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IPAA-TIPRO Luncheon
February 11, 2009



PRINCIPAL INVOLVEMENT. PERSONALIZED SERVICE.

- **Boutique specializing in acquisitions & divestitures**
- **Focused, senior-level involvement at all stages of transaction**
- **Clients have direct access to the principals**
- **Strategies customized for each client**
- **Concentrate on service – not process**



A&D Overview

- **2008 in Review**
- **Historical Perspective**
- **Market Drivers**
- **2009 Outlook**

Highlight Transactions of First Half 2008

Announced Date	Buyer	Seller	Deal Value \$MM	KEY ASSETS
Jan-08	Questar	Will-Drill	659	North Louisiana
Feb-08	KNOC; Samsung	Taylor	1,000	Gulf of Mexico
Feb-08	<i>XTO</i>	Various	1,000	Various Shale plays
Feb-08	EXCO	EOG	388	Pennsylvania
Apr-08	<i>XTO</i>	Southwestern	520	Fayetteville Shale
Apr-08	<i>XTO</i>	Linn Energy	600	Marcellus Shale
May-08	<i>XTO</i>	Headington	1,797	Bakken Shale; Elm Coulee
Jun-08	Concho	Henry	560	Permian Basin
Jun-08	Quest	PetroEdge	142	Marcellus Shale
Jun-08	<i>XTO</i>	Hunt Petroleum	4,191	Gulf Coast, Bakken, E.Texas
Jun-08	Antero	Dominion	347	Marcellus Shale

- **Very active market in first half of 2008**
- **Shale plays dominated the transaction activity**

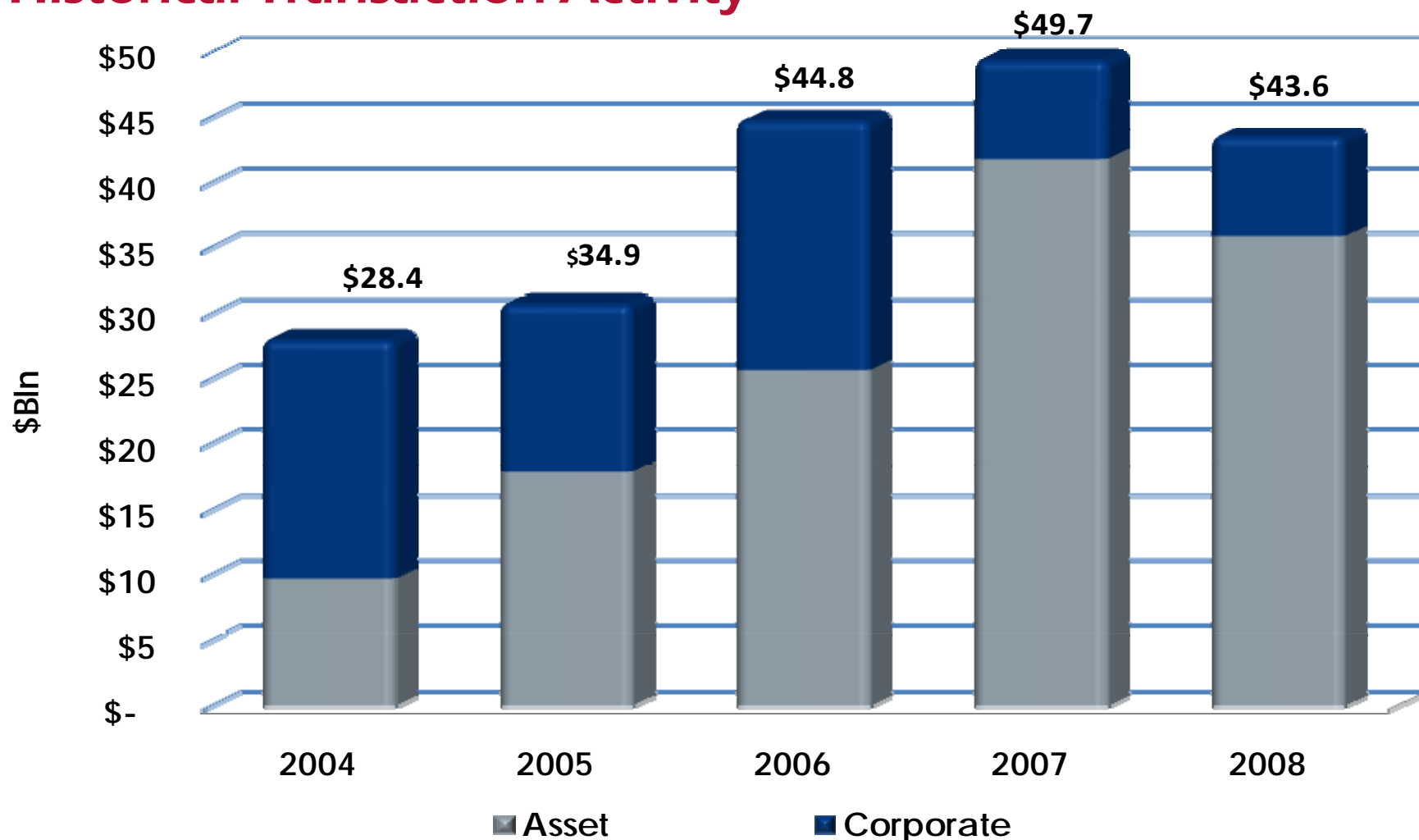
Highlight Transactions of Second Half 2008

Announced Date	Buyer	Seller	Deal Value \$MM	KEY ASSETS
Jul-08	Plains	<i>Chesapeake</i>	3,300	Haynesville Shale
Jul-08	Quicksilver	C&Y/Chief/Hillwood	1,307	Barnett Shale
Jul-08	BP	<i>Chesapeake</i>	1,750	Woodford Shale
Aug-08	Forest Oil	Cordillera	912	TX Panhandle & ETX/NLA
Aug-08	Denbury*	Wapiti	600	Conroe Field
Sep-08	BP	<i>Chesapeake</i>	1,900	Fayetteville Shale
Sep-08	Undisclosed	Forest Oil	200	Rockies
Nov-08	StatoilHydro	<i>Chesapeake</i>	3,375	Marcellus Shale

