IPAA Midyear Meeting
Upstream Capital Market Overview

June 18, 2010

*Disclosures on page 15
Recent Global IPO Performance

- Volume of Global IPO’s is up...
- ...deals are pricing below filing range
- It is currently a buyer’s market

Source: Dealogic. Global IPOs greater than $25MM USD.
(1) Values shown are average for the quarter.
Investors Still Waiting to Make Money in IPOs

Observations

- 66% of ~350 Global IPO’s are currently trading below IPO price

Source: Dealogic. Global IPOs greater than $25MM USD.
(1) Values shown are average for the quarter.
Healthy start to 2010

Strong IPO backlog

Midstream/MLP dominates
- Appetite for upstream equity also strong
- OFS sector remains tough market for issuers

Recent macro factors (commodities, Macondo, etc) have significantly slowed down the energy equity capital markets

Source: Dealogic as of 6/10/10.
Capital Markets Changed Over the Years

Spinnaker Exploration Co - IPO

September 28, 1999
8 million shares @ $14.50 = $116 million total proceeds
No shoe exercised, priced below range ($16 - $18)
Gross Spread 6.28%, Total Fees $7 million

Lead Managers (63%)
Credit Suisse First Boston (31%),
Donaldson Lufkin & Jenrette (31%)

Co-Managers (37%)
Banc of America Securities (16%), Prudential Securities (16%),
Nesbitt Burns Securities (4%)

Cobalt International Exploration Co - IPO

December 15, 2009
71 million shares @ $13.50 = $958 million total proceeds
Majority of 15% shoe exercised, priced below range ($15 - $17)
Gross Spread 4.3%, Total Fees $41 million

Lead Managers (80%)
Credit Suisse (32%), Goldman Sachs (32%),
JP Morgan (16%)

Co-Managers (20%)
Morgan Stanley (4%), TPH (4%), UBS (4%), Deutsche Bank (2%),
RBC (2%), Howard Weil (1%), FBR (1%), Thomas Weisel (1%),
Natixis Bleichroeder (1%), Capital One Southcoast (1%)
TPH Increasing Role and Economics

**Cobalt International Exploration Co - IPO**

- **December 15, 2009**
- 71 million shares @ $13.50 = $958 million total proceeds
- Majority of 15% shoe exercised, priced below range ($15 - $17)
- Gross Spread 4.3%, Total Fees $41 million

**Global Geophysical Services - IPO**

- **April 21, 2010**
- 8.625 million shares @ $12.00 = $104 million total proceeds
- 100% of shoe exercised, priced below range ($15 - $17)
- Gross Spread 7.0%, Total Fees $7 million

**Lead Managers (80%)**
- Credit Suisse (32%), Goldman Sachs (32%),
- JP Morgan (16%)

**Co-Managers (20%)**
- Morgan Stanley (4%), **TPH (4%)**, UBS (4%), Deutsche Bank (2%),
- RBC (2%), Howard Weil (1%), FBR (1%), Thomas Weisel (1%),
- Natixis Bleichröder (1%), Capital One Southcoast (1%)

**Lead Managers (68%)**
- Credit Suisse Securities (35%),
- Barclays Capital (33%)

**Co-Managers (32%)**
- **TPH (15%)**
- Raymond James (8.5%)
- Simmons & Co. (8.5%)
U.S. Bond Market Activity

Transaction Volume ($Bn)

- I-Grade
- High-Yield

Energy High-Yield Issuance ($Bn)

- Upstream
- Midstream
- OFS

Median High-Yield Spread to Benchmark (bps)

- Total Mkt
- Energy

Source: Dealogic as of 6/10/10.
M&A, A&D, and now JV’s
It’s a Deal Making Business

- Asset/Corporate deal flow remains strong = $14B/year
- Joint Ventures are increasingly important = $5.8B/year

Source: JS Herold’s.
Net Asset Value Works

Corporate Transactions: Acquisition Price % of NAV

Average = 96%
Joint Venture Analysis
APC/Mitsui JV NAV Summary\(^{(1)}\)

