



IPAA / TIPRO Leaders in Industry Luncheon

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EnCap Investments L.P.



April 11, 2012



ENCAP INVESTMENTS L.P.

EnCap Overview

Overview of EnCap Investments L.P.

- Founded in 1988, EnCap is a leading provider of growth capital to the independent sector of the U.S. oil and gas industry
 - *Provided growth capital to 190 upstream and midstream companies*
 - *Exceptional track record with very limited loss experience (2.0x ROI and 25% IRR targeted returns)*

- Two investment platforms – Upstream and Midstream
 - *Currently managing five funds consisting of 49 active portfolio companies with cumulative commitments in excess of \$9 billion*

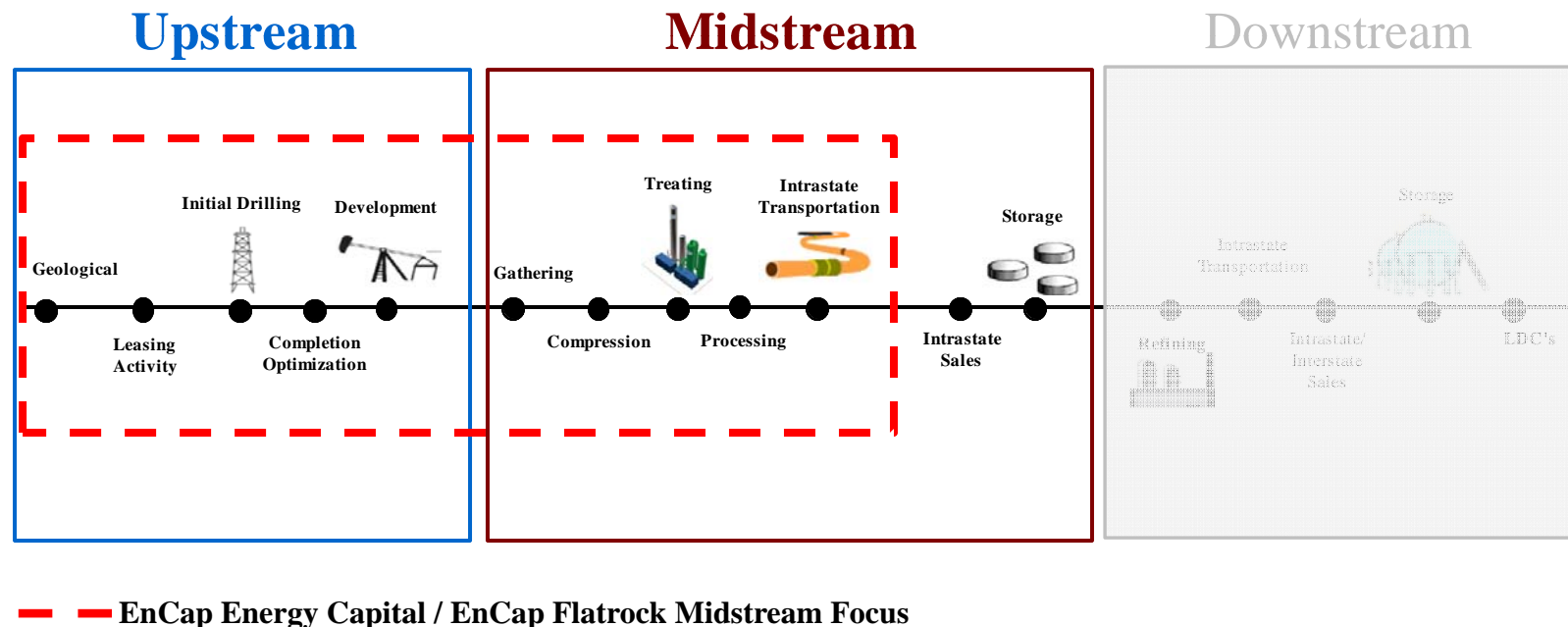
- Depth, continuity and experience of investment staff is unparalleled

- Investment strategy revolves around partnering with oil and gas executives with demonstrable track records to identify and create strategic acquisition opportunities for ultimate buyers
 - *Investment philosophy calls for equal emphasis on capital preservation and value creation; does not rely heavily on leverage*
 - *Consistent approach and results over the last two decades substantially differentiate EnCap from other fund managers*

- Investments are focused predominantly in the U.S.