* Failed to Close

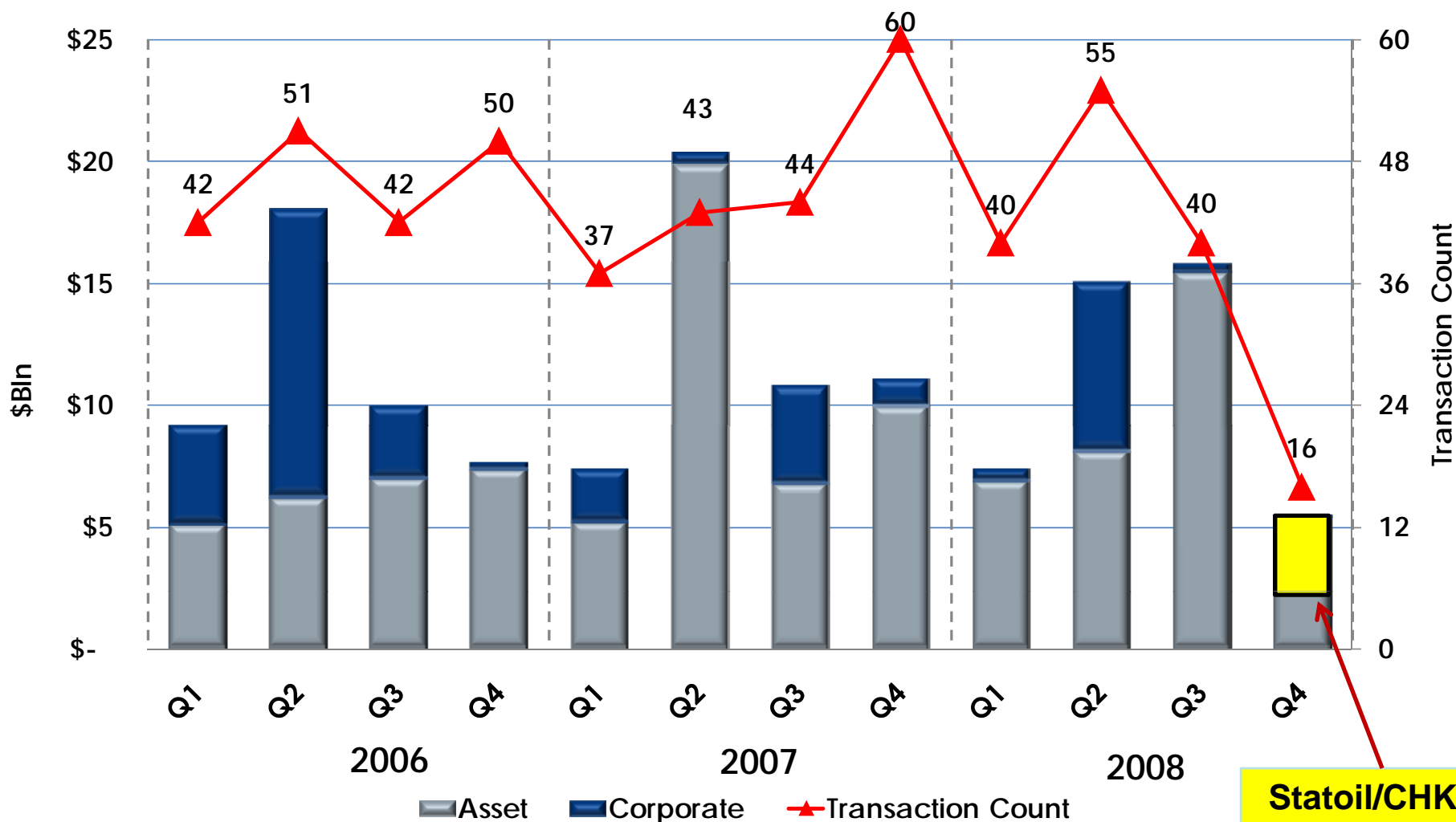
“The slide begins”

Historical Transaction Activity



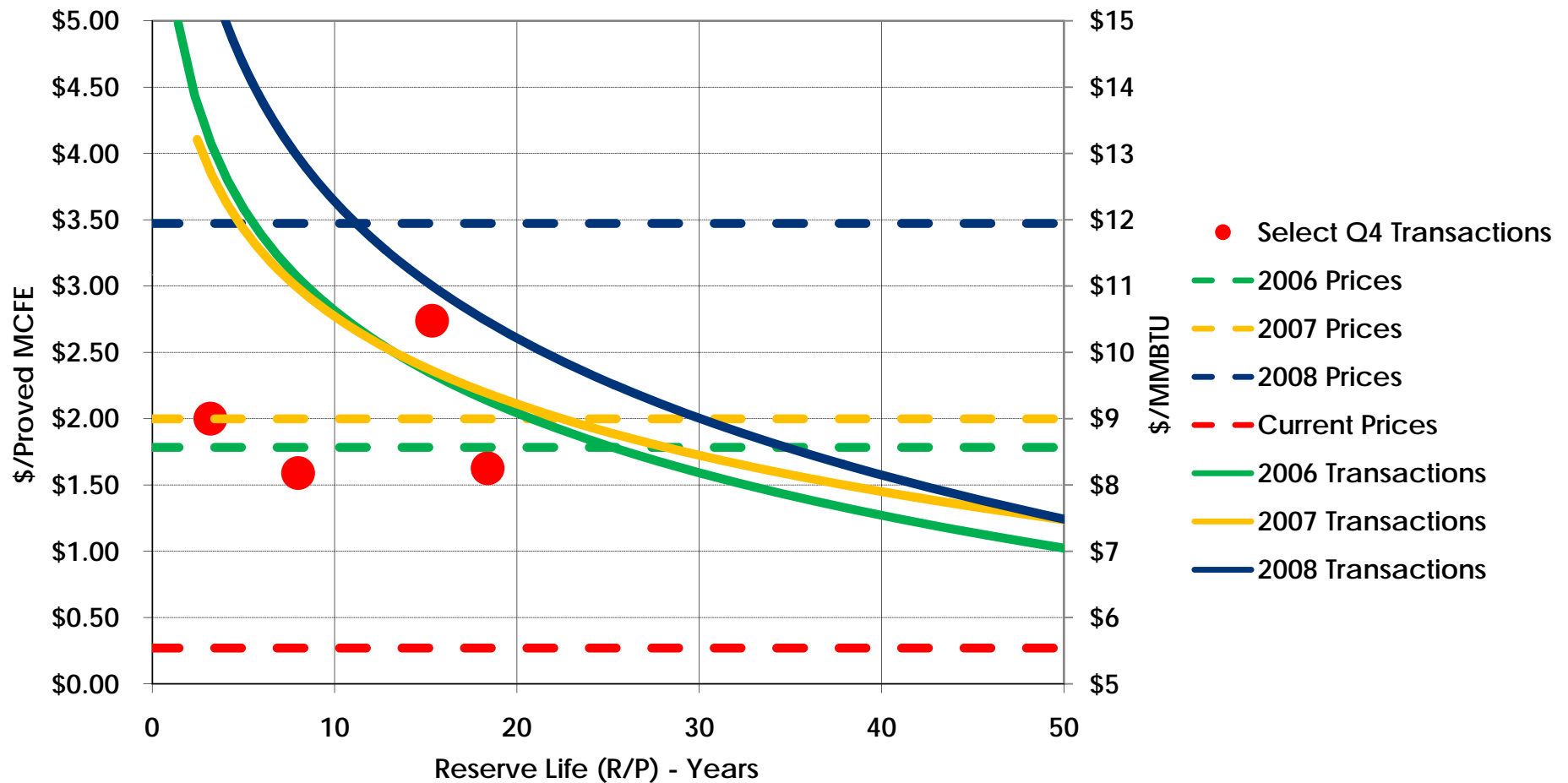
- **2008 was poised for a record year (Obama effect)**

