Review of the Upstream Transaction Market Through YTD 2011

A&D Overview

HYBRID LIVE/INTERNET AUCTIONS

CUSTOM NEGOTIATED TRANSACTIONS

The Petroleum Club
Houston, Texas
February 8, 2011

IPAA/TIPRO
Leaders in Industry luncheon
The Petroleum Club
Houston, Texas
February 8, 2011
THE PERFECT VENUE

Auction
$4.3 Billion
Since 1993

Negotiated
$5 Billion
Since 1999

30,447 Transactions

167 Transactions

$4.3 Billion in Auction Sales Since 1993

Exclusive Advisers on Over $1 Billion in Negotiated Transactions in 2008, 2010
**MULTIPLE DIVESTMENT SERVICES**

**Custom Negotiated Transactions**
- Significant upside – Technically Complex
- Geographically consolidated
- $40 - >$1 Billion
- Customized process required (“story to tell”)

**Mid-Value Negotiated Transactions (MVN)**
- Alternative to Auction for assets with:
  - Higher PDP/Upside Ratio
  - $10 – 50 Million with substantial reserves
- Operated & non-operated working interests

**MVN Express**
- Unconventional Leasehold Marketing
- $5 – 20 Million
- Short Cycle Marketing

**Auctions**
- Geographically diverse properties
- Operated & non-operated working interests
- Premiums for royalties & minerals
- Individual property values up to $20 MM+
- Primarily PDP reserves (70%+)
- Online and Hybrid (live + online)
TODAY’S A&D ENVIRONMENT

- Industry is poised for significant asset rationalization
  - Capital demands associated with unconventional and shale play developments are significant and immediate
  - Oil/Gas price discrepancy is unprecedented and confusing the A&D marketplace
  - Income from oil production providing good cash flow stream for many
  - Starting to see some bank pressure on gas heavy producers

- Capital Availability – debt, equity or asset sales
  - New equity raises were active in late 2011
  - Debt is available
  - Reserve-based bank lines have grown
  - Private equity sponsor firms have ample capital to place and can be formidable buyers

- Attention is on liquids rich resource plays
  - Repeatable and predictable development
  - Securing leasehold positions is the priority
  - Balancing act while trying to live within cash flow
  - All-in economics can be challenging – JV arrangements are an answer
NATURAL GAS FUTURES

Source: NYMEX
OIL FUTURES

Source: NYMEX
U.S. A&D ACTIVITY

Total U.S. Upstream Transaction Volume

Source: IHS Herold
DECOUPLING OF OIL AND GAS PRICING

Source: NYMEX
US RIG COUNT – OIL, GAS, HORIZONTAL and TOTAL

Total rig count: 2,008 as of 1/27/2012

Five-year high: 2,031 on 9/12/2008

Five-year low: 876 on 6/12/2009

Source: Baker Hughes
ASSET VALUATIONS AND METRICS
ACQUISITION VALUATIONS TODAY

- PDP reserves are highly sought after

- PDNP and PUD reserves are receiving value if currently economic
  - Buyers will pay for upside if drilling is economically viable at current prices
  - 2X PDP continues to be a ceiling for many buyers
    - Exceptions exist: Resource plays, infill, redrills, recompletions, etc. (strategic acquisitions)

- NYMEX strip (“hedgeable”) prices are routinely used in forecasts
  - Most bidders have accepted future strip as the standard
  - Required to be competitive in acquisitions

- Metrics determined by production profile of asset
  - Vary materially by basin
  - Still ample buyers of gas assets
  - Cash flow metric rules of thumb are unchanged
  - Any metric using a gas-to-oil conversion ratio can be deceptive (reserves or daily production)
TRANSACTION METRICS VS SPOT PRICE - GAS

*Proved
YTD AVERAGE OIL METRIC – ASSET TRANSACTIONS

Denbury Permian sale to Quantum ($0.9 Billion)
ExxonMobil GOM sale to Energy XXI ($1.0 Billion)
Texas American sale to Bill Barrett ($150 Million)

Source: IHS Herold & Harts A-D Center

Strategic Oil and Liquid Rich Deals Bring a Premium
YTD AVERAGE GAS METRIC – ASSET TRANSACTIONS

Source: IHS Herold & Harts A-D Center

Dominion Marcellus sale to Consol ($3.5 Billion)
January 2010 thru December 2011

Cash Flow (months)

- **E Texas:** 19, 12
- **Gulf Coast:** 20, 21
- **Mid Cont.:** 71, 32
- **Other:** 15, 12
- **Permian:** 18, 27
- **Rockies:** 13, 44
- **San Juan:** 2, 2
- **Texas:** 26, 3

*# in bar indicates number of lots sold*
Auction Sales – Royalty Interests – Cash Flow

January 2010 thru December 2011

Cashflow (months)

E Texas
Gulf Coast
Mid-Continent
Other
Permian
Rockies
San Juan
Texas

# in bar indicates number of lots sold
CURRENT ENGAGEMENTS

- ExxonMobil
  Custom Negotiated

- eog resources
  Mid-Value Negotiated

- Upland Exploration, Inc.
  Mid-Value Negotiated

- NEWFIELD
  Auction
  Mid-Value Negotiated

- Force 5 Energy, LLC
  Custom Negotiated

- NFR ENERGY
  Custom Negotiated

- devon
  Auction

- Samson
  Auction

- XTO ENERGY
  A subsidiary of ExxonMobil
  Custom Negotiated

- Mid-Value Negotiated Express
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www.ogclearinghouse.com
CURRENT ENGAGEMENTS

ExxonMobil
Custom Negotiated

eog resources
Mid-Value Negotiated

NEWFIELD
Auction
Mid-Value Negotiated

Upland Exploration, Inc.
Mid-Value Negotiated

Chevron
Mid-Value Negotiated Express

Force 5 Energy, LLC
Custom Negotiated

NFR ENERGY

Samson
Auction