Saxon Energy Services Incorporated (TSX: SES)

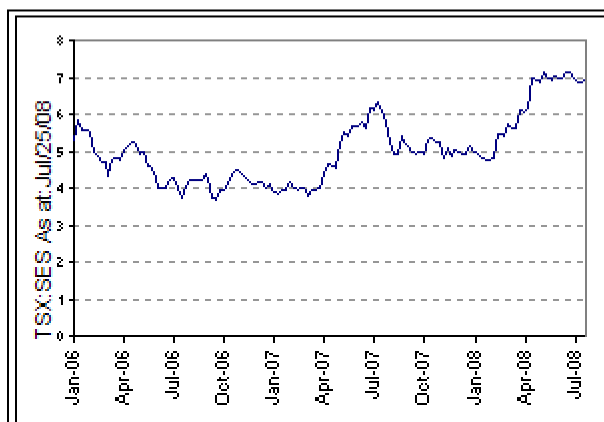
THE COMPANY

Saxon Energy Services Incorporated (TSX: SES) is an international oil and gas drilling and services company based in Calgary. The Company originally had a focus on Latin America, with operations in Ecuador, Venezuela, Colombia and Peru. However, the recent acquisition of Drillers Technology created a more balanced operating base. Of Saxon's 37 drilling rigs and 16 workover rigs, 60% of its fleet is now based in South America and 40% in North America. The addition of Dale Tremblay, Michael McNulty and Tim Braun, ex-Precision Drilling employees, added depth to an already experienced management team led by Walter Dawson.

FINANCIAL DATA

	2005	2006	2007
Earnings per Share ($)	0.14	0.19	0.32
Price to Earnings (times)	37.20	28.20	16.70
Dividend ($)	-	-	-
Dividend Yield (%)	-	-	-
Book Value ($)	2.82	2.95	3.46
Price to Book Value (times)	1.90	1.81	1.55

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT SAXON

Record oil and gas prices in 2005 fueled demand for drilling services by exploration and development companies. Rigs availability was tight, day rates were high and the oil and gas services sector reported solid earnings growth. We believe that the factors driving this solid operating and financial performance will continue in 2006.
As deep value investors, it is usually difficult for us to purchase these stocks due to premium valuations. However, we were able to add two oil and gas services companies to our portfolios during the current cycle. The cheapest stock we could find was Drillers Technology, which was depressed due to an elevated debt load and history of inconsistent operating performance. However, we did our work and determined that the debt was manageable and that the operations were beginning to show an improvement. The second cheapest stock we could find was Saxon Energy Services, which was cheap due to its exposure to such places as Venezuela, Ecuador and Columbia. However, we believed that the market's relative discount on the stock due to geographic or political risk was too great. Image our surprise on October 4, 2005 when Saxon Energy announced a takeover offer for Drillers Technology.

We think the deal was a win/win for shareholders of both companies for several reasons. Although we received a premium on our shares of Drillers Technology, Saxon did not overpay for the assets. Additionally, Saxon was able issue shares to pay for the acquisition, which quickly solved Drillers' debt issues. The merger created a balanced operations base, which reduced the geographic and political risks and should allow the combined entity to trade at a higher multiple. Finally, the addition of Dale Tremblay, Michael McNulty and Tim Braun from Precision Drilling provided greater depth to the management team, needed to take advantage of international and domestic growth opportunities.

We have valued Saxon Energy Services based on a net asset value approach. Using precedent transactions and estimated replacement value, we believe that between US$5 million and US$6 million per rig is an appropriate measure to use. Based on this range, Saxon Energy Services has a net asset value between CDN$4.00 and CDN$4.60 per share. In addition to our net asset value work, we have attempted to look at other metrics, although it is always difficult to forecast earnings or cash flow. However, we have calculated roughly that the stock trades at 3 times its 2006 estimated cash flow. On balance, our work indicated that Saxon was cheap both relative to its peers and on an absolute basis. In 2006, Saxon's strategic expansion plans and lower political risk should become more fairly reflected in the share price.

ABC Funds
January 20, 2006

UPDATES

Saxon Energy Services, like many companies in the oil and gas industry, has declined from highs reached in the December to January time period. The pullback was triggered by plummeting natural gas prices during an unseasonably warm winter. In turn, the falling gas prices led to reduced capital spending forecasts from some of the major, intermediate and junior E&Ps.

