

INDUSTRY OVERVIEW

Certain information and statistics relating to our industry provided in this section and elsewhere in this Prospectus have been derived from official government sources. There can be no assurance that these sources have compiled such data and information on the same basis or with the same degree of accuracy or completeness as are found in other industries or other jurisdictions. Moreover, neither we nor any of our advisors, nor the Underwriters nor any of their advisors, have independently verified this information or these statistics.

We commissioned Spears & Associates, Inc., as technical consultants, to prepare an Independent Technical Report on The Global Land Drilling Rig Manufacturing Market, which is Appendix V to this Prospectus. Information and statistics from that Independent Technical Report have been included in this Prospectus. Spears & Associates, Inc. provides business planning, activity forecasts, market research, and consulting services to the worldwide petroleum equipment and service industry. The amount of fees payable to Spears & Associates, Inc. is not contingent on our Company's approval of its work. You should read the report in its entirety, including all assumptions.

Overview

The global oil and gas drilling market can generally be divided into offshore drilling rigs and land drilling rigs. According to Spears & Associates, Inc. ("Spears"), there were an estimated 4,704 active land rigs around the world in 2006. The North American market, consisting of Canada and the USA, is the largest land rig market in the world, accounting for 45% of active rigs in 2006. The remainder of the rig activity is found in the emerging markets of China (23%), Russia (14%), Latin America (6%), the former Soviet Union (the "FSU") excluding Russia (5%), and the Middle East (4%).

Historically, drilling activity and demand for drilling rigs have been indirectly linked to trends in oil and gas prices. Land drilling activity in the North American market is very closely linked to natural gas prices, as well as oil prices. In general, higher oil prices and scarcity of supply has resulted in the encouragement of natural gas drilling and development of natural gas drilling in certain emerging market countries, such as China, Indonesia and Russia. As drilling activity and rig utilization have increased, a shortage in the supply of rigs has resulted in increasing day rates. Higher day rates result in higher overheads. This gives drilling companies greater incentive to invest in drilling rigs and equipment.

For the six-year period of 2002 through 2007, Brent crude oil prices increased at a CAGR of 23.8% from an average price of US\$25.02 per barrel in 2002, to US\$72.71 per barrel in 2007. As of February 15, 2008, the Brent crude oil spot price closed at US\$94.96 per barrel. Since January 2, 2008, the price per barrel has maintained at an average price of US\$91.74. From 2002 through 2007, the global active land rig count grew from 3,013 to 4,951, a CAGR of 10.4%. International land rig day rate averages also grew over this period, from US\$17,075 per day in 2002, to US\$22,100 per day in 2006. Current global land rig utilization levels are approaching full capacity, which for non-state-owned drilling companies is typically approximately 70%, while for many state-owned drilling companies it is lower. The following table summarizes oil and gas prices and global rig activity.

Petroleum Prices and Global Rig Activity

	2002	2003	2004	2005	2006	2007
Average Brent Crude Oil Spot price (US\$/bbl)	25.02	28.87	38.32	54.51	65.42	72.71
Average U.S. Henry Hub Gas (US\$/MMBtu)	3.36	5.47	5.89	8.71	6.73	6.97
Global Active Land Rigs	3,013	3,512	3,664	4,270	4,704	4,951
Global Land Rig Average Utilization Rates	37%	44%	46%	53%	58%	59%
International Land Rig Day Rates (US\$/day) ⁽¹⁾	\$17,075	\$18,400	\$18,425	\$18,800	\$22,100	NA
Global Newbuild Land Rigs Delivered	184	211	216	226	536	751

Source: Bloomberg for oil and gas prices, Spears for rig-related data

(1) Excludes China and Russia land day rates

INDUSTRY OVERVIEW

Global Drilling Markets

The Middle East remains the most prominent petroleum region in the world in terms of oil and gas reserves and oil production as of December 31, 2006. However, North America continues to be the leading gas producing region in the world, with Russia being the second largest. Land drilling activity depends not only on levels of oil reserves and production activity but also on the location of onshore oilfields the depth and productivity of those wells, and the size of oil fields within a given region. Levels of exploration, production strategy and capital from available exploration and development companies may vary. While China's reserves and production account for only 1.3% and 3.7% respectively of the global total, the China market accounts for approximately 23% of global active land rig activity. In contrast, the Middle East accounts for 53.7% and 24.2%, respectively of global reserves and production, but only accounts for approximately 4% of the global active land rig market. The following tables summarize global reserve estimates and production by region.