**JV Terms & Assumptions**
- 100% of APC Marcellus acreage (~307k net acres)
- Mitsui acquires 32.5% WI (100k net acres)
- 100% of consideration paid via Drilling Carry
  - Mitsui pays 100% of development costs in 2010
  - Mitsui pays WI share plus 90% of APC’s WI share of development costs until total Drilling Carry reaches $1.4 Bn
- Total Consideration: $1.4 Bn
  - PV(10) of Drilling Carry: $1.2 MM
  - Total JV PV(10)/acre: $11.7k/acre
  - Implied total asset value: $3.6 Bn
- Drilling Carry duration: ~4 years (12 rigs required)

**JV Value Allocation**

- Joint Venture
- Project NAV(10): $10.1Bn
- Mitsui IRR: 22%

**Capex & Cumulative FCF ($MM)**

- **Mitsui**
  - 2010: $0
  - 2011: $561
  - 2012: $523
  - 2013: $38
  - 2014: $312

- **APC**
  - 2010: $561
  - 2011: $38
  - 2012: $38
  - 2013: $38
  - 2014: $648

- **Project cumulative FCF**
  - 2010: $0
  - 2011: $561
  - 2012: $523
  - 2013: $523
  - 2014: $960

**Production Profile (MMcf/d)**

- **Joint Venture**
- **Project NAV(10):** $10.1Bn
- **Mitsui IRR:** 22%

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\(^{(1)}\) Modeling Assumptions: $6.50/MMbtu flat price deck, $4.0MM D&C capex/well; 30-day D&C time per well; constant rig count during Drilling Carry phase; 20 rigs held constant during Post-Carry phase.
JV Valuation Summary

### D&C Capex / Well (SM)

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<th>$3.0</th>
<th>$3.5</th>
<th>$4.0</th>
<th>$4.5</th>
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<tr>
<td>Drilling Carry Rig #</td>
<td>16</td>
<td>13</td>
<td>12</td>
<td>10</td>
<td>9</td>
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<tr>
<td>Post-Carry (2x) Rig #</td>
<td>20</td>
<td>20</td>
<td>20</td>
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<td>20</td>
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<tr>
<td>Total NAV ($Bn)</td>
<td>$12.4</td>
<td>$11.2</td>
<td>$10.1</td>
<td>$9.1</td>
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<td>APC PV10</td>
<td>$9.6</td>
<td>$8.7</td>
<td>$8.0</td>
<td>$7.3</td>
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<td>Mitsui PV10</td>
<td>$2.9</td>
<td>$2.5</td>
<td>$2.1</td>
<td>$1.8</td>
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<td>Mitsui IRR</td>
<td>29%</td>
<td>25%</td>
<td>22%</td>
<td>19%</td>
<td>17%</td>
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### Conclusions

- **Transaction sets new benchmark for Marcellus Shale JV valuation structure**
  - 100% of consideration via Drilling Carry
  - 20–25% partner IRR
  - $6.50/MMbtu price deck
  - 100% full development credit
  - 80-acre spacing; 20% acreage condemnation

- **APC Marcellus asset valuation**:
  - PV(10) of Drilling Carry: $1.17 Bn
  - Implied JV acreage value\(^{(2)}\) ~ $3.6 Bn
  - Fully developed asset PV(20)\(^{(3)}\) ~ $3.5 Bn

- **JV allows APC to quickly develop its assets w/ minimal capital requirements**
  - APC pays ~ 5% total capex over 1st 4 years
  - APC pays ~ 56% of total project capex
  - Mitsui CF negative (cumulative) for ~ 8 yrs

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\(^{(1)}\) Modeling Assumptions: $6.50/MMbtu flat price deck, $4.0MM D&C capex/well; 30-day D&C time per well; constant rig count during Drilling Carry phase; 20 rigs held constant during Post-Carry phase.

\(^{(2)}\) $1.17Bn for 100k acres implies $11.7k/acre. $11.7k x 307k acres = $3.6Bn.

\(^{(3)}\) Pre-tax, pre-G&A NAV of APC’s entire net Marcellus position.
Conclusions

- Capital Markets are Open, but it is a buyers market
  - Energy IPO / Follow-on Equity = ~$15B/year
  - High Yield = ~$10B/year
  - Converts = ~$4.5B/year

- M&A and A&D Flow Remains Strong
  - Asset / Corporate Deals = ~$14B/year
  - Joint Ventures = ~$6B/year...another source of capital, but expensive
Analyst Certification:
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