Despite fears of reduced activity, Saxon Energy Services reported an 86% rig utilization rate for the first quarter, ended March 31. The financial results, reported in US dollars, offer a glimpse of Saxon's future potential. In the quarter, the drill fleet generated average revenue per operating day of $14,700 compared to $9,800 in the first quarter of 2005. Revenue increased 322% to $31.0 million, operating earnings increased 357% to $5.7 million and net earnings increased 236% to $2.9 million. Saxon generated funds from operations of $0.09 per share and earnings of $0.04 per share in the quarter.

Dale Tremblay is making solid progress with his plan to expand the drill fleet in North America. In the United States, two of seven drill rigs have begun operations with the balance to come online during the second quarter. An eighth rig was relocated from South America and is also expected to begin operations in the United States shortly. On April 12, 2006 Saxon announced a contract to construct and operate seven more rigs on a three year term with a major US gas producer by the first quarter of 2007. All told, Saxon will eventually have 27 net rigs operating in North America and 29 rigs operating in South America. By mid-2007 Saxon expects to have a balanced asset and revenue base with 60% of EBITDA coming from the lower risk North American operations. We look forward to seeing the Company's revenue and earning power as Saxon deploys its full fleet over the coming years.

ABC Funds
May 12, 2006

Over the past year, Canadian oil and gas services was perhaps the most hated market sector other than junior oil and gas producers. The combination of the trust debacle, falling commodity prices and poor weather led to a dramatic decline in drilling and associated services. In Canada, the spring breakup period was even weaker than normal, with drill rig utilization falling earlier and more dramatically than last year. At the bottom, during the week of May 1, 2007, only 10.5% of all drill rigs were in operation.

However, Saxon Energy Services with its international fleet of drill rigs will be one of the few companies listed in Canada that can show year over year earnings growth in 2007. In first quarter of 2007, Saxon reported revenue of $54.9 million compared to $31.0 million last year, an increase of 77%. Over the same period, funds from operations increased 120% to $15.3 million from $6.9 million and doubled on a per share basis to $0.18 from $0.09. At the bottom line, net earnings increased 178% to $8.0 million from $2.9 million. Earnings per share increased 150% to $0.10 in the first quarter of 2007 from $0.04 in the first quarter of 2006.

This impressive performance was driven by several factors. The Company's rig fleet was simply bigger this year, with 8 rigs in Canada compared to 2 rigs last year and 10 rigs in the United States compared to 4 rigs in 2006. Saxon now has a total active fleet of 51 rigs, with 5 more rigs to be deployed into the United States shortly. Additionally, the Company's operating metrics improved quite nicely. Saxon reported 3,074 operating days in the first quarter of 2007, compared to 2,956 in 2006. In the first quarter of 2007, average revenue per day reached $17,900 compared to $10,500 in 2006 due to "significantly higher contract day rates". The utilization rate was 75% during the first quarter of 2007, well above the Canadian industry's utilization of 58%.

Although we were disappointed in Saxon's share price performance over the past year, we never lost faith in the story. We believe that commodity prices should remain firm and that oil and gas drilling activity will only increase over time. We also believe that international markets offer greater potential growth than the Western Canadian Sedimentary Basin. Finally we hold management in high regard and are willing to give them time to build this Company. Although Saxon's share price has recovered almost 40% since the beginning of April, we think that the stock still trades below its replacement value. Over the next few years as the rig fleet is fully deployed and new rigs are added, we think that the Company's financial performance will continue to outperform its peers.

ABC Funds
May 11, 2007

Saxon Energy Services has appreciated approximately 17% over the course of 2007 but has declined 25% since peaking at $6.50 in July. This share price action is actually one of the better performances for a Canadian listed oil and gas services company. However, we believe that investors have unfairly punished the stock based on weakness in the Canadian market and temporary cost increases in South America. It is our view that the market is ignoring Saxon's tremendous relative and absolute growth prospects.

Without a doubt, the oil and gas services industry in Canada is under pressure. Sliding natural gas prices, the Halloween trust taxation surprise and the recently announced change in the Albertan royalty regime have resulted in lower drilling activity, reduced well licenses and curtailed capital spending. The most obvious statistic to track the health of the sector is drill rig utilization. Just last week, the Canadian drilling utilization rate was 37% compared to 56% last year, as reported by the Canadian Association of Oilwell Drilling Contractors.