Quarterly Transaction Activity



- JS Herold & AIM database; transactions >\$5MM,<\$10B

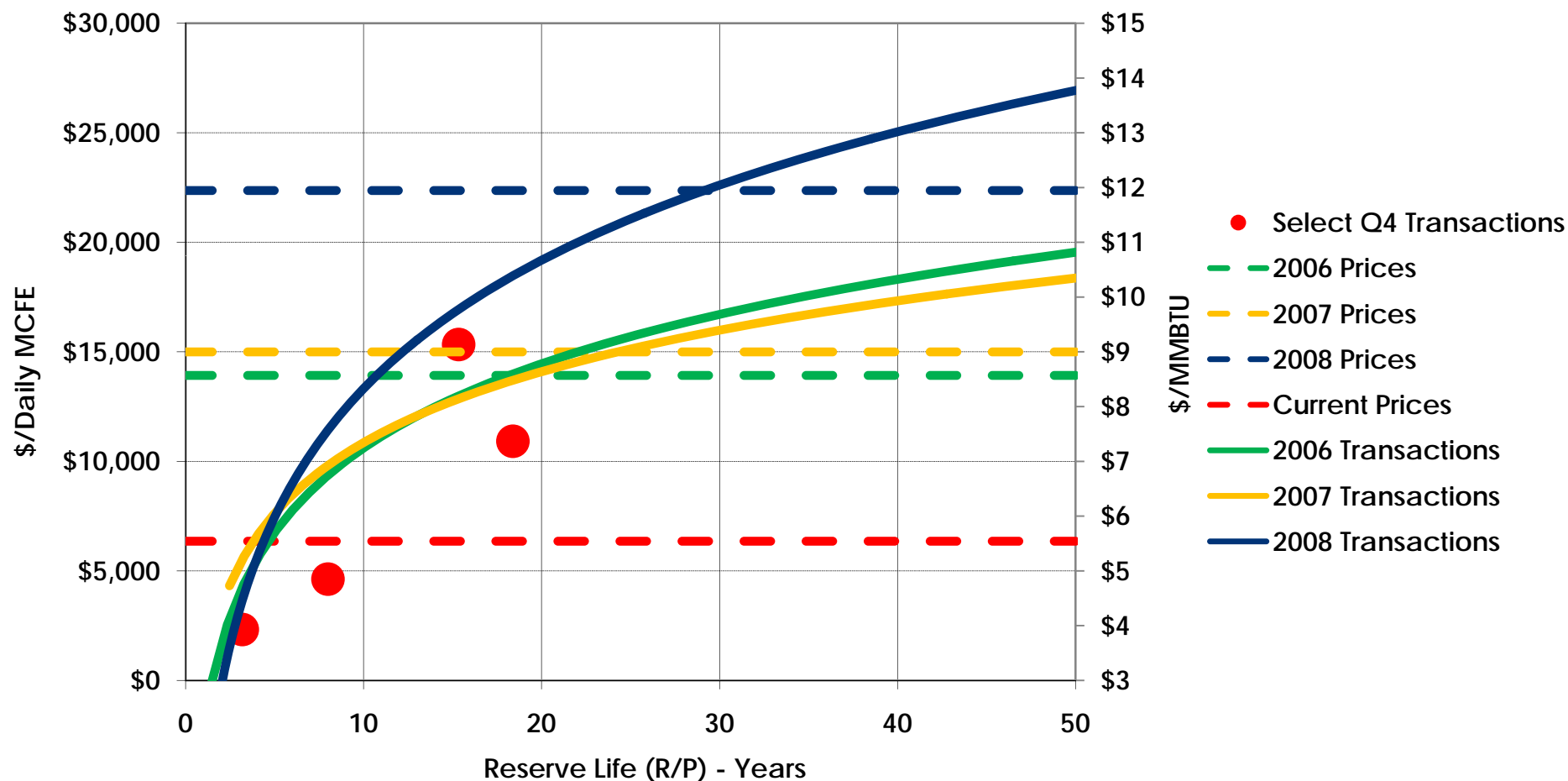
Historical Transaction Metrics - \$/MCFE



- Market is adjusting rapidly

- JS Herold & AIM database; transactions >\$5MM,<\$10B

Historical Transaction Metrics - \$/Daily MCFE



- JS Herold & AIM database; transactions >\$5MM,<\$10B

Impact of Falling Commodity Prices/Economic Turmoil

- **Deals failing to close...**

Denbury cancels Conroe Field transaction and pays \$30MM break-up fee

Denbury Resources Inc.



- **Deals being restructured...**

Forest reduces price of Rockies divestiture to \$200MM with a clawback clause

- **Joint-Ventures are easier way to obtaining upfront capital**

Chesapeake's Joint Ventures in Haynesville (PXP), Fayetteville (BP), Marcellus (StatoilHydro)



