



**Private Capital
Conference
February 24, 2011
Houstonian Hotel
Houston, TX**

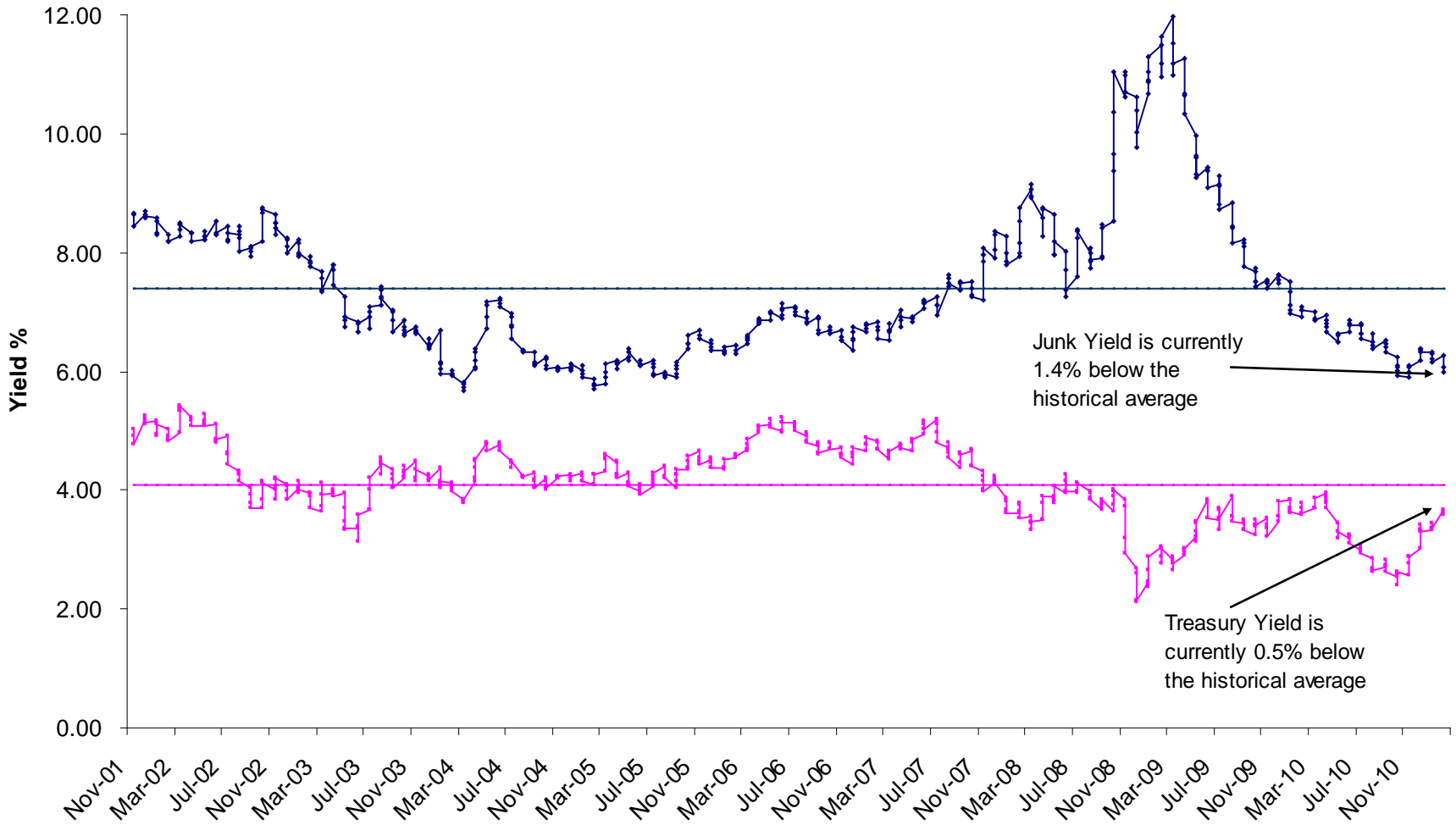
Capital One Southcoast Research

- Models and publishes investment reports across a universe of ~90 publicly traded energy stocks (50 service /infrastructure and 40 E&P stocks)
- We publish a daily energy summary that typically includes 1-2 pages of investment ideas in the energy space.
- Each week, we publish a unique research product that we call our “focus list and relative bias index.” In it, we rank all of our research coverage from our favorite to least favorite stocks based on expected catalysts and valuations.
- Capital One Southcoast has 4 main divisions: Equity Research, Sales, Trading, and Investment Banking.