Global Petroleum Reserve Estimates (As of December 18, 2006)⁽¹⁾

	Oil	Natural Gas	Total	
	(mmbbl)	(Bcf)	(mmboe)	(%)
Middle East	739,205	2,566,038	1,166,878	53.7%
Russia	60,000	1,680,000	340,000	15.6%
Africa	114,073	484,433	194,812	9.0%
Latin America	115,150	255,302	157,701	7.3%
FSU (Excluding Russia) ⁽²⁾	38,886	334,800	94,686	4.4%
North America	26,967	262,331	70,689	3.3%
Asia (Excluding China)	15,721	308,217	67,091	3.1%
Europe	15,800	180,301	45,850	2.1%
China	16,000	80,000	29,333	1.3%
Oceania ⁽³⁾	1,645	31,270	6,856	0.3%
World Total	1,143,447	6,182,692	2,173,896	100.0%

Source: U.S. Energy Information Administration, January 2007, PennWell Corporation, Oil & Gas Journal, Vol. 104.47 (December 18, 2006). Oil includes crude oil and condensate. Data for the United States is from the Energy Information Administration, U.S. Crude Oil, Natural Gas Liquids Reserves, 2005 Annual Report, DOE/EIA-0216(2005) (November 2006). Oil & Gas Journal's oil reserve estimate for Canada includes 5.2 billion barrels of conventional crude oil and condensate reserves and 174.0 billion barrels of oil sands reserves.

Note:

- (1) Proven reserve estimates; exclude 170.4 billion bbl of Canadian oil sand reserve estimates; assumes a 6:1 ratio for (Natural gas) bcf to mmboe conversion.
- (2) Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Lithuania, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
- (3) Australia and New Zealand.

Global Petroleum Production (2006)

	Oil	Natural Gas	Total	
	(mmbbl/d)	(Bcf/d)	(mmboe/d)	(%)
Middle East	25.6	32.5	31.0	24.2%
North America	10.0	68.8	21.5	16.8%
Russia	9.8	59.2	19.7	15.4%
Latin America	10.6	18.2	13.6	10.6%
Africa	10.0	17.5	12.9	10.1%
Europe	5.4	28.4	10.1	7.9%
Asia (Excluding China)	3.7	27.1	8.2	6.4%
China	3.7	5.7	4.7	3.7%
FSU (Excluding Russia) ⁽¹⁾	2.4	16.2	5.1	4.0%
Australia	0.5	3.8	1.1	0.9%
World Total	81.7	277.4	127.9	100.0%

Source: BP Statistical Review of World Energy, 2007

- (1) Azerbaijan, Kazakhstan, Turkmenistan, Ukraine and Uzbekistan.

INDUSTRY OVERVIEW

Global Land Rig Market

Historically, the global land rig market has been dominated by activity in the North American markets of the USA and Canada. Driven by both increasing oil and gas prices, the North American active land rig count increased at CAGR of 18%, between 2002 and 2006. Drilling activity in emerging market countries have also increased significantly. China and Africa have been the fastest growing regions in terms of active land rig count, growing at a CAGR of 14.1% and 14.6%, respectively, between 2002 and 2006. For the year 2006, Spears estimates that over 2,560 active land rigs were drilling in the emerging market regions, accounting for 54.5% of active land rigs globally.