We highly recommend that investors examine Saxon's financial reports before getting too disheartened by the industry statistics. Over the first nine months of the year, revenue has grown 47% to $174.2 million from $118.3 million over the first nine months of 2006. Net earnings grew 78% to $19.5 million or $0.23 per share compared to $10.9 million or $0.14 per share in the comparable period last year. Funds from operations grew 45% to $37.6 million or $0.45 per share compared to $25.9 million or $0.32 per share. Despite the aforementioned weakness in Canada, over the first nine months of 2007, the Company's overall drill rig utilization was still an impressive 72% compared to 87% last year. These financial and operating results are excellent compared to almost every other company in the sector.

The first issue weighing on investor's sentiment seems to be the Company's exposure to Canada through its North American segment, so let's examine the results. On a year to date basis, North American operations, which include Canada, the United States and Mexico, generated $86.4 million in revenue (50% of total revenue) and $20.4 million in operating earnings and an increase of 78% and 133% respectively. The growth stems primarily from rig fleet expansion and the related economies of scale in the United States and better day rates in Mexico. From our perspective, the industry weakness in Canada is more than offset by growth in the United States and Mexico.

The second issue affecting the stock was a dip in operating earnings from South America. On a year to date basis, the South American operations generated $86.4 million in revenue and $18.4 million in operating earnings an increase of 24% and a decline of 8% respectively. The Company's South American operating earnings were negatively impacted by the appreciation of the Colombian peso relative to the US dollar, importation duties and relocation costs related to a rig in Venezuela and initial mobilization and start-up costs of three rigs in Colombia and Venezuela. These temporary or one-time cost increases in South America are likely to reverse over time. In fact, in the third quarter of 2007, South American operating earnings improved on a year over year basis.

Given the Company's industry-leading revenue and earnings growth, we believe that the stock's decline from its highs is overdone. The shares have found support around the Company's net asset value based on the replacement value of the drilling rig fleet in the $4.50 to $5.50 per share range. From today's prices we look forward to solid investment returns over the next 12 to 18 months as this growth story continues to unfold.

ABC Funds
November 23, 2007

After facing serious headwinds in 2007, the oil and gas services sector has rebounded sharply in early 2008. Last year, reduced drilling activity stemming from both weak natural gas prices and a change in the Alberta oil and gas royalty regime led investors to punish the stocks. However, with fewer new producing wells, reduced LNG (liquid natural gas) imports and decent demand excess inventories have been drawn down. Specifically, the Energy Information Administration reported that working gas in storage as of Friday, February 15th was 1.77 trillion cubic feet, 6.7% below last year's storage level and only 5.8% above the trailing five year average. Not surprisingly, natural gas has strengthened in recent weeks and currently trades just below $9 per mcf (thousand cubic feet) after bottoming below $6 per mcf last fall.

As we have discussed in the past, we believe that investors who have lumped Saxon in with the Canadian oil and gas services sector are ignoring the Company's outstanding relative and absolute growth prospects. On February 14, Saxon reported its financial results for 2007 that supported our investment thesis. For the year, revenue totaled $242.3 million, an increase of 42% from 2006. EBITDA (earnings before interest, taxes, depreciation and amortization) amounted to $68.6

million or $0.81 per share, an increase of 50% and 45% respectively. Net earnings in 2007 were $26.8 million, or $0.32 per share, up 71% and 68% from $15.7 million, or $0.19 per share, in 2006. Obviously, diversification away from North America to South America has proven to be an extremely prescient decision.

Operationally, we were pleased with the Company's results. Revenue per operating day increased 42% to $19,000 from $13,400 in 2006. Perhaps the only weakness in Saxon's results was a dip in the utilization rate from 84% in 2006 to 72% in 2007. However, considering that the Canadian industry reported an average utilization rate of 38% in 2007, Saxon outperformed the sector quite nicely. With an 89% utilization rate and a 53% increase in revenue per operating day in South America and no signs of a slowdown, we expect another successful year in 2008.

Despite the solid financial and operating performance, we believe that shares of Saxon Energy are inexpensive. Based on consensus estimates, the stock is currently trading at approximately 6.5 times 2008 EBITDA and 12 times earnings. Although the stock trades at 1.6 times tangible book value, which is relatively inexpensive for an oil and gas services stock, we believe that the replacement value of the Company's rig fleet and equipment is above the current share price. Should this discount persist, Saxon could become an attractive takeover target for anyone looking for exposure to international growth markets.