Exit Strategy – Key Factors

1. Discount rate assumptions – is 10% always the right number?
2. Who is making the acquisitions in today's environment and what are they looking for?
3. How does the entry of international corporations and joint venture agreements impact the market?
4. What are IPO investors (mutual funds and hedge funds) looking for and how has this changed over time?

10 Year Yields



—●— Junk
 —■— 10-Yr Treasury
 — 10 yr. Junk average
 — 10 yr. Treasury average

- **Weighted average cost of capital (WACC) across independents.**
- **Net Asset Value (NAV) per share is the value of E&P assets minus debt per share.**

COMPANY SIZE/MAKEUP	WACC	<u>10% Discount Rate</u> <u>Current Target Price</u> <u>\$5.50/Mcf & \$90/bbl</u> Upside	<u>8% Discount Rate</u> <u>Current Target Price</u> <u>\$5.50/Mcf & \$90/bbl</u> Upside
Large Cap (Average)	9.7%	4%	28%
Mid Cap - Gassy (Average)	10.8%	14%	42%
Mid Cap - Oily (Average)	11.3%	17%	46%
Small Cap - Gassy (Average)	12.0%	17%	55%
Small Cap - Oily (Average)	12.4%	15%	42%
GOM (Average)	10.9%	1%	13%

2) Changing M&A landscape: “The new buyers”

Major Integrated	WACC	Market Cap (\$B)	Cash (\$B)	Debt (\$B)
Chevron	9.89%	\$193	\$14.5	\$10.6
Conoco Phillips	9.13%	\$108	\$10.9	\$28.7
Statoil	8.99%	\$76	\$8.2	\$20.1
Exxon Mobil	9.33%	\$412	\$12.3	\$18.3
BP	11.14%	\$148	\$20.0	\$47.3
Marathon	9.40%	\$34	\$1.6	\$7.9
Hess	10.54%	\$27	\$1.6	\$5.6
Murphy Oil	11.40%	\$14	\$0.5	\$0.9
Royal Dutch Shell	13.54%	\$212	\$13.4	\$44.3
Reliance Industries	--	\$69	\$3.1	\$12.4
CNOOC	11.40%	\$99	\$5.6	\$1.9
PetroChina	11.00%	\$252	\$16.3	\$34.2
Average	10.52%	\$137	\$9.0	\$19.4

When you are Chevron and you have \$14 billion in cash on your balance sheet, spending less than \$4 billion on Atlas isn't such a big risk.

Independents are divesting assets more than acquiring assets. Independents grow inventory “organically” with landmen. They need cash, so they have been divesting to fund capex.

What Investors and Acquirers want - the short answer is Resource Plays

IPO Investors (Mutual & Hedge Funds):

- Resource plays (specifically, oily resource plays)
- “Hot plays” like the Marcellus, Bakken and Eagle Ford
- Investors are currently risk tolerant but this changes over time
- **Resource plays are preferred because they offer good economics and are easy to value among the large number of comparable companies.**
- **Conventional oil or gas is more difficult to value because there are fewer “comps” available.**
- **Convenient metrics include \$/acre and \$/bopd.**

Acquirers (Majors and Int’l Companies):

- Resource plays (oil and/or gas)
- Scale
- Low risk, repeatable plays
- Technology that can drive down costs and improve economics over time

The Changing M&A Landscape: The Buyer

- Southcoast Capital keeps an updated database of M&A transactions that are related to our coverage list or the E&P industry as a whole. That database includes a total of 382 deals since the year 2000. Of those, 78 were priced above \$1B.
- Between 2000 and the end of 2007 a small number of the acquisitions were made by the Majors (only 7 or 16% out of the 44 deals priced over \$1B during that time frame). Most of the deals were done among Independent companies.
- However, starting in 2008 we have seen the Majors, Internationals, and National Energy companies take a greater interest. In that time, they were the acquirer in 17 (50%) of the 34 deals priced over \$1B.

The Changing M&A Landscape: The Asset

- Historically, E&P value has been assigned to proved reserves. However, a shift has occurred over the past few years and value is now placed on resource play acreage instead.
- Using the complete set (382) of E&P transactions in our database, we noticed a clear indication of what the priority has become.
 - The press releases for the 227 deals between 2000 and the end of 2007 disclosed the number of proved reserves in all but 9 cases (95%). They listed the amount of acreage in only 59 of the 227 (26%) press releases.
 - In the press releases for the 154 deals since the start of 2008, the proved reserves were disclosed in only 88 cases (57%) while acreage totals were now listed in 95 cases (62%).