EnCap Platforms


- EnCap invests in oil and gas opportunities through two separate platforms
 - EnCap Energy Capital funds focus primarily on the Upstream side of the Oil & Gas business
 - EnCap Flatrock Midstream specifically targets opportunities in the Midstream space




EnCap Growth Timeline

- Investing 15th institutional fund, EnCap Energy Capital Fund VIII, with commitments of \$3.5 billion
- Marketing 16th institutional fund, EnCap Flatrock Midstream Fund II (“EFM II”), targeting \$1.25 billion
- EnCap is currently managing five active funds with cumulative commitments in excess of \$9 billion and over \$3 billion remaining to invest


**EnCap Energy
Capital Fund VIII**
\$3,500,000,000
Private Equity


ENCAP INVESTMENTS L.P.
January 2011


**EnCap Energy
Infrastructure Fund**
\$791,600,000
Private Equity


ENCAP INVESTMENTS L.P.
March 2010


**EnCap Energy
Capital Fund VII**
\$2,500,000,000
Private Equity


ENCAP INVESTMENTS L.P.
December 2007


**EnCap Energy
Capital Fund VI**
\$1,500,000,000
Private Equity


ENCAP INVESTMENTS L.P.
July 2006


**EnCap Energy
Capital Fund V**
\$825,000,000
Private Equity


ENCAP INVESTMENTS L.P.
July 2004


**EnCap Energy
Capital Fund IV**
\$525,000,000
Private Equity


ENCAP INVESTMENTS L.P.
November 2001


**EnCap Energy
Capital Fund III**
\$480,000,000
Private Equity


ENCAP INVESTMENTS L.P.
August 1997


**EnCap Energy
Capital Fund II**
\$115,000,000
Private Equity


ENCAP INVESTMENTS L.P.
June 1996


**EnCap Energy
Capital Fund I**
\$104,000,000
Private Equity


ENCAP INVESTMENTS L.P.
April 1994


**Tenneco/EnCap
Gas Fund**
\$100,000,000
Mezzanine Debt


ENCAP INVESTMENTS L.P.
June 1993


**PMC
Fund III**
\$73,500,000
Reserve Acquisition


ENCAP INVESTMENTS L.P.
December 1993


**EnCap Secured
Investment Fund II**
\$115,000,000
Mezzanine Debt


ENCAP INVESTMENTS L.P.
March 1992


**PMC
Fund II**
\$53,300,000
Reserve Acquisition


ENCAP INVESTMENTS L.P.
December 1990

**EnCap Secured
Investment Fund I**
\$100,000,000
Mezzanine Debt


ENCAP INVESTMENTS L.P.
June 1989

**PMC
Fund I**
\$20,000,000
Reserve Acquisition


ENCAP INVESTMENTS L.P.
July 1988

EnCap Organizational Overview

UPSTREAM INVESTMENT STAFF

Jason DeLorenzo	Partner
Murphy Markham	Partner
Jason McMahan	Partner
Sean Smith	Partner
Wynne Snoots	Partner
Doug Swanson	Partner
Mark Burroughs	Director
Mitch Hovendick	Director
Brad Thielemann	Director
Mark Welsh	Director
Ryan Devlin	Vice Pres.
Kyle Kafka	Vice Pres.
Scott Smetko	Vice Pres.
Luke Brandenburg	Assoc.
Brooks Despot	Assoc.
Shane Hannabury	Assoc.
Stewart Fuller	Analyst
Patrick Halpin	Analyst

INVESTOR RELATIONS

Chuck Bauer	Mng. Dir.
Hallie Kim	Mng. Dir.
Matt Crystal	Vice Pres.

PRINCIPALS

David Miller	Managing Partner
Gary Petersen	Managing Partner
Marty Phillips	Managing Partner
Bob Zorich	Managing Partner



- EnCap investment professionals differentiated by substantial direct industry operating and technical experience
- Offices in Houston, Dallas, San Antonio and Oklahoma City

MIDSTREAM INVESTMENT STAFF

Dennis Jaggi	Managing Partner
Billy Lemmons	Managing Partner
Bill Waldrip	Managing Partner
Dennis McCanless	Mng. Dir.
Brett Wiggs	Mng. Dir.
Bryan Danmier	Vice Pres.
Morriss Hurt	Vice Pres.
Karl Pfluger	Vice Pres.
Cat McMIndes	Engineer
Pam Jauer	Eng. Analyst
Zach Kayem	Associate
Tommy Waldrip	Associate