- **Companies with cash looking for acquisitions...**

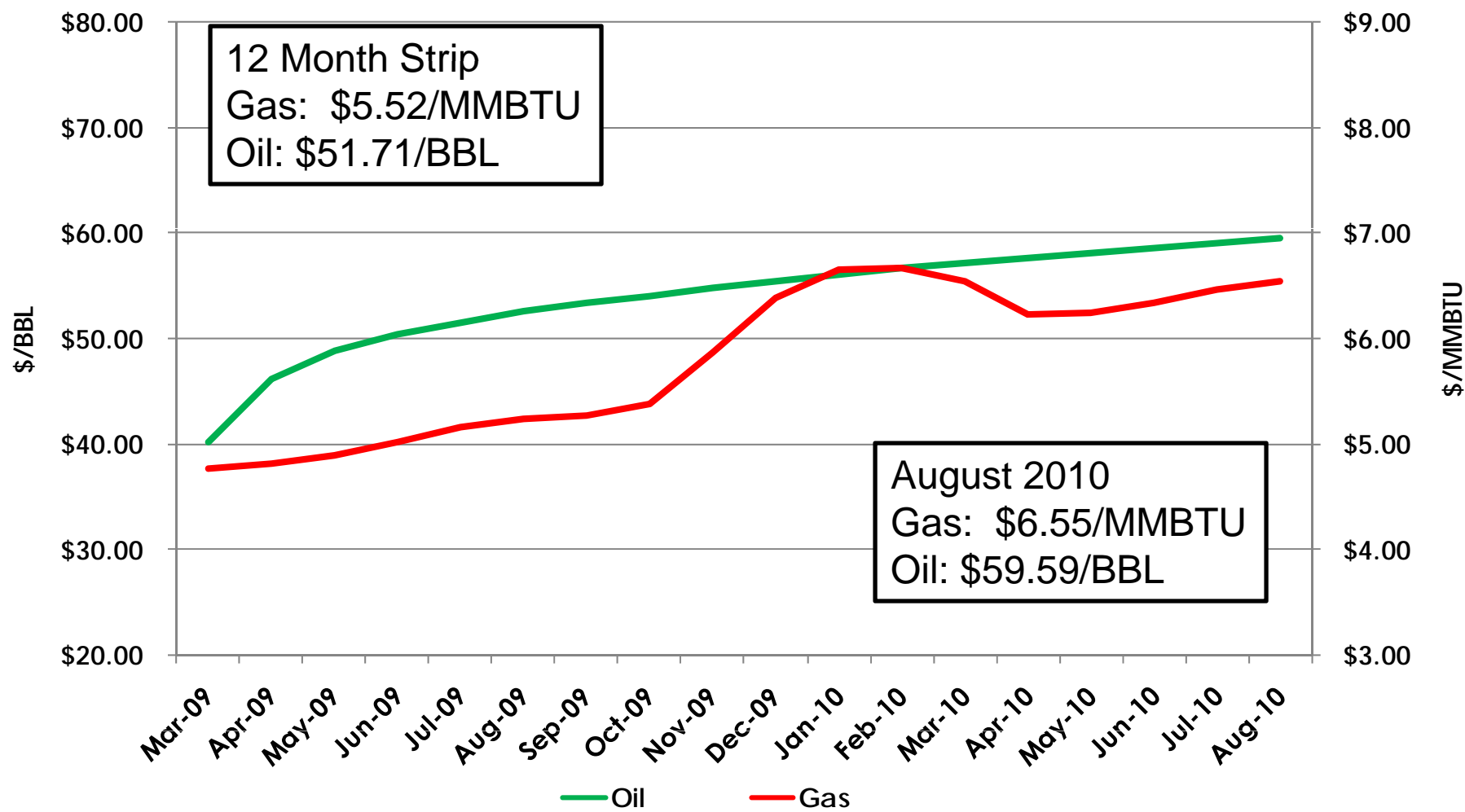


- **Very few new deals currently on the market**

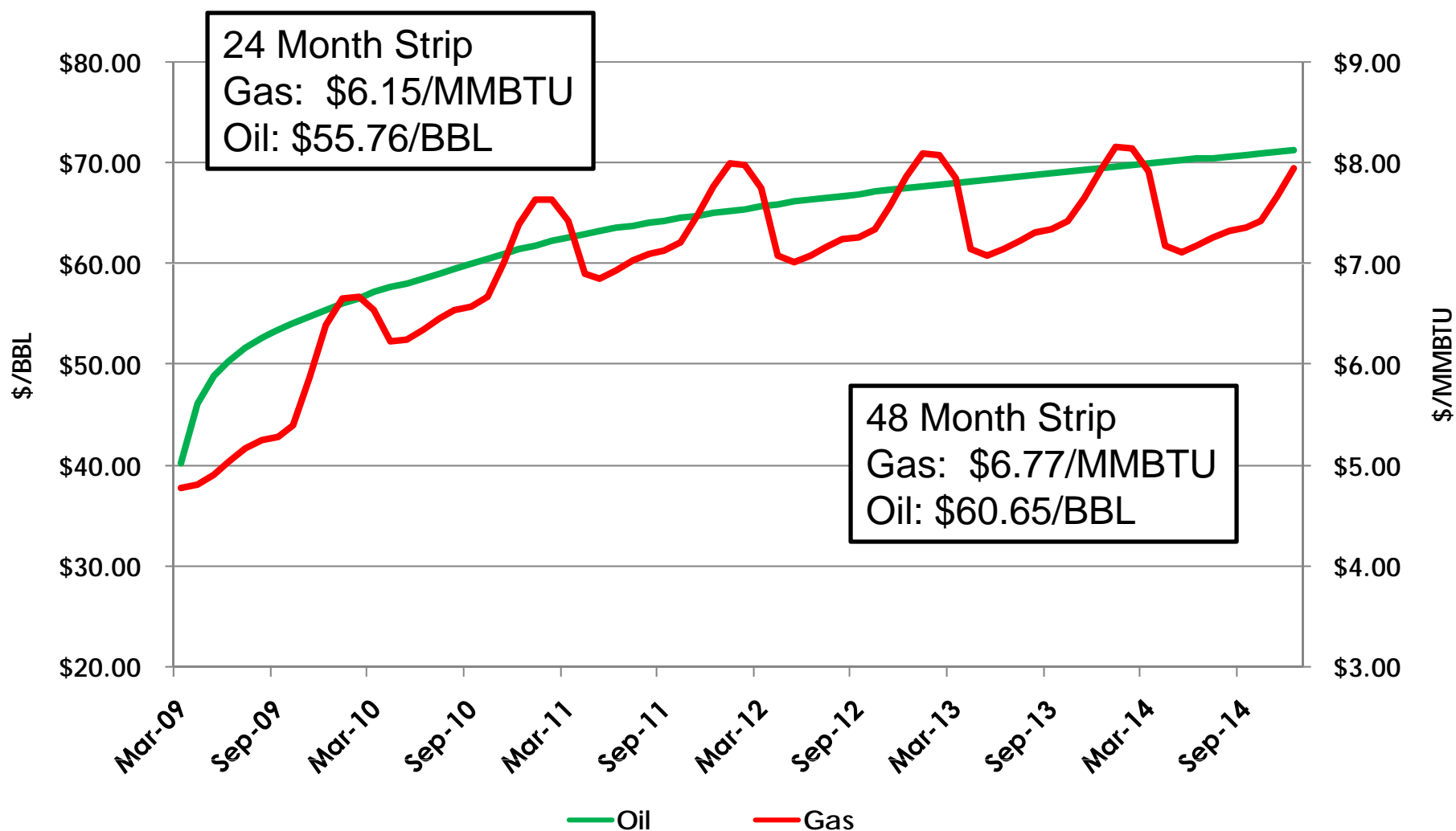


Market Drivers

