AIM Advisers, Inc.
Maximizing Present & Future Value

1223 Wilshire Blvd., Suite 1855, Santa Monica, CA 90403
mmcgowan@aimadvisers.com
+1 310 903 0322

Enteq Upstream Raises $68 Million in an AIM IPO

Cash Used to Effect Acquisition
Founders/Shareholders Receive $43 Million in Cash

Overview

Enteq Upstream, with its main operations in Santa Clara, California, raised $68 million in its recent IPO on the London Stock Exchange's Alternative Investment Market (AIM).

Simultaneous with the IPO, the Company completed the acquisition of XXT, Inc., valued at $54 million, where the two Founders and the three other Shareholders of XXT received $43 million in cash plus $3 million in shares, for a 3% stake in the AIM-listed public Company, and the potential for deferred consideration of up to $8 million in cash, payable in two $4 million tranches within 90 days of the first and second anniversaries of the acquisition, based upon the achievement of certain performance conditions.

Enteq Upstream was founded and originally joined AIM in 2011 as an Investing Company, raising $24 million, with the sole purpose of acquiring and consolidating companies providing specialist reach and recovery products and technologies (used in non-vertical drilling to optimize production efficiency) to the international upstream (exploration and production) oil and gas services market. The Company's two Founders and two of the four other Directors are oil and gas products and technologies industry veterans, therefore, their expertise, experience and relationships in the reach and recovery products and technologies market will be used to identify, acquire and integrate targets into a significant oilfield services company. The end-customers will be international and regional oilfield services companies, which, through the utilization of the Company's products, will be able to optimize recovery and production for their international and national oil company customers. The overarching goal is to build a group of companies with their product lines integrated across the technical sectors of geophysical, drilling and intervention with global customers. The Founders retained a 2% stake in the AIM-listed public Company.

XXT was founded in 2002 by two individuals; one whose expertise is the design and development of surface and downhole equipment for use in energy exploration and production and the other whose expertise is developing processor-based electronic hardware and embedded firmware for downhole equipment and complex telemetry receivers for energy exploration. XXT's engineering capabilities include mechanical, electronic, software and firmware development.

XXT designs and manufactures products focused on the Measurement While Drilling (MWD) market, where high temperature, pressure and vibration are encountered. In recent years, XXT has adapted its downhole equipment to work not only at higher temperatures but also in harsher environments, enabling the equipment to be adopted for use in horizontal wells, such as those drilled in oil and gas shales. In order to drill directional and horizontal wells, the operator must steer the drill bit into and through the reservoir. To achieve this, and to improve drilling efficiency, the operator requires data from close to the drill bit, indicating where the well is being directed and other drilling parameters, such as vibration. This information is provided by MWD equipment. XXT's products are sold to directional drilling companies as well as other equipment manufacturers that incorporate XXT's products and sell them as part of their own solution. The performance of the products in hostile drilling environments enables independent drilling companies to offer services to oil and gas operators in a broader range of environments.

XXT generated $17.1 million of revenue and $5.8 million of EBITDA during 2011, a 223% and 427% increase, respectively, over the prior year.

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Key Listing Metrics

- $68.0m gross was raised in the AIM IPO, $65.2m net of offering costs

- Offering costs amounted to 4.1% of the gross capital raised
  - The offering was underwritten, as opposed to being undertaken on a 'best efforts' basis
    - Corporate finance fee of $0.5m
    - Broking commission of 3% on the first $32.4m raised, amounting to $1.0m
    - Broking commission of 2% on capital raised above $32.4m, amounting to $0.7m
    - Aggregate broking commission and corporate finance fee capped at $1.6m

- The aggregate acquisition consideration consisted of:
  - $43.1m of cash
  - $3.0m in shares
  - $8.0m of deferred cash consideration, based upon achieving certain performance targets

- Valuation of:
  - $46.1m, assuming no deferred consideration is earned
  - $54.1m, assuming the maximum deferred consideration is earned

- Trailing revenue multiple of 2.7 or 3.2
- Trailing P/E ratio of 8.1 or 9.5
- Trailing EBITDA multiple of 7.9 or 9.3