Global Average Active Land Rig Count

Year	China	Russia	FSU (excluding Russia)	Middle East	Latin America	Africa	Asia (Excluding China)	Emerging Market Total	Europe	North America	Global Total
2002	649	614	148	138	168	55	118	1,890	29	1,094	3,013
2003	799	628	148	147	188	61	116	2,087	32	1,403	3,521
2004	854	492	168	156	225	67	122	2,083	25	1,556	3,664
2005	1,058	530	201	167	251	76	128	2,410	21	1,838	4,270
2006	1,100	550	211	210	261	95	136	2,562	22	2,120	4,704
2002 through 2006 CAGR .	14.1%	(2.7%)	9.3%	11.1%	11.6%	14.6%	3.6%	7.9%	(6.7%)	18.0%	11.8%

Source: Spears

Demand for land rigs is driven by a number of factors, including wells drilled, well depth, geological conditions, climatic conditions and location. Typically, drilling more wells requires more transportation (mobilization) and set-up time. Travelling time between well sites and fields, must also be accounted for. Wells of greater depth or complexity require more drilling time. These factors can tie up rig supply, which means that in a given market it may be harder and more time consuming to drill. In addition to rig count, other quantitative data is also analyzed to understand drilling activity, including the number and depth of wells drilled in a given market. The following table summarizes key rig and drilling activity parameters across the major markets:

2006 Land Rig Global Activity

Countries/Region	Average active rigs	Utilization rate	Rig fleet as of Dec 31	Newbuild rigs	Wells drilled	Well footage (million feet)
China	1,100	54%	2,051	140	16,850	124.7
Russia	550	35%	1,469	40	4,753	40.3
Latin America	261	69%	387	10	4,481	27.4
FSU (excluding Russia)	211	41%	501	5	1,053	6.7
Middle East	210	86%	273	30	1,710	13.5
Asia (excluding China)	136	65%	209.2	4	1,655	8.3
Africa	95	43%	222	5	934	6.8
Subtotal	2,562	50%	5,112	235	31,436	227.7
North America	2,120	77%	2,753	301	76,389	388.2
Europe	22	19%	116	0	494	2.6
Total	4,704	58%	7,981	536	108,319	618.5

Source: Spears

Note: The totals and sub-totals in this chart are for illustrative purposes only; numbers may or may not add up due to rounding.

INDUSTRY OVERVIEW

North America

Consisting of Canada and the USA, North America is the largest land rig market in the world in terms of active rigs and wells drilled. North America had an estimated 2,120 land rigs engaged in drilling operations in 2006. The North American land rig market consists of numerous contract drilling companies, with the largest companies including Nabors, Helmerich & Payne, Patterson Energy and Grey Wolf. Onshore drilling is primarily focused on conventional natural gas drilling, though non-conventional natural gas drilling, such as tight gas formations, coal bed methane, and shale gas, are increasing land rig demand. Spears estimates the total number of oil and gas wells drilled onshore in North America at 76,389, with a total estimated well footage of 388.2 million feet, during the year 2006. This is forecast to increase to 97,846 wells and a total of 506.7 million feet drilled per year, by 2012. To meet such demand, an estimated 635 new land rigs will be required from 2007 through 2012.

China

China is the second largest land rig market in the world in terms of active rigs and wells drilled. An estimated 1,100 land rigs were engaged in drilling operations in China in 2006. About 85% to 90% of the estimated 2,000 land rigs in China are owned by the drilling subsidiaries of two leading state-owned oil groups, CNPC and Sinopec. An estimated 200 to 300 land rigs are owned and operated by other Chinese operators and independent domestic drilling contractors, while fewer than 20 foreign-owned land rigs are in China at present. Spears estimates the total number of oil and gas wells drilled onshore in China at 16,850 with a total estimated well footage of 124.7 million feet, during the year 2006. This is forecast to increase to 21,321 wells and a total of 157.8 million feet drilled per year, by 2012. To meet such demand, an estimated 1,125 new land rigs will be required from 2007 through 2012.

