Overview of Presentation

• Why is Red Arrow Private?
• What is Red Arrow’s and Management Team’s History?
• Red Arrow’s Bakken Project
• Lessons Learned from Using Private Equity
Why is Red Arrow Private?

• Red Arrow’s focus has always been onshore US and size of projects best suited for private capital
• Red Arrow’s Management Team was groomed in the private market place
• Could we do what we do and be public? Maybe. Do we want to? Probably Not.
What is Red Arrow’s History?

- Management cut their teeth on low risk drilling projects – see timeline on next slide
- Started with Family Offices only
- Landed a Bakken Project in late 2005 and knew it would need a lot of equity early
- Large acreage positions in Shale Plays need lots of capital early; unless model is to flip early. Either JV, or sell down. Find Partners who bring more than money to the table.
Red Arrow and Predecessor Timeline

Pre-Red Arrow

Vendor Financed
Lobo Drilling Packages
One Family Office

1985-1992

Greenfield Projects
One Family Office with JVs

1994-2002

Built Acquire &
Exploit Portfolio
One Family Office

2002-2005

Greenfield Projects
started with
Multi-Family Investors

2005 -2007

moved to

2007-recent

Red Arrow

Upsized Investor
Base with Institutional
Investors on top of Founding
Investors
Red Arrow’s Bakken Project

• Co-owned with Tracker Resource Development II (Private Equity Backed - Denver- Strong Operating Expertise)
• Original lease position in Dunn County, ND – see map on next page
• Bought land position in 2006. Grew land position from 2006 until current - Over 100,000 acres net in project
• In 2009, brought in Strategic Financial Partner (Family Office with long-term investment horizon)
Red Arrow – Tracker Bakken Project

Acreage in Yellow
Bakken Project Summary

• Watched other Operators drill and complete in the area for first 12 months – “went to school”
• Used two “Outside Funding Sources” and our own equity to test corners of the block - 2007 and 2008. Drilled about 10 wells.
  – Mezzanine Debt Facility
    (used early and paid off in full)
  – JV on part of the acreage with Vendor Financing
• Began aggressively adding to our acreage position and picked up drilling pace in 2009
Bakken Project Continued

• Should go to three rigs in May of 2010
• Might go to four or five rigs by 1/1/2011
• Expanded into offset counties
• Bakken and Three Forks is one of the hottest onshore oil plays in the US
• Exit Strategy
  – Originally was thought to be asset sale
  – Now have many options
Lessons Learned from Private Funding

• Dangerous to have just one funding source
  – In case of Family Office – Life events (death, divorce, life style changes, etc.)
• Private Placement Agents definitely have their place
• Have eyes wide-open when mixing classes of investors
  – World gets complicated when you mix Family Office Investors with Institutional Investors
  – Board issues
  – Timing of exit issues
  – Desire to use hedging and level thereof
  – Desire to use debt
  – Pure bets versus portfolio theory
• Blind pool raises versus “deal in hand” raises