- Opening market capitalization of $95.4m
- Free float of 98%

Key Financial Metrics

(in USD millions)	Y/E 12/31/09	Y/E 12/31/10	Y/E 12/31/11	Δ '09 - '10	Δ '10 - '11
Revenue	$1.5	$5.3	$17.1	+253%	+223%
Cost of Goods Sold	0.4	1.5	7.0	+275%	+367%
Administrative Expenses	1.0	2.7	4.4	+170%	+63%
Operating Income	0.1	1.1	5.7	+1,000%	+418%
Tax Expense[1]	0.0	0.0	0.0	N/A	N/A
Net Income	0.1	1.1	5.7	+1,000%	+418%
EBITDA	0.1	1.1	5.8[2]	+1,000%	+427%
Total Assets	1.1	2.2	6.1	+100%	+177%

The Company's revenues are concentrated with a small number of customers; with 82%, 65% and 63% of 2009, 2010 and 2011 revenues, respectively, earned from four, two and three customers, however, these customers pose very low non-collection risk. Since the IPO completed within nine months of the latest audited financial statements, unaudited, comparative, stub period financials were not required and the Company chose to not provide updated management accounts.

[1] XXT was an S Corporation; therefore, any Federal and most State tax liabilities are passed-through to the shareholders.
[2] Post-acquisition, the Company intends to implement a new compensation structure for certain key employees of XXT. If these changes took effect from the beginning of 2011, EBITDA would have increased by $3.1 million to $8.9 million.

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Shareholder Base

Enteq Upstream joined AIM in 2011 as an Investing Company, raising $24.2 million from the issuance of 15.0 million shares, 1.3 million of which were subscribed for by the founders and directors of the Company. The founders and other shareholders of XXT received 1.9 million shares in connection with the 2012 IPO. These relative shareholdings are presented retrospectively in the table below so as to illustrate the eventual ownership stakes and related dilutive effect of the 42.0 million shares issued in the IPO, which raised $68.0 million, leaving the Company with 58.9 million shares outstanding.

In the IPO financing, some of the original investors in the Investing Company chose to increase their relative stakes; most participated to a significant extent, one chose not to participate at all and several new investors were introduced to the Company.

Shareholder	Pre-IPO %	Post-IPO %
Founders (2) and Other Shareholders (3) of XXT	11.0	3.1[3]
Founders (2) and Other Directors (4) of the Company	7.4	2.3[4]
London Private Client Broker (PCB)	12.4	3.8
Global Institution (Various Funds) and PCB	8.9	7.3
London PCB	8.3	5.1
U.S. Hedge Fund	8.3	9.2
Global Institution (Various Funds) and PCB	5.5	3.2
London Institution (Pension Funds)	5.3	3.7
London and Edinburgh Institution (Pension Funds) and PCB	4.9	5.9
London PCB	4.7	6.5
London Institution (Insurance Funds)	4.1	2.9
London Institution (Pension and Insurance Funds) and PCB	3.8	4.2
London Institution (Pension, Charity and Endowment Funds) and PCB	3.0	2.0
U.S. Hedge Fund	2.8	0.6
London Institution (Pension Funds) and PCB	2.7	5.1
London Institution (Pension Funds) and PCB	-	4.5
London Institution (Pension and Sovereign Wealth Funds) and PCB	-	4.3
London Institution (Pension and Insurance Funds) and PCB	-	3.8
Global Institution (Various Funds) and PCB	-	3.1
Other New U.K. Investors	6.9	19.4
Totals	100.0	100.0

Beyond the obvious benefits of creating $43 million of immediate liquidity for the founders and other shareholders of XXT and providing general working capital, the Company has solidified and augmented its U.K. and global investor base, from which additional post-IPO liquidity can be created and capital can be accessed for future acquisitions. As a public company with blue-chip investors, Enteq has the credibility to approach and negotiate with prospective acquisition candidates, bolstering its overarching ‘buy-and-build’ strategy. Finally, the Company put in place a limited long-term incentive plan, similar to a share option plan, for senior management, which could be expanded to include other employees and Board members and used as an incentive to attract new employees and Board members.

[3] Subject to a 12-month lock-in from May 2012 and, for a further 12 months, a maximum of one-third can be sold, subject to customary orderly market provisions.
[4] Subject to a 12-month lock-in from July 2011 and customary orderly market provisions for a further 12 months.