Russia

Russia is the third-largest land rig market in the world, in terms of active rigs and well footage drilled. An estimated 550 land rigs were engaged in drilling operations in Russia in 2006. Rig drilling is dominated by in-house service firms, including RNGS run by Rosneft, Burgaz run by Gazprom and NvBN run by TNK-BP. Some of the rigs are owned by independent Russian drilling contractors, including BK Eurasia, Integra and Siberian Service Company. There are a few international drilling contractors present in the Russian market, including KCA Deutag of Germany, which is a unit of Abbot Group PLC. Spears estimates the total number of oil and gas wells drilled onshore in Russia at 4,753, with a total estimated well depth of 40.3 million feet, during the year 2006. This is forecast to increase to 6,261 wells and a total of 52.9 million feet drilled per year, by 2012. To meet such demand and high rig-replacement requirements, an estimated 705 new land rigs will be required from 2007 through 2012.

FSU (excluding Russia)

The FSU (excluding Russia) region is another potentially significant rig market, with an estimated 211 land rigs engaged in drilling operations in 2006. It is estimated that this region had a total land rig fleet of 505 rigs (including active and inactive rigs) as of May, 2007, of which 195 were in Ukraine, 100 were in Kazakhstan, 95 were in Turkmenistan, 90 were in Uzbekistan and 25 were in Azerbaijan. Almost all of these units are more than 20 years old and based on obsolete designs. Except for Kazakhstan, where most of the rig fleet is owned by foreign and private drilling contractors, most of the rig fleet in the FSU (excluding Russia) is owned by state-owned oil companies. Spears estimates the total number of oil and gas wells drilled onshore in FSU (excluding Russia) was 1,053, with a total estimated well footage of 6.7 million feet, during the year of 2006. This is forecast to increase to 1,411 wells and a total of 9.0 million feet drilled per year, by 2012. To meet this demand and replacement requirements, an estimated 87 new land rigs will be required from 2007 through 2012.

INDUSTRY OVERVIEW

Middle East

The Middle East is home to the world's largest oil and gas reserves and the highest levels of oil production. However, due to the productivity of its wells, the region has a smaller rig market than many other regions. An estimated 210 land rigs were engaged in drilling operations in the Middle East in 2006, with the world's highest utilization level of 86%. Nabors, National Iranian Drilling Company (NIDC) and Arab Drilling Company have the largest rig fleets in this region. Saudi Arabia, Oman and Iran have the largest land rig fleets, consisting of 86, 56 and 51 respectively, as of November, 2007. Spears estimates the total number of oil and gas wells drilled onshore in the Middle East was 1,710 with a total estimated well footage of 13.5 million feet, during the year 2006. This is forecast to increase to 2,267 wells and a total of 18.1 million feet drilled per year, by 2012. To meet this demand and rig replacement requirements, an estimated 130 newbuild land rigs will be required from 2007 through 2012.

Latin America

Latin America is one of the largest land rig markets in the world, and the fourth-largest in terms of land wells drilled in 2006. An estimated 261 land rigs were engaged in drilling operations in the Latin America market in 2006. Pemex and San Antonio are estimated to have the largest rig fleets in this region. Mexico, Argentina and Venezuela are the countries with the largest land rig fleets, accounting for approximately 27%, 25% and 23%, respectively of the total rig fleet size in Latin America, as of May, 2007. Spears estimates the total number of oil and gas wells drilled onshore in Latin America at 4,481 with a total estimated well footage of 27.4 million feet, during the year 2006. This is forecast to increase to 5,525 wells and a total of 33.3 million feet drilled per year, by 2012. To meet this demand and rig replacement requirements, an estimated 115 newbuild land rigs will be required from 2007 through 2012.

Africa

The most active land rig markets in Africa are located in Algeria, Egypt and Libya. An estimated 95 land rigs were engaged in drilling operations in Africa in 2006. ENTP, Great Wall, EDC and Enafor are the companies with the largest rig fleets in this region. Algeria, Egypt and Libya have the largest land rig fleets, with 91, 44 and 33 land rigs, respectively, as of May, 2007. Spears estimates the total number of oil and gas wells drilled onshore in Africa at 934 with a total estimated well footage of 6.8 million feet, during the year 2006. This is forecast to increase to 1,501 wells and a total of 10.8 million feet drilled per year, by 2012. To meet this demand and rig replacement requirements, an estimated 85 newbuild land rigs will be required from 2007 through 2012.