ADMINISTRATIVE STAFF

Bobby Haier	CFO
Melissa Standley	Tax Director
Jason Morgan	VP – Finance
Donna Wright	Controller
John Stricker	Sen. Acct.
Audrey White	Sen. Acct.
Katherine Jenkins	Coordinator

Private Equity Industry 2012 Rankings

- EnCap ranks #36 on list of total funds raised over the last five years among all private equity providers

Private Equity Capital Raised Over Last Five Years (\$ in Billions)			
Rank	Firm	Headquarters	Capital Raised
1	TPG Capital	Fort Worth	\$ 50.6
2	Goldman Sachs Principal Investment Area	New York	47.2
3	The Carlyle Group	Washington DC	40.5
4	Kohlberg Kravis Roberts	New York	40.2
5	The Blackstone Group	New York	36.4
6	Apollo Global Management	New York	33.8
7	Bain Capital	Boston	29.4
...13	Warburg Pincus	New York	15.0
...26	Lone Star Funds	Dallas	10.4
...36	EnCap Investments	Houston	8.5
...39	Citi Capital	New York	7.8
...45	NGP Energy Capital Management	Dallas	7.1
46...	Energy Capital Partners	Short Hills	6.6

Energy Focused Private Equity Fundraising

- Currently, there is ~\$27 billion of private equity fundraising in the market specifically targeting oil and gas investment opportunities

Current North American Energy Focused PE Fundraisings

<u>Firm</u>	<u>Target Size (\$MM)</u>
Riverstone Holdings	\$ 6,000
NGP Energy Capital	4,000
Goldman Sachs	3,000
Blackstone Group	3,000
Energy & Minerals Group	3,000
Denham Capital	2,500
Lime Rock Partners	1,400
EnCap Investments (EFM II)	1,250
Kayne Anderson Capital	1,200
Kohlberg Kravis Roberts	1,000
Highland Capital	200
Oppenheimer Alternative	200
Total	\$ 26,750

Investment Focus

EnCap Investment Focus

- Seek teams with a track record of value creation – i.e. “Proven Moneymakers”
- Well-defined business plan with viable, creative value creation strategies consistent with experience
- Mainly pursuing domestic opportunities
- Equity commitments in the \$100 - \$500 million range
- Utilize LLC structure with “waterfall” distribution arrangement for management

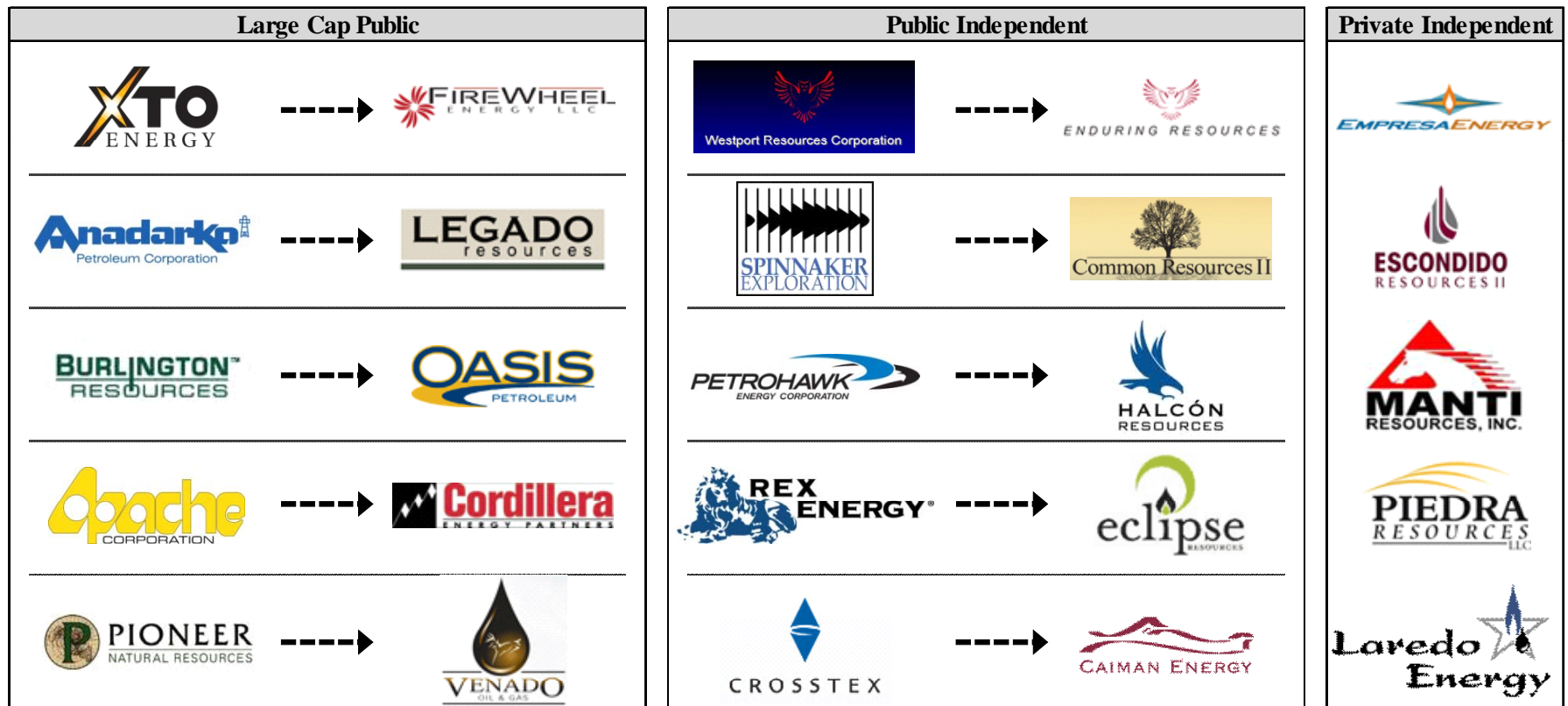
What Does EnCap Look For in a Management Team?