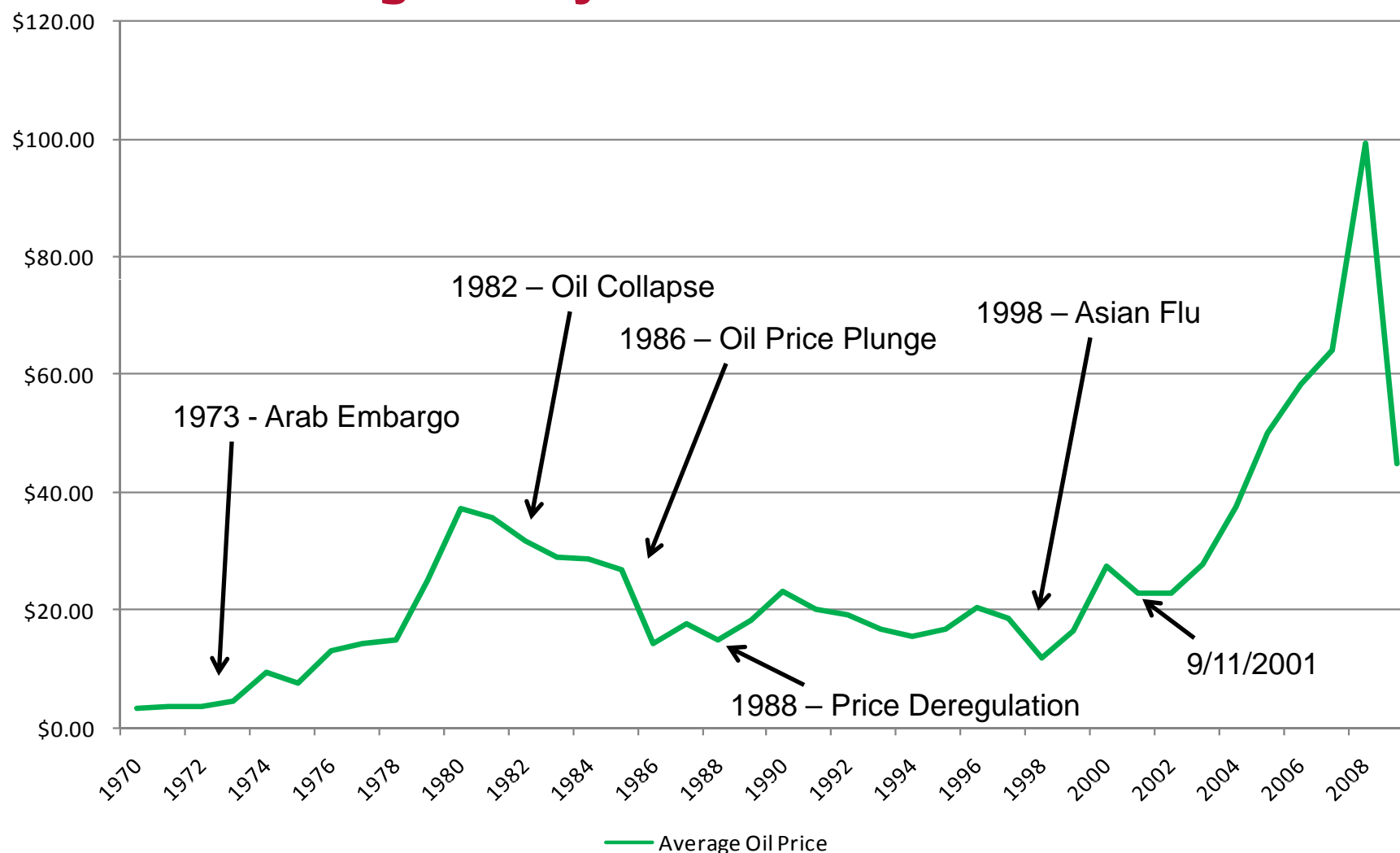
NYMEX Forward Curves – 18 Month



NYMEX Forward Curves – 5 Year



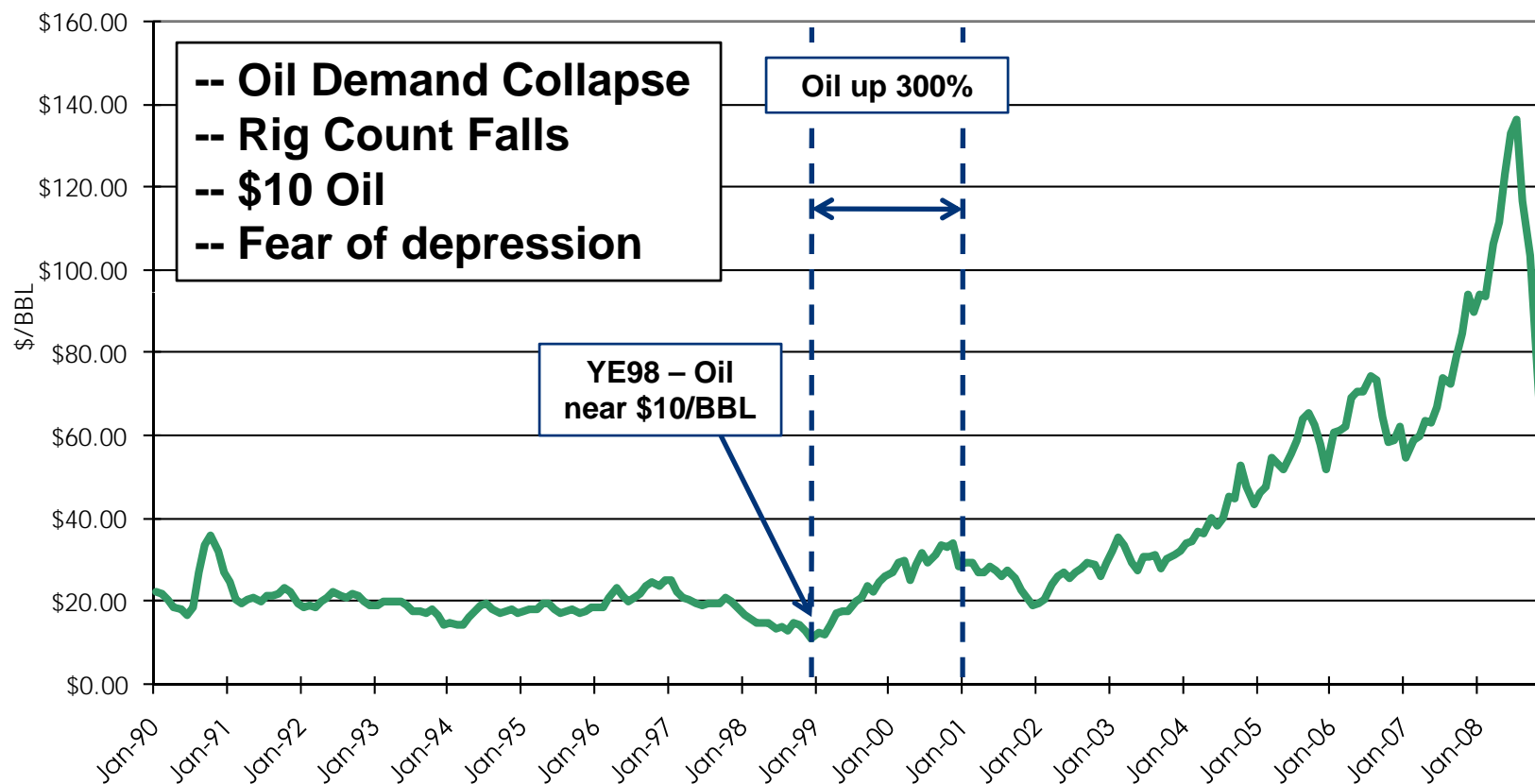
Historical Average Yearly Oil Prices – 1970-Present