Global New Rig Demand

Demand for newbuild land rigs is driven by a combination of demand for additional rigs, new rig technologies or capabilities (such as greater drilling depth), and retirement of existing, aging or obsolete rigs. Some idle rigs may be reactivated, some rigs may be "assembled" from existing components.

INDUSTRY OVERVIEW

Between 2002 and 2006, approximately 1,373 newbuild rigs were delivered to the market. Newbuilds increased 137%, from 226 in 2005, to 536 in 2006, largely due to demand indirectly related to increases in worldwide oil prices and North American natural gas prices. Global construction of new land rigs is forecast to be over 2,900 rigs between 2007 and 2012, averaging approximately 491 new rigs a year. By 2012, virtually all of the global demand for new rigs is expected to be linked to the need to replace worn-out or obsolete units. The following table shows the historical and forecast movements in the global land rig market through 2012.

Global Land Rig Movements

<u>Year</u>	<u>Active Rigs</u>	<u>Rig Fleet as at 1 Jan</u>	<u>New builds</u>	<u>Moved In or Assembled</u>	<u>Retirements</u>	<u>Rig Fleet as at 31 Dec</u>
2002	3,013	8,183	184	180	481	8,066
2003	3,521	8,066	211	293	621	7,949
2004	3,664	7,949	216	434	498	8,101
2005	4,270	8,101	226	296	570	8,053
2006	4,704	8,053	536	234	498	8,325
2002-2006 Total			1,373	1,437	2,668	
2007	4,951	8,325	751	318	462	8,932
2008	5,104	8,932	445	140	489	9,029
2009	5,283	9,029	391	95	484	9,030
2010	5,483	9,030	430	70	482	9,048
2011	5,682	9,048	455	60	483	9,080
2012	5,869	9,080	475	50	486	9,119
2007-2012 Total			2,947	733	2,886	

Source: Spears

Note: The totals and sub-totals in this chart are for illustrative purposes only; numbers may or may not add up due to rounding.

INDUSTRY OVERVIEW

The global land rig construction market was driven by the North American market in 2006 and 2007, when newbuilds in North America accounted for approximately half of the global total. After 2007, with the near-term build-out of the North American market complete, global new land rig construction is expected to return to 400 to 450 units per year during 2008 to 2010, with significant demand shifting to the emerging market regions. China and Russia are expected to have the largest demand for newly built land rigs, and are forecast to account for 42.1% and 36.8% of global demand for new rigs in 2012, respectively. The following table summarizes historic and forecasted global demand for new land rigs by region.

Global New Land Rig Demand

Year	China	Russia	FSU		Latin America	Africa	Asia	Emerging	Europe	North America	Global total
			(excluding Russia)	Middle East			(excluding China)	market total			
2002	125	50	—	—	—	—	—	175	—	9	184
2003	125	20	—	—	—	—	—	145	—	66	211
2004	130	15	—	—	—	—	—	145	—	71	216
2005	135	5	—	10	5	5	—	160	—	66	226
2006	140	40	5	30	10	5	4	235	—	301	536
2002-2006 Total	655	130	5	40	15	10	4	860	—	513	1,373
2007	175	70	10	30	10	10	10	316	—	435	751
2008	180	85	10	20	25	15	10	345	—	100	445
2009	185	100	10	20	25	15	11	366	—	25	391
2010	190	125	19	20	25	15	11	405	—	25	430
2011	195	150	19	20	20	15	11	430	—	25	455
2012	200	175	19	20	10	15	11	450	—	25	475
2007-2012 Total	1,125	705	87	130	115	85	64	2,312	—	635	2,947

Source: Spears

Note: The totals and sub-totals in this chart are for illustrative purposes only; numbers may or may not add up due to rounding.