- Successful track record
- Honesty, integrity and forthrightness
- Strong technical and operational backgrounds
- Adaptability
- Shared view of risk management
- Receptive to “partnership” relationship
- Entrepreneurial mindset

Where Do Our Management Teams Come From?

- EnCap's portfolio company management members are largely products of large cap public, public independent and private independent E&P companies
- >50% of EnCap's current portfolio companies are led by repeat management teams

Selected Portfolio Company Management Member Backgrounds



Resource Plays Driving EnCap's Recent Investments

- While actively investing in both conventional and unconventional strategies, the vast majority of EnCap's recent commitments have been to teams focusing on unconventional resource plays
 - Compelling economics
 - Less geological risk
 - Extensive resource base – repeatability
 - Lower breakeven prices
 - Lower operating costs
 - Organic growth opportunities
 - Premium valuation from public markets

Compelling Market Factors Confirm Significance of Unconventional Resource Plays

- Numerous large JV transactions and acquisitions reinforce the desire of the Majors and Internationals to gain exposure to resource plays
 - >\$100.0 billion of publicly announced transactions since 2008

Recent Publicly Announced Domestic Shale Play Transactions

Year	Buyer	Seller	Value (\$MM)	Deal Structure	Play	Acres (000's)	\$/Acre	Year	Buyer	Seller	Value (\$MM)	Deal Structure	Play	Acres (000's)	\$/Acre
2008	Plains E&P	Chesapeake	\$3,300	Joint Venture	Haynesville	110	\$30,000	2010	Chevron	Atlas	\$4,315	Acquisition	Marcellus	486	\$8,879
2008	BP	Chesapeake	\$1,900	Joint Venture	Fayetteville	135	\$14,074	2010	Hess	TRZ Energy	\$1,050	Acquisition	Bakken	167	\$6,287
2008	StatOil	Chesapeake	\$3,375	Joint Venture	Marcellus	585	\$5,769	2010	Occidental	Private	\$1,400	Acquisition	Bakken	180	\$7,778
2009	BG	Exco Resources	\$1,055	Acquisition	Haynesville	42	25119	2011	Hess	Marquette	\$750	Acquisition	Utica	85	\$8,824
2009	Exxon	XTO Energy	\$41,000	Acquisition	Numerous ⁽¹⁾	1,647	N/A	2011	CNOOC	Chesapeake	\$1,267	Joint Venture	Niobrara	266	\$4,756
2010	Total	Chesapeake	\$2,250	Joint Venture	Barnett	68	\$33,333	2011	BHP Billiton	Chesapeake	\$4,750	Acquisition	Fayetteville	487	\$9,754
2010	Mitsui	Anadarko	\$1,400	Joint Venture	Marcellus	100	\$14,000	2011	KNOC	Anadarko	\$1,550	Joint Venture	Eagle Ford	80	\$18,000
2010	Reliance	Atlas Energy	\$1,700	Joint Venture	Marcellus	120	\$14,166	2011	Marathon	Hilcorp	\$3,500	Acquisition	Eagle Ford	141	\$24,823
2010	BG	Exco Resources	\$950	Joint Venture	Marcellus	93	\$10,200	2011	Mitsui	SM Energy	\$750	Joint Venture	Eagle Ford	39	\$13,000
2010	Exco/BG	Common Resources	\$446	Acquisition	Haynesville	29	\$14,397	2011	Exxon	Phillips Resources	\$1,690	Acquisition	Marcellus	317	\$5,331
2010	Talisman	Common Resources	\$359	Acquisition	Eagle Ford	37	\$8,840	2011	BHP Billiton	Petrohawk	\$15,200	Acquisition	Numerous	1,002	N/A
2010	Shell	East Resources	\$4,700	Acquisition	Marcellus	650	\$7,231	2011	Noble	CONSOL	\$3,100	Joint Venture	Marcellus	314	\$9,873
2010	Shell	Private	\$1,000	Acquisition	Eagle Ford	100	\$10,000	2011	Statoil	Brigham Exploration	\$4,800	Acquisition	Bakken	376	N/A
2010	Reliance	Pioneer	\$1,150	Joint Venture	Eagle Ford	95	\$12,105	2011	CHK/Enervest	Total	\$2,440	Acquisition	Utica	163	\$15,015
2010	EnerVest	Talon Oil & Gas	\$967	Acquisition	Barnett	20	N/A ⁽²⁾	2012	Apache	Cordillera III ⁽³⁾	\$2,845	Acquisition	Granite Wash	254	\$11,201
2010	StatOil/Talisman	Enduring	\$1,325	Acquisition	Eagle Ford	122	\$10,900	2012	Williams	Caiman Energy ⁽³⁾	\$2,500	Acquisition	Marcellus	N/A	N/A
Total Transactions											\$118,784				

