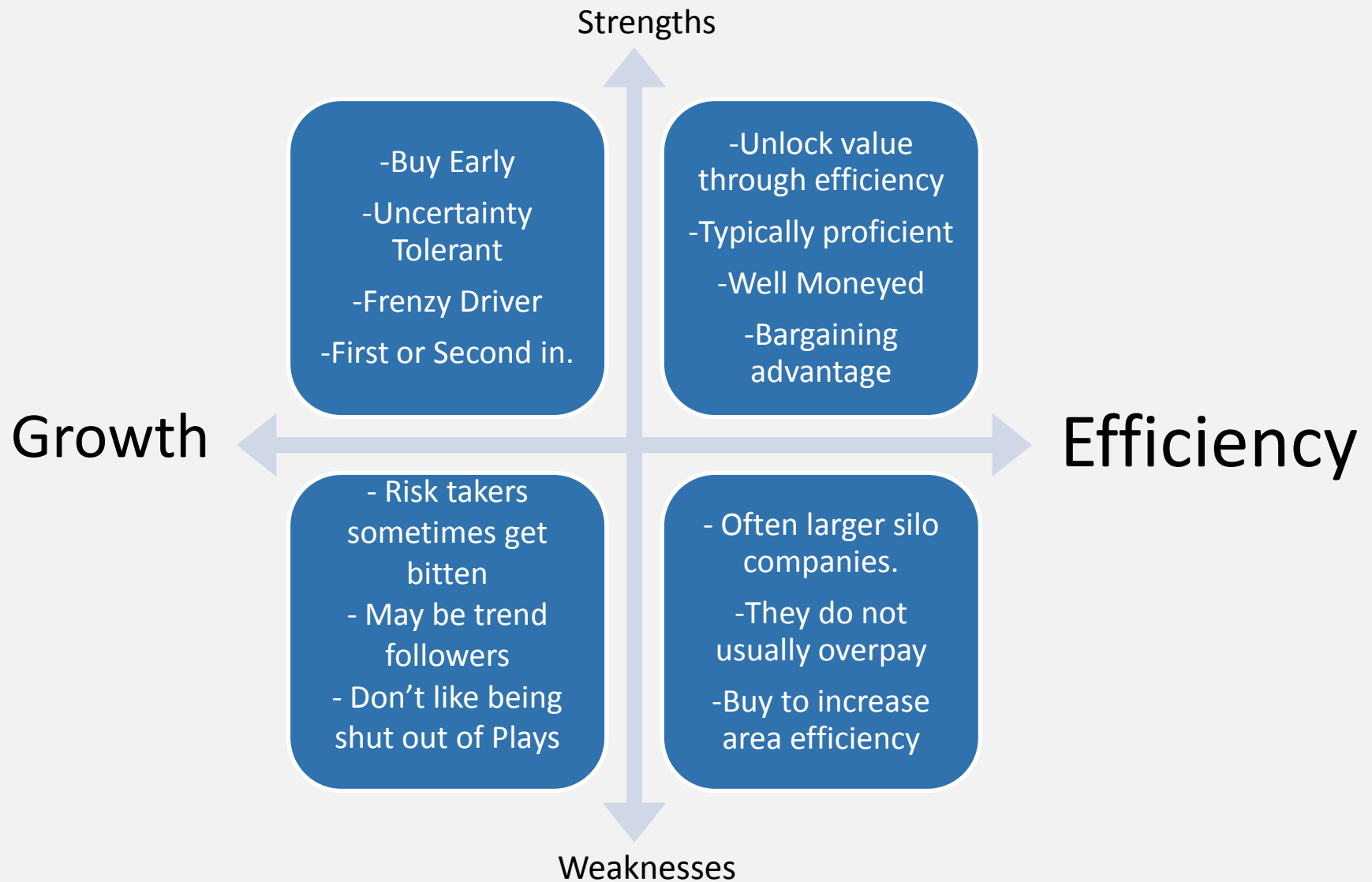


Strategy 4: Wait For Others

- Buy nothing and wait for more public information to become available.
- Strengths – no sunk costs, ability to opt out entirely based on future information
- Weaknesses – total loss of control, skyrocketing land costs could greatly increase costs to play, third party acquisitions could block you out entirely, the quality of information gained could be poor



Growth vs Efficiency Matrix



Manage Your Strategy