ABC Funds
February 22, 2008

Sometimes timing is everything. In our most recent quarterly newsletter, the ABC Perspective, we discussed Saxon Energy Services. We highlighted several factors that supported the 2008 rally in the oil and gas services sector. We pointed to the drawdown in natural gas inventories, reduced LNG imports, and strengthening natural gas prices. We also discussed several company-specific factors that were bullish for the Saxon story. Financial results for 2007 indicated 42% revenue growth, 50% EBITDA growth and 71% net earnings growth. Finally, Saxon vastly outperformed its peers with a 72% drilling rig utilization rate compared to the 38% industry average.

The last paragraph in our write-up on the Company was as follows:

"Despite the solid financial and operating performance and ensuing share price rally, we believe that shares of Saxon Energy are inexpensive. Based on consensus estimates, the stock is currently trading just over 7 times 2008 EBITDA and under 15 times earnings. Although the stock trades at 1.8 times tangible book value, which is relatively inexpensive for an oil and gas services stock, we believe that the replacement value of the Company's rig fleet and equipment is above the current share price. Should this discount persist, Saxon could become an attractive takeover target for anyone looking for exposure to international growth markets."

Obviously, we had no advance knowledge that anything was imminent. We simply believed that we owned a cheap stock, with excellent prospects that traded roughly at replacement value. However, on Friday April 18, 2008 shares of Saxon Energy exhibited some unusual trading behaviour. Very late in the day, the stock price jumped from approximately $6.60 to a high of $7.39 before closing at $6.99. On Monday morning, Saxon was forced to confirm that it was in exclusive discussions with Schlumberger and First Reserve Corporation for the sale of the Company at a price of $7.00 per share.

Although the announcement caught us by surprise, the acquirer, Schlumberger, did not. Schlumberger, a $125 billion oilfield services company, holds 11 rigs with Saxon in a joint venture and is Saxon's largest single customer. Schlumberger is the natural buyer for the Company, however, we think this bid may be a little opportunistic. Our valuation work, especially given Saxon's growth record, excellent management and future prospects indicate a net asset or intrinsic value above the $7.00 per share offer. Currently, a Special Committee of the Board of Directors has been established and is negotiating with the interested parties until a May 5, 2008 deadline. As the press release clarified, "no acquisition agreement has been entered into and accordingly no assurance can be given that these discussions will lead to any firm offer". We hope that the Special Committee can use Saxon's excellent prospects to negotiate a sweetened offer in order to successfully close the deal.

ABC Funds
April 25, 2008

UPDATES (cont'd)

As one of the largest, independent shareholders of Saxon Energy our opinion has been much sought after with regard to our views on the Schlumberger takeover offer. ABC Funds' unitholders, individual investors, members of the press and even hedge funds have inquired about our analysis and fundamental valuation of the Company. We have gone on record clearly stating that we believe the current takeover offer for the Company, at $7.00 per share, is below fair value. Here is our rationale.

The current bid offers essentially no premium to the market price.

On April 18, 2008, the day before the discussions with Schlumberger and First Reserve were made public, the shares closed at $6.99. Admittedly, the shares had spiked higher in the last hours of trading to reach a high of $7.39 before settling back. However, based on the April 17th close, the current bid represents only a 4% premium. Note that the share price performance of Saxon (up 38% for the year) is not out of line with the Company's peers, including Savanna (up 32% for the year), Ensign (up 48% for the year) and Precision Drilling (up 73% for the year). In consequence, it is clear that Saxon's share price has not been artificially inflated by takeover speculation in advance of the deal.

The current bid offers no premium to account for superior operating and financial results.

The $7.00 price implies a forward EBITDA multiple of approximately 8 times, which was in line with the Company's Canadian peers at the time of the offer. However, as we pointed out in our previous comments, Saxon reported vastly better operating and financial results than its competitors for 2007. Operationally, Saxon outperformed the sector quite nicely with an average utilization rate of 72% in 2007 compared to the Canadian industry average utilization rate of 38%. Financially, revenue totaled $242.3 million in 2007, an increase of 42% from 2006. EBITDA (earnings before interest, taxes, depreciation and amortization) amounted to $68.6 million or $0.81 per share, an increase of 50% and 45% respectively. Net earnings in 2007 were $26.8 million, or $0.32 per share, up 71% and 68% from $15.7 million, or $0.19 per share, in 2006. Over the comparable period, the Canadian sector reported, on average, flat or negative revenue, EBITDA and net income growth rates.