- **We have been here before!**

Source: NYMEX

1998 – Asian Flu



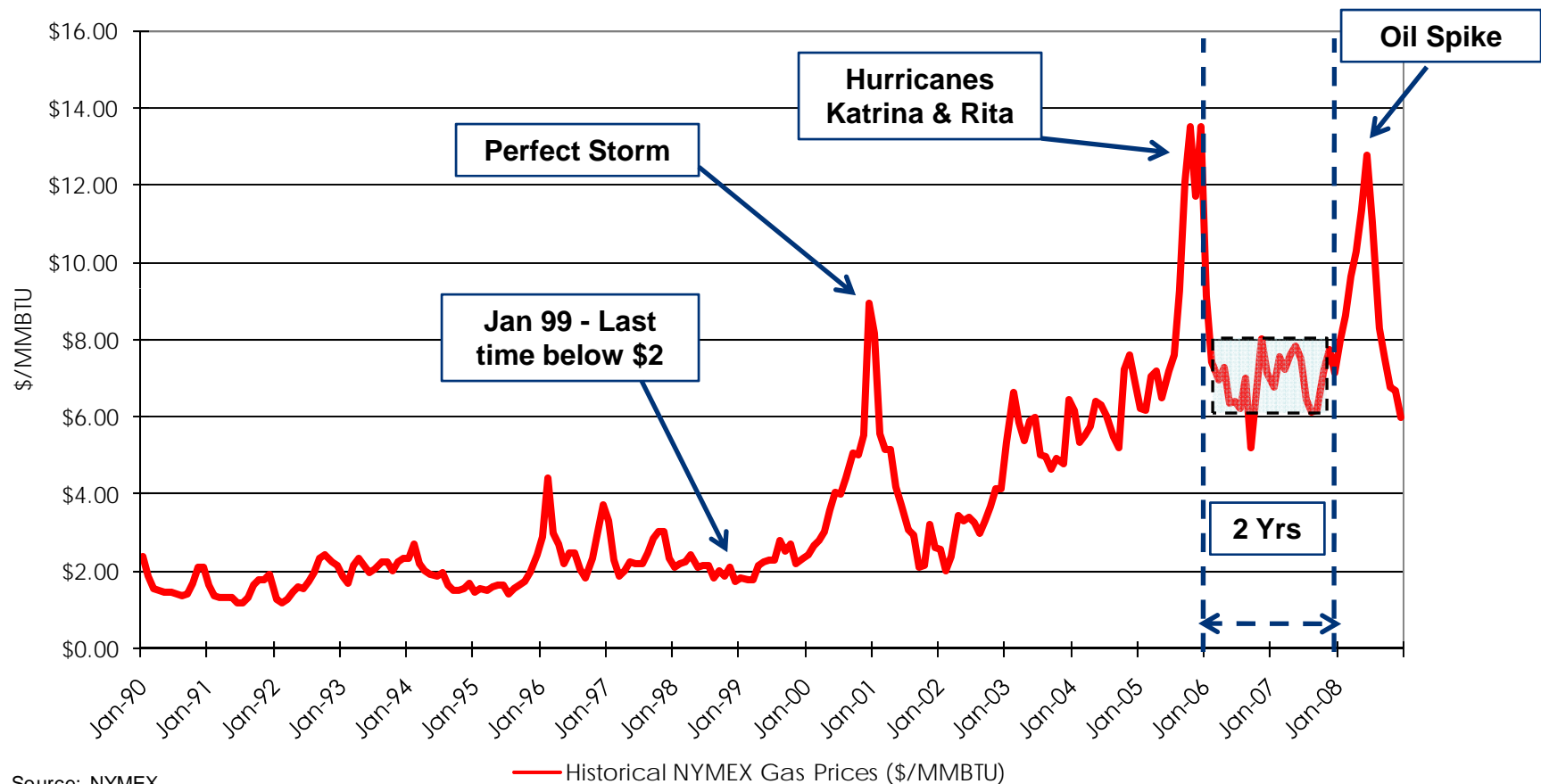
Source: NYMEX

— Historical NYMEX Oil Prices (\$/BBL)

- **When oil fell near \$10/bbl in 1998, it was followed by a 300% increase over the next two years**