- Public markets placing a premium on companies with significant exposure to resource plays
- Resource plays are commanding a premium in M&A market
 - Conventional assets are trading largely at PDP values while unconventional assets are trading at multiples of PDP value with substantial value attributed to acreage and resource potential
- It is estimated that the U.S. oil and gas industry will require annual capital of >\$40 billion to finance the development of shale assets⁽⁴⁾

(1) Includes Marcellus, Bakken, Barnett, Fayetteville, Woodford and Haynesville acreage
 (2) Reserves comprised the majority of the deal value
 (3) Under PSA, expected to close in Q2 2012
 (4) Source: ITG Investment Research

Upstream Portfolio Investment Strategies

- Upstream-focused management teams pursuing two main investment strategies:
 - 1) Lease and Drill
 - Early-stage – acreage acquisition
 - Mid-stage – low-risk, repeatable drilling opportunities
 - 2) Buy-and-Exploit

Upstream Strategies: Early-Stage Entry

- Acreage acquired in areas where there is known presence of hydrocarbons but economic development is uncertain
 - Extensions of known producing plays
 - Significant data is available from historical wellbores
- Limited capital is exposed on initial acreage and test drilling
- Acreage footprint and drilling program are expanded after initial success
- May utilize JV partners to spread risks/costs and achieve partial monetizations
- *Example: Common Resources*
 - Attractive acreage positions built in Eagle Ford and Haynesville through early identification / ground floor leasing efforts and a farm-in agreement with large industry player
 - Established economic viability by drilling 14 wells with compelling and consistent results; eventually became the target of industry buyers looking for resource potential with running room
 - Sold Eagle Ford assets to Talisman for \$359 million and Haynesville assets to BG/EXCO for \$446 million

Upstream Strategies: Mid-Stage Entry

- Acquire acreage foothold in established play with minimal development risk
 - Significant capital exposed on initial acreage when compared to “early-entry” strategy
 - Acreage exposure offset by proven economics and repeatable drilling
 - Utilize contacts to lease in most economic areas
 - Trade acreage with offset operators to assemble contiguous leasehold position
- Continue to develop and prove-up acreage through the drill-bit
 - Strategy is to sufficiently delineate position where the acreage is ultimately sold for a premium based on proved developed reserves and undeveloped future drilling locations rather than a \$/acre valuation
- *Example: Paloma Partners II*
 - Acquired scattered leasehold position in the heart of the liquids window of the Eagle Ford Shale, primarily in Karnes County, TX
 - Successfully traded acreage with offset operators to block up position and create large contiguous drilling units
 - Successfully delineated acreage by drilling nine highly economic horizontal wells
 - Currently in sales process; generating significant industry interest that should yield returns net to EnCap in excess of 2.0x ROI & 25% IRR hurdles