The current bid offers no premium to account for superior growth prospects.

Going forward, there are several avenues of growth that warrant a more competitive bid. First, Saxon has exposure to US shale resource plays, one of the hottest areas for exploration and development spending. Just as an example, EOG and Southwestern Energy are looking to increase the number of wells drilled and the number of rigs they employ in 2008. Second, one of Saxon's major customers, PEMEX (Mexico's state owned petroleum Company) recently announced a major increase in capital expenditures in an effort to boost production. PEMEX raised its 2008 exploration and production budget 28% to US$20 billion. Saxon could potentially drill hundreds of wells for PEMEX in 2008. Third, Saxon has its foot in the door in several higher risk but higher growth locations such as Columbia, Peru, Venezuela and Russia. The $7.00 takeover offer does not adequately compensate shareholders for this potential upside.

The current bid is now actually below-market given the strong recent performance of the peer group.

Since the takeover offer became public, the share price has been capped at approximately $7.00. However, rising commodity prices have triggered a huge run in the oil and gas services stocks and the $7.00 takeover offer now actually values the Company at a discount to its peers. Based on consensus estimates, the current offer implies a forward EBITDA multiple of 8 times without including any takeover premium. Again based on consensus forecasts, the peer group of Canadian oil and gas services companies is trading at 8.5 times forward EBITDA. The group includes such stocks as Precision Drilling, currently trading at 8.6 times forward EBITDA, and Savanna Energy, trading just over 10 times forward EBITDA.

In summation, we are confident in our analysis. Moreover, in light of the fact that Saxon Energy is now trading above the current $7.00 takeover offer, we are not alone in our view.

ABC Funds
May 9, 2008

The Management Information Circular regarding the takeover offer for Saxon Energy Services has finally been released. Long-term shareholders, value investors and, more recently, aggressive hedge funds have been eagerly awaiting this document in order to determine the fairness of the current bid for the Company. The details in the document did not

disappoint those looking for evidence to bolster the case that the offer is inadequate.

The timeline and background of how the deal came together is particularly interesting. On October 1, 2007 Dale Tremblay, met with representatives of First Reserve, an energy-focused hedge fund, to “discuss the international oilfield services market”. On November 23, 2007 representatives of First Reserve made a presentation to Saxon’s management regarding the possibility of undertaking a going-private transaction. On December 27, 2007, First Reserve provided the Board of Directors of Saxon with a non-binding expression of interest to acquire Saxon at $6.25 to $6.35 per share. Due diligence continued and First Reserve met with Schlumberger in order to determine their interest in a potential transaction. On April 2, 2008, First Reserve and Schlumberger presented a joint non-binding expression of interest to Saxon’s Special Committee proposing to acquire Saxon for $6.50 per share in cash. Within 5 days, the Special Committee advised First Reserve that the expression of interest was too low. On April 11, 2008 First Reserve and Schlumberger again met with the Special Committee and negotiated a price of $7.00 per common share. When the shares of Saxon spiked on Friday, April 18, 2008, management proactively decided to press release the existence of the non-binding expression of interest and the $7.00 price.

But here is where it becomes most interesting. The Management Information Circular then included the following details:

> “On April 30, 2008, Mr. Rooney (an independent Saxon Director) received a telephone call from a senior executive of another oilfield services entity in which the executive indicated that, while he was aware of the exclusive nature of Saxon's negotiations with Schlumberger and First Reserve, his entity would be interested in acquiring Saxon. On May 1, 2008, the executive sent Mr. Rooney a letter confirming his entity's interest in pursuing discussions with respect to a possible acquisition of Saxon. The letter indicated that it was not intended to disrupt the exclusive arrangement that Saxon had disclosed in its April 21, 2008 press release. The expression of interest indicated that the entity believed that it could offer a price of $7.50 to $8.50 per Common Share, subject to due diligence and negotiation of acceptable terms and conditions. As required pursuant to the exclusivity provision between Saxon and Schlumberger and First Reserve, Saxon provided a copy of the May 1, 2008 letter to Schlumberger and First Reserve.”