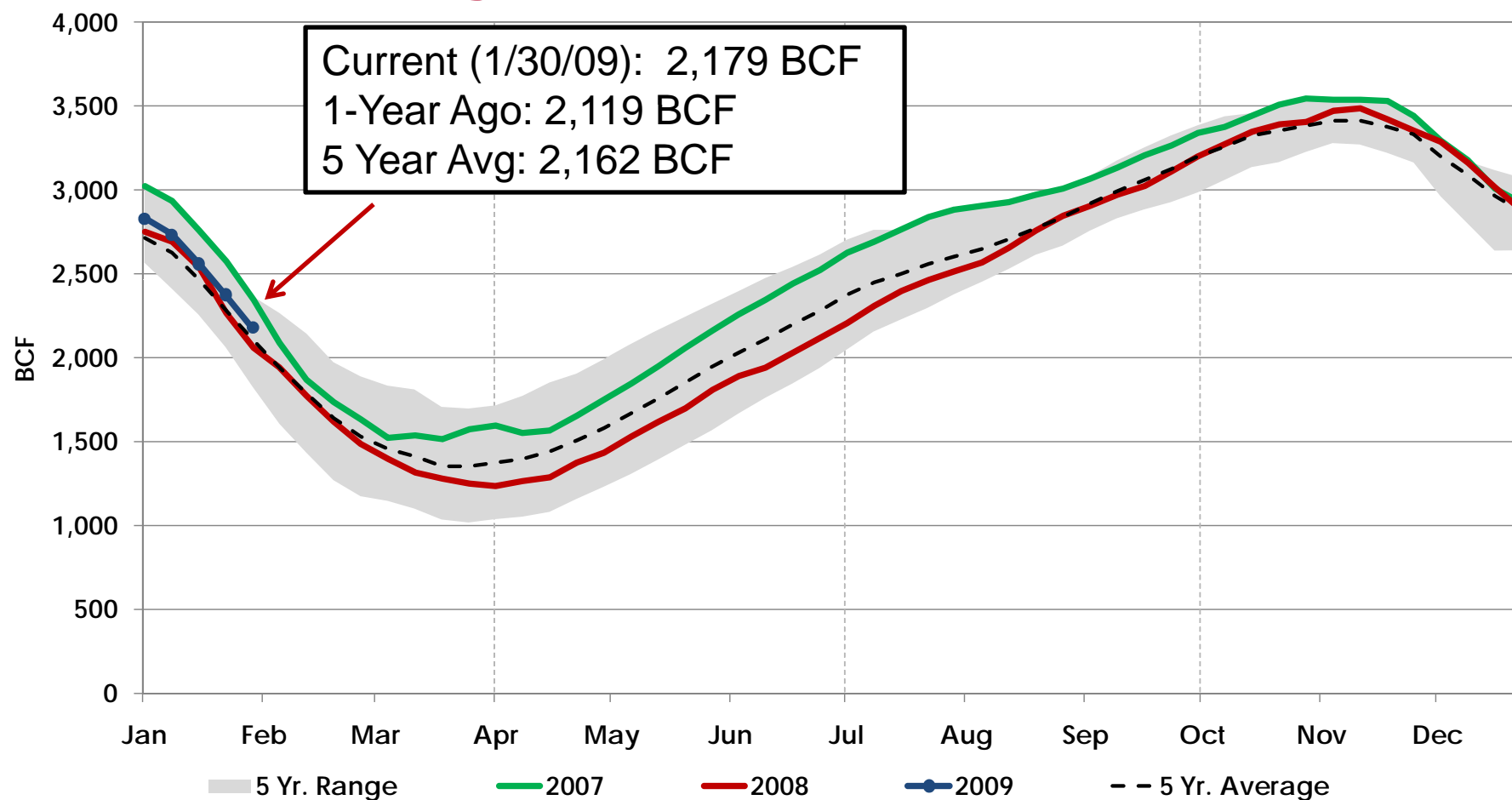
Source: NYMEX

Historical NYMEX Natural Gas Prices



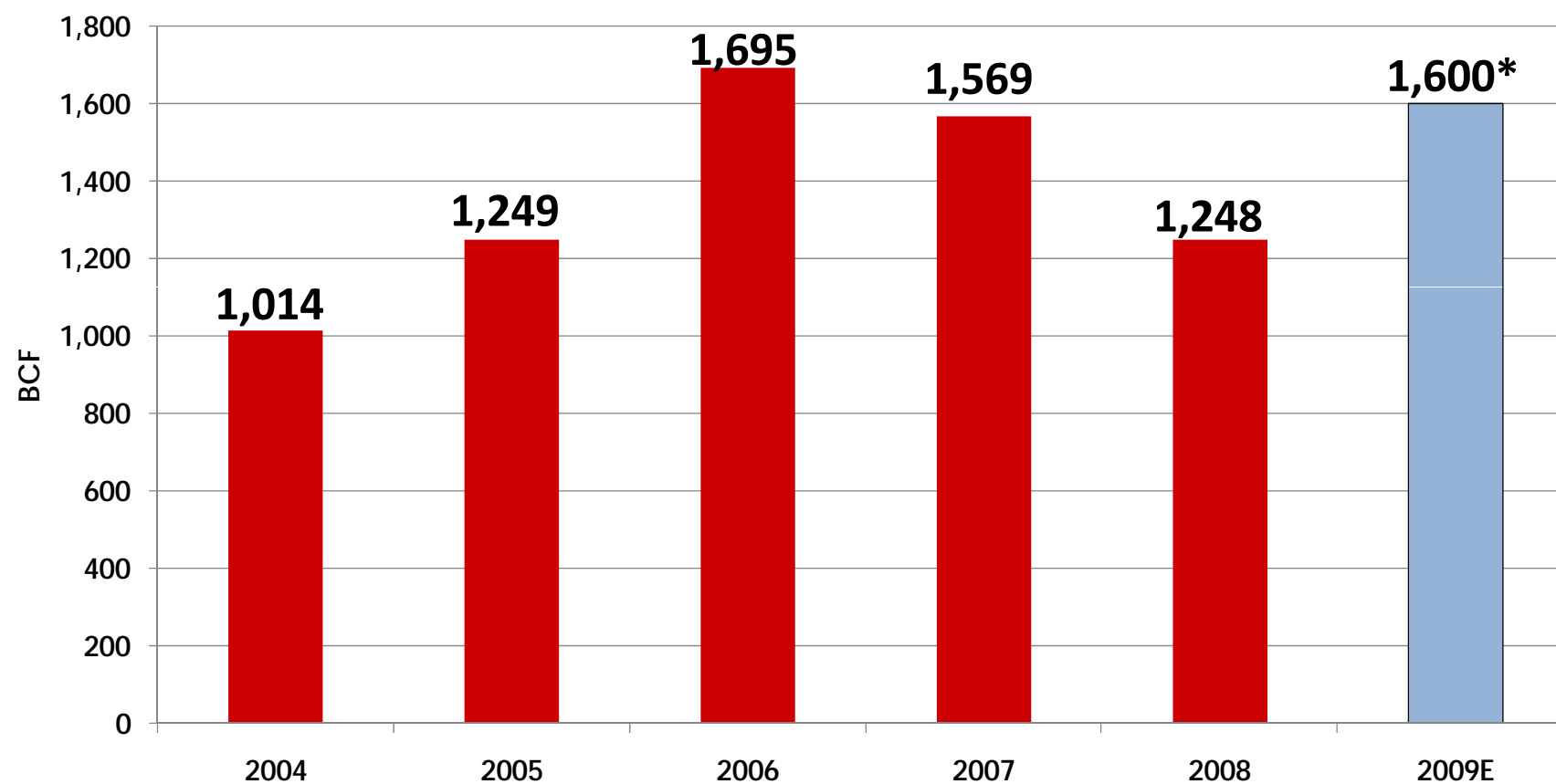
- **Prices remained between \$6-\$8/MMBTU for nearly two years in 2006 & 2007**