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Board of Directors and Corporate Governance

The Company's Board consists of six members; three Executive Directors (CEO, COO and CFO), a Non-Executive Chairman and two Non-Executive Directors (NEDs); all with solid resumes and a good blend of complementary experiences and skill sets. The Company established an Audit Committee consisting of both NEDs and a Remuneration Committee consisting of the Non-Executive Chairman and both NEDs. Since the Company's Board is relatively small, a Nominations Committee was not established. The Board intends to meet regularly, the Remuneration Committee will meet as and when appropriate, but no less than two times each year, and the Audit Committee will meet no less than three times each year.

Companies listed on AIM are not required to comply with the U.K. Corporate Governance Code (the Combined Code), which is mandatory for companies listed on the Main Market; however, the Company intends to follow the Combined Code to the extent considered appropriate in light of the Company's size, stage-of-development and resources. The Company also intends to follow the Corporate Governance Guidelines for Smaller Quoted Companies, which are published by the Quoted Companies Alliance.

Legal Considerations

Even though the Company considers its main country of operation to be the U.S., since the Company is incorporated in the U.K. and its 'place of central management and control' is in the U.K., the three significant differences between U.S. and U.K. corporate law automatically apply as follows:

1. Pre-emption rights (i.e. anti-dilution) – Shareholders may participate in, or the Company has to obtain approval from at least 75% of them for, the issuance of shares for cash of more than 5% of the then outstanding shares during any 12-month period.[5]

2. Notifiable Interests – Shareholders are required to notify the Company of, and the Company is required to publicly announce, holdings at or above the 3% level and whenever a full percentage point is breached in either direction.

3. Takeovers (i.e. mandatory offer) – If any party, or parties acting in concert, accumulates a holding of 30% or more, they must make a cash offer to the other shareholders at the highest price they paid for the Company's shares during the last 12 months.

The 42.0 million shares issued for cash in the IPO are not subject to Regulation S of the U.S. Securities Act of 1933; therefore, these shares are eligible for dematerialization and trading within CREST, the most common electronic system for the holding and transfer of shares in the U.K. It was not necessary to appoint a Depository and create Depository Interests, as would be the case for a company domiciled outside the U.K. or one of its Crown Dependencies, the Channel Islands or Isle of Man.

The 1.9 million shares issued as part of the consideration for the acquisition of XXT are restricted in accordance with U.S. securities law since XXT's founders and other shareholder are 'U.S. Persons'. As such, these shares were issued in certificated form with a legend describing the restrictions placed on their sale or transfer. The Company could establish a separate trading line for these restricted securities, however, given the 12-month lock-in and the fact that no more than one-third can be sold during the subsequent 12 months, the rationale for doing so is not strong.

[5] It is more customary for AIM-listed companies to have a standing authorization from their shareholders for the issuance of shares for cash of up to 10%. A greater level of flexibility increases the certainty and speed of small capital raises and reduces transaction costs, since further communications with, and approvals from, shareholders are not required.

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Accounting Considerations

Since the Company is incorporated in the U.K., it is required to report using IFRS. While British pounds Sterling is considered to be the U.K. parent company's functional currency, it has chosen to adopt the U.S. Dollar as its reporting currency since XXT, and any future acquisitions, are likely to be in the U.S., therefore, the majority of the Company's activities are expected to be transacted in U.S. Dollars. While the selection of a reporting currency is purely an administrative matter, the use of the U.S. Dollar should simplify the financial reporting process and increase the transparency of the Company's operational and financial performance. The functional and reporting currency for XXT is the U.S. Dollar.

The U.K. Member Firm of an international accountancy network acted as Auditor and Reporting Accountant of the U.K. parent company and XXT. Since the IPO completed within nine months of the latest audited financial statements, unaudited, comparative, stub period financials were not required and the Company chose to not provide updated management accounts.

An unaudited pro forma statement of net assets is never required in connection with an AIM IPO but was provided to illustrate the pre-IPO position of the U.K. parent company and XXT, the net proceeds from the IPO and the impact of the cash paid and deferred consideration recorded to effect the acquisition.

Other

The Company's Nomad did not require the preparation of any Experts' Reports; however, certain information and statements contained in the Admission Document regarding market growth, size and development, and other industry data pertaining to the oil and gas services market and the Company's strategy, consist of estimates based on data and reports compiled by industry professionals, organizations, analysts and the Company's own knowledge of the industry. The Directors took responsibility for the extraction and compilation of the market data provided by third parties or from industry or general publications and they consider such data and publications to be reliable, however, they have not subjected it to independent verification.

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