We believe that this was the first time investors had heard publicly of a second potential bidder. When the market opened on Wednesday June 18, investors focused on this key, but previously unreleased detail. As a result, active trading drove Saxon’s shares through the current $7.00 bid price to reach a record high of $7.39 on a volume of over 6 million shares.

Interestingly, the Management Information Circular concluded:

> “The Special Committee then reviewed the expression of interest and determined that there was considerable uncertainty with regard to it, as it was not a firm offer, it contained no analysis of the determination of the price range, and it was subject to due diligence and the negotiation of definitive documentation and that there would be significant execution risk in pursuing a transaction based on the May 1, 2008 expression of interest. The Special Committee also noted that to pursue the May 1, 2008 expression of interest would likely result in the termination of further negotiations with First Reserve and Schlumberger.”
>
> And:
>
> “After fully considering the merits and risks of the May 1, 2008 expression of interest and other relevant factors, the Special Committee determined not to ask Schlumberger and First Reserve to respond to the May 1, 2008 expression of interest on the basis that the draft Arrangement Agreement would permit the entity to make an acquisition proposal post signing, if it desired to do so.”

Importantly, the CEO who made the May 1, 2008 expression of interest at the higher price has neither contacted nor communicated with the Special Committee since the delivery of the letter. However, given that so many shares have changed hands near the $7.00 bid price or above, we think that the current shareholder base is unlikely to vote in favour of the current transaction.

In our opinion, several outcomes are thus possible. First Reserve and Schlumberger could walk away from the deal. As unlikely as this scenario would be, shareholders would then be holding a high quality oil and gas services company with an above-market growth rate trading at below-market multiples. Keep in mind that Saxon’s share price has essentially been capped at $7.00 since the April announcement whereas comparable energy services companies, such as Precision Drilling

and Savanna Energy, have reached new 12 month price highs. A second possibility is that the unnamed second bidder could return with an offer in the $7.50 to $8.50 range. Note that the break fee is approximately $0.20 per share, which should not be a great impediment to a higher third party price. First Reserve and Schlumberger would then have the right to match this bid if they so choose. Finally, First Reserve and Schlumberger could preemptively bump their bid in order to win Saxon cleanly and quickly. In any event, we believe that the risk reward of holding Saxon Energy at current price levels is strongly in favour of a higher takeover price.

In summary, we believe that a fair takeout price lies within the $7.50 to $8.50 range. At this point we will carefully consider all available options in order to maximize the benefit to our ABC unitholders.

ABC Funds
June 20, 2008

Shareholders of Saxon Energy Services have approved the plan of arrangement involving the Company and Sword Canada Acquisition Corporation, a company indirectly owned by Schlumberger and First Reserve Corporation. The arrangement, essentially the acquisition of all of Saxon's outstanding common shares for cash consideration of $7.00 per share, was approved by 92% of the votes cast. Despite all of our efforts, we were unable to convince the buyers that the price was inadequate. We believe that four key factors conspired against a higher bid.

First, management was part of the buying group, which was quite an unusual situation. While we have always had the greatest of respect for the Saxon management team, let us say that the incentive wasn't there to fight for a higher price. Further, Saxon had agreed that "it will not solicit or initiate any discussions concerning the pursuit of any other acquisition proposal".

Second, the date of record was June 6, 2008, more than a month earlier than the July 11, 2008 vote deadline. Shareholders who bought the stock after June 6, presumably anyone who expected a higher offer, were unable to vote their shares against the $7.00 bid. In all approximately 30 million shares, or one third of the float, traded hands between the date of record and the voting deadline. If we could have counted on those votes, we would have been able to push much harder for a higher price.

Third, the market entered a corrective phase, which was even more pronounced for the oil and gas and oil services sectors. Investors panicked and indiscriminately sold shares, compressing valuations across the board, irrespectively of the improving outlook for the second half of 2008 and 2009. Due to unfortunate timing, the $7.00 bid was no longer a discount relative to the sector in the days leading up to the voting deadline.

Finally, despite alluding to a second interested party in the management information circular, a formal bid in the $7.50 to $8.50 range never materialized. Unfortunately, we were unable to determine the identity of the executive and could not pursue this avenue any further.

In light of these events, we recommend that current shareholders tender their shares to the current offer. We expect the deal to close by late August and will redeploy our capital to other investment opportunities.

ABC Funds
July 25, 2008