Natural Gas Storage



- **Too much gas!!**
- **Storage levels above last year and 5 year average**

Natural Gas Storage – End of Withdrawal Season Levels



- Higher storage
- Lower demand
- Bearish on Gas Prices

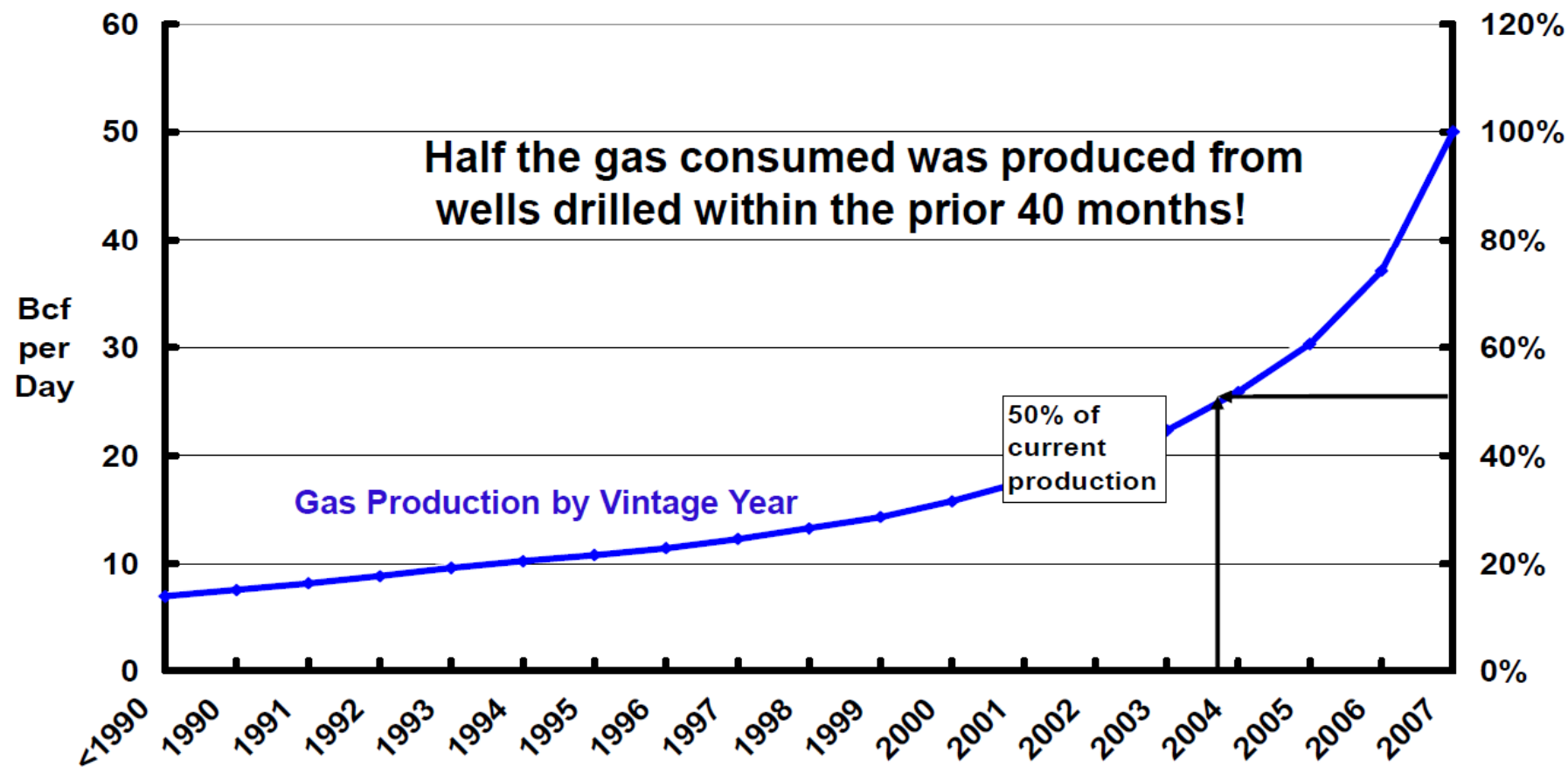
Source: Form EIA-912
 *Industry Analyst's Forecast

U.S. Oil & Gas Rig Counts

	<u>Jan-08</u>	<u>Sep-08 Peak</u>	<u>Current</u>	<u>% Change Current vs. Peak</u>
Texas	858	949	612	-36%
Rocky Mountains	233	284	199	-30%
Mid-Continent	252	285	201	-29%
North Louisiana	52	85	89	5%
Pennsylvania	20	28	22	-21%
Other US	<u>334</u>	<u>391</u>	<u>276</u>	-29%
Total	1,749	2,022	1,399	-31%

Source: Baker Hughes Rig Count

Vintage Gas Production – IHS Data



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Source: IHS Herold Inc. "North American Gas Fundamentals & Company Valuations After Market Fall-Out"

OPEC – Quota Reductions

	Announced Cuts
	<u>MMBBLs/Day</u>
September 2008	0.5
October 2008	1.5
December 2008	<u>2.2</u>
Total	4.2

- **OPEC production down 3.5% in January**
- **Saudi burden – January production lowest since 2002**
- **Will the rest of OPEC members maintain discipline?**

Access to Capital

Recent Debt Transactions

Company	Face Value	Coupon %	Yield %	Spread Bps	Maturity	Moody Rating
El Paso Corporation	\$ 500	8.25%	9.13%	664	Feb-16	Ba3
Chesapeake Energy Corp.	1,000	9.50%	10.63%	875	Feb-15	Ba3
Petrohawk Energy Corp	600	10.50%	12.75%	1,083	Aug-14	B3
Hess Corp	250	7.00%	7.07%	530	Feb-14	Baa2
Hess Corp	1,000	8.13%	8.17%	540	Feb-19	Baa2
El Paso Corporation	500	12.00%	15.25%	1,362	Dec-13	Ba3

Recent Equity Transactions

Company	Type	Offering Amount	Offering Price	Previous Day Price	Delta to Previous	Delta to Current
Whiting Petroleum	Common	\$ 232	\$ 29.00	\$ 36.02	-19.5%	-3.7%
Sandridge Energy, Inc.	Conv. Preferred	\$ 265	N/A	\$ 6.77	N/A	N/A

- **Access to capital has been scarce and expensive**
- **Recent transactions are positive!.**
- **Denbury, Chesapeake and Forest announced deals**

Outlook 2009



Other Drivers

	BULLISH	BEARISH
Price	History proves it can bounce back	Basis differentials continue to widen
Financial	Continued loosening of the credit markets Redetermination of credit facilities	Banking system does not respond quickly
Weather	Very cold winter continues Hot summer	Too little, too late
Demand	Demand responds to Obama's "Stimulus Package"	Demand destruction; chemical industry
Supply	OPEC discipline Rig count reduction Ending inventory reduce to acceptable level	Shale driven drilling Offshore shut-in comes online LNG is dumped
Regulatory	Opening of new offshore areas	Windfalls profits tax Carbon tax

What Reignites A&D Activity

- **Large backlog of potential transactions**
- **Distressed sellers - redeterminations**
- **Balance sheet strengthening**
- **Upgrading of E&P portfolios**
- **Aggressive buyers – well capitalized companies**
- **Herd mentality**

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