Upstream Strategies: Buy-and-Exploit

- While a relatively small number of EnCap companies have pursued a pure buy-and-exploit strategy in recent years due to competitive market dynamics, many companies have grown not only through undeveloped acreage acquisitions, but also through bolt-ons
- Other buy-and-exploit teams have succeeded by finding negotiated transactions (e.g. Talon) or making multiple, smaller acquisitions to build a presence in a specific area (e.g. Oasis)
- Successful teams not only secure assets at an attractive price, but also improve the assets by:
 - Increasing the number of drillable locations via downspacing or field extension
 - Applying modern drilling and completion techniques to improve recoveries
 - Executing bolt-on acquisitions to build an asset of scale
 - Reducing costs
- *Example: Talon Oil & Gas*
 - Acquired Denbury's Barnett Shale assets in two privately negotiated transactions for \$480 million
 - Utilized reasonable leverage (~55%) and aggressive hedging (~80% of current production)
 - Created value through the drill-bit by category shifting and proof-of-concept on infills and refracs
 - Sold Barnett Shale assets to EnerVest for \$967 million

Midstream Portfolio Investment Strategies

- EnCap Flatrock Midstream investment opportunities center around two strategies:
 - 1) Greenfield Development
 - 2) Acquire-and-Exploit

Midstream Strategies: Greenfield Development

- Identify focus area
 - Typically first or early mover in area with compelling economics and limited existing infrastructure
- Leverage initial footprint in underdeveloped area by assembling large acreage dedication and volume commitments from operators holding significant leasehold positions
 - Target operators with the capital availability and technical expertise required to execute on proposed drilling development plan
- Provide dependable, value-added services from well-head to end-user markets (vertically integrated)
- *Example: Caiman Energy*
 - Assembled a portfolio of long-term contracts to move gas liquid volumes on ~236,000 acres in the Marcellus Shale from 10 different producers
 - Built large transportation and processing system consisting of ~100 miles of pipeline, 320 MMcf/d of cryo processing capacity in operations and 600 MMcf/d of cryo processing capacity on order
 - In March 2012, Caiman announced the sale of the majority of its assets to Williams Partners L.P. for \$2.5 billion

Midstream: Acquire-and-Exploit Strategies

- Acquire existing gathering and/or processing system in area with compelling economics that is:
 - Undersized
 - Old and inefficient
 - Provides insufficient services
- Management operates, optimizes and expands existing system to run more efficiently
 - Goal is to maximize value and position asset for a strategic sale to large midstream player
- *Example: Cardinal Midstream*
 - In a management negotiated transaction, acquired producer-owned midstream assets in the Woodford Shale for \$268 million in 2010
 - Liquids rich supply area with economic drilling
 - Long term contracts to move and process rich gas volumes
 - Two existing plants with a third plant under construction
 - Large low-risk expansion project
 - Management is focused on optimizing the existing assets and contracting additional production through its extensive relationships with area producers

Recent Activity

Current Portfolio Focus Area

- Since 2008, EnCap has invested ~\$4.5 billion in the oil and gas industry
- 49 active portfolio companies operating in some of the most economic and compelling basins in the U.S.



EnCap Realizations Since 2008 Financial Crisis

- Over the same timeframe, EnCap has substantially realized 28 investments totaling in excess of \$16.8 billion of transaction value
 - Six of EnCap's realizations have yielded over \$1.0 billion of 8/8ths sales proceeds

EnCap Portfolio Company 8/8ths Sales 2008-2012			
<i>(\$ in millions)</i>			
<u>Company</u>	<u>Focus</u>	<u>Date</u>	<u>Gross Sales Price</u>
Cordillera III	Mid-Continent	Jan-12	\$ 2,850
Caiman	Marcellus Shale	Feb-12	2,500
Enduring	Eagle Ford Shale	Oct-10	1,739
Oasis	Bakken	Jun-10	1,259
Tracker/Red Arrow (TRZ)	Bakken	Nov-10	1,050
Cordillera II	Mid-Continent	Sep-08	1,023
Talon	Barnett Shale	Dec-10	967
Common	Haynesville / Eagle Ford	May-10	805
Marquette	Utica Shale	Sep-11	750
OGX II	Permian Basin	Oct-11	250
Limestone	Permian Basin	Oct-10	185
Other	Various		3,398
Total 8/8ths Sales Proceeds			\$ 16,776



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