Demand for new land rigs in China is forecast to remain strong through 2012, driven primarily by the development of major new oil fields, as well as continued drilling of mature oilfields, such as at the Daqing oilfield (Heilongjiang province). CNPC, China's largest oil and gas producer, plans to boost gas production by 1.06 Tcf per year, to 2.50 Tcf per year, by 2010. It is scheduled to develop five new gas fields over the next three years, including the Longgang and Xujiache fields (in Sichuan province), the Sulige field (in the Ordos basin), and the Dinan and Tazhong fields (in the Tarim basin). In addition, CNPC plans to begin development of the Nanpu oilfield (in Hebei province) in 2008, and to maintain large-scale oil drilling activities at Daqing.

Demand for new rigs in Russia is forecast to grow rapidly, between 2007 and 2012 primarily due to the aging, mechanical-driven land rig fleet. According to the Union of Manufacturers of Oil and Gas Equipment of Russia, approximately 32% (491 rigs) of the current drilling rig fleet was manufactured more than 15 years ago. These rigs are approaching the end of their useful lives and are expected to be replaced with new units in the coming years. As a result, rig upgrades and replacement are expected to drive the increase of demand for new land rigs in Russia.

Major Land Rig Manufacturers

Global land rig manufacturing is dominated by manufacturers based in the USA and China, with several smaller manufacturers in Germany, Romania and Russia. Historically, Chinese manufacturers, though producing more drilling rigs, have lagged behind their Western counterparts in technology. In the last few years, the leading

INDUSTRY OVERVIEW

Chinese rig manufacturers have advanced their rig technology beyond that of their Russian counterparts and are approaching that of their competitors in the USA and Europe, but at substantially lower costs for similar rigs.

National Oilwell Varco (“NOV”) is the world’s largest land drilling rig and rig component manufacturer. It is based in the USA, with manufacturing facilities in the USA, Canada, UAE, Norway, the Netherlands and China. In 2001, NOV formed a joint venture with Lanzhou Lanshi Group, in Gansu province, China, to manufacture land rigs and workover equipment in China. The name of the joint venture company is Lanzhou LS-National Oilwell Petroleum Engineering. NOV has been an innovator in rig technologies, including top-drive systems, and generally focuses its rig and component sales on the high-performance drilling market.

According to the Independent Technical Report in Appendix V of this Prospectus, the Company is the world’s second largest land rig manufacturer in terms of revenue and production volume in 2006 and the largest land rig manufacturer in China in terms of both 2006 revenue and number of drilling rigs produced. The Company currently has approximately 20% to 30% of the Chinese domestic land rig market, and it is one of the largest rig exporters in China. The Company’s export prices are about 20% to 25% below that of Western rig makers for comparable land rigs. In 2006, the Company sold 82 land rigs.

Baoji Oilfield Machinery Company (“BOMCO”) is the third-largest land rig manufacturer in the world and the second largest land rig manufacturer in China. BOMCO is a wholly-owned subsidiary of CNPC. BOMCO currently owns approximately 40% of the Chinese domestic land rig market, where its sales are concentrated. However, it is increasingly focusing on markets outside China. BOMCO’s export prices are about 20% to 25% below that of Western rig makers for comparable land rigs.

Bentec GmbH Drilling & Oilfield Systems (“Bentec”) of Germany is a private company, based in Germany and part of the Abbot Group PLC. It is developing its rigs to penetrate the Russian market and is planning to open a manufacturing facility in Tyumen, Russia, in 2008. Its affiliated company, KCA Deutag, is a drilling contractor that operates several land rigs in Russia. Bentec’s rigs are typically priced below NOV rigs, but above Chinese rigs, for comparable land rigs. Its products include mobile rigs and low-temperature rigs, both of which are intended for the Russian market. In 2006, Bentec sold five land rigs.

Land drilling rig manufacturers which primarily serve their domestic markets include Uralmash, a subsidiary of Integra (Russia), Taylor Rig (USA), Shengli Gaoyuan (China), Liaohe (China), Zhongyuan Mainrig (China), Zhongyuan Zuansan (China), and Shanghai Sangao (China).