The Science of The Deal

Acquiring & Divesting Oil and Gas Properties in Today’s Marketplace

IPAA / TIPRO

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What is EnergyNet?

EnergyNet is an easy-to-use oil and gas property auction and negotiated sale service that facilitates the sale of producing working interests (operated and non-operated), overrides, royalties, mineral interests, and non-producing leasehold. Most of the properties we sell are located in the lower 48 United States and typically range in value from $1,000 to $50MM.

Using an Internet platform, EnergyNet allows buyers the flexibility and convenience of conducting their due diligence and placing bids online. EnergyNet is a continuous marketplace, with transactions going on everyday.

In simple terms, EnergyNet strives to achieve the highest prices while providing a timely sale for oil and gas properties by exposing them to the widest possible national audience of accredited buyers.
The Science of the Deal

1. Current Oil and Gas Transaction Metrics
2. Components of the Deal
3. Considerations when Selling Assets
4. Negotiation Theory / Auction Game Theory
EnergyNet Upcoming Sales

Week 1: Property Preparation
- Week 1: August 10th 2011
- Week 1: August 11th
- Week 1: August 16th
- Week 1: August 17th
- Week 1: August 18th
- Week 1: August 23rd
- Week 1: August 24th
- Week 1: August 25th
- Week 1: August 30th
- Week 1: August 31st
- Week 1: September 1st
- Week 1: September 6th
- Week 1: September 7th
- Week 1: September 8th
- Week 1: September 13th
- Week 1: September 14th
- Week 1: September 15th
- Week 1: September 20th
- Week 1: September 21st
- Week 1: September 22nd
- Week 1: September 27th
- Week 1: September 28th
- Week 1: September 29th
- Week 1: October 4th
- Week 1: October 5th
- Week 1: October 6th
- Week 1: October 11th
- Week 1: October 12th
- Week 1: October 13th
- Week 1: October 18th
- Week 1: October 19th
- Week 1: October 20th 2011

Week 2: Due Diligence/Marketing
- Week 2: October 25th 2011
- Week 2: October 26th
- Week 2: October 27th
- Week 2: November 1st
- Week 2: November 2nd
- Week 2: November 3rd
- Week 2: November 8th
- Week 2: November 9th
- Week 2: November 10th
- Week 2: November 15th
- Week 2: November 16th
- Week 2: November 17th
- Week 2: November 22nd
- Week 2: November 23rd
- Week 2: November 29th
- Week 2: November 30th
- Week 2: December 1st
- Week 2: December 6th
- Week 2: December 7th
- Week 2: December 8th
- Week 2: December 13th
- Week 2: December 14th
- Week 2: December 15th
- Week 2: December 20th
- Week 2: December 29th
- Week 2: January 3rd
- Week 2: January 4th
- Week 2: January 5th
- Week 2: January 10th
- Week 2: January 11th
- Week 2: January 12th
- Week 2: January 13th
- Week 2: January 14th 2012

Week 3: Due Diligence/Marketing

Week 4: Bidding/Bid Deadline

Week 5: Closing/Filing of Assignments
What is EnergyNet?

24/7/365 Oil and Gas Property Marketplace
Current Market Transaction Metrics

35,000+ Properties Sold on EnergyNet

*Darker green notes a higher concentration of properties sold*


20:1 $/BOE/D, 6 mo Avg.
EIA Monthly Average WTI Spot Price

$82,975
49 mos.

CFM In Months
Spot Price in $
July 2010 - June 2011 EnergyNet Royalty & Overriding Royalty Interests Metrics Trend

- CFM in Months
- Spot Price in $

- 20:1 $/BOE/D
- CFM, 6 mo Avg.
- EIA Monthly Average WTI Spot Price

- July 2010 - June 2011 EnergyNet Royalty & Overriding Royalty Interests Metrics Trend

- $272,339
- 91 mos.
## Working Interests (Operated & Non-Op): 20:1
### Q3 2010 – Q2 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>$/Net BOE/D</th>
<th>CF Multiple (Avg. 6 mos. prior to sale)</th>
<th>CF Multiple (Last month prior to sale)</th>
<th>Avg. # Views Per Lot</th>
<th>Avg. # Viewers Per Lot</th>
<th>Avg. # Bids Per Lot</th>
<th>Avg. # Bidders Per Lot</th>
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<tbody>
<tr>
<td>Appalachian</td>
<td>$43,687</td>
<td>28.68</td>
<td>25.94</td>
<td>788</td>
<td>189</td>
<td>26</td>
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<tr>
<td>Ark-La-Tex</td>
<td>$64,859</td>
<td>40.34</td>
<td>37.67</td>
<td>997</td>
<td>185</td>
<td>29</td>
<td>7</td>
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<tr>
<td>Gulf Coast</td>
<td>$60,740</td>
<td>34.25</td>
<td>31.96</td>
<td>683</td>
<td>152</td>
<td>29</td>
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<tr>
<td>Michigan Basin</td>
<td>$46,318</td>
<td>41.89</td>
<td>36.22</td>
<td>573</td>
<td>150</td>
<td>19</td>
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<tr>
<td>Mid-Continent</td>
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<td>49.20</td>
<td>768</td>
<td>172</td>
<td>31</td>
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<tr>
<td>Permian</td>
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<td>51.27</td>
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<td>222</td>
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<tr>
<td>Rockies</td>
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<td>46.23</td>
<td>979</td>
<td>157</td>
<td>34</td>
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<td>71.75</td>
<td>532</td>
<td>143</td>
<td>17</td>
<td>5</td>
</tr>
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</table>
## Royalty & Overriding Royalty Interests: 20:1
### Q3 2010 – Q2 2011

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<th>Avg. # Bidders Per Lot</th>
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<tr>
<td>Appalachian</td>
<td>$178,506</td>
<td>101.05</td>
<td>103.07</td>
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<td>215</td>
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<tr>
<td>Ark-La-Tex</td>
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<td>94.46</td>
<td>103.45</td>
<td>628</td>
<td>134</td>
<td>48</td>
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<tr>
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<td>79.00</td>
<td>806</td>
<td>151</td>
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<td>13</td>
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<td>97.38</td>
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<td>12</td>
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<td><strong>$224,781</strong></td>
<td><strong>108.84</strong></td>
<td><strong>106.71</strong></td>
<td><strong>1076</strong></td>
<td><strong>191</strong></td>
<td><strong>49</strong></td>
<td><strong>13</strong></td>
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<tr>
<td>Rockies</td>
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<td>111.28</td>
<td>1025</td>
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<td>60</td>
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<td>$223,104</td>
<td>84.84</td>
<td>104.56</td>
<td>625</td>
<td>177</td>
<td>51</td>
<td>12</td>
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Key Components of the Deal
Key Components of the Deal

1. Understand the Offering
2. Preparation of Buyer Due Diligence Materials
3. Exposure to the Marketplace / Marketing
4. Buyer Due Diligence / Feedback Loop
5. Competitive Function / Ask for Offers
6. Negotiation
7. Closing the Deal
Considerations when Selling

Importance of Exposure

- More exposure creates more competition resulting in higher net proceeds to the seller.

- Simultaneously expose the property to buyers, rather than sequentially offering it to one buyer, then the next.

- Be prepared to answer the questions: “How many buyers reviewed the package? How many times did they review it? How many buyers made offers? What was the make-up of the buyers that reviewed it?”

- Typically the best deal for a buyer is to submit an unsolicited offer and it be accepted. The seller’s best outcome is the other end of the spectrum ...a highly competitive auction/negotiated sale process.
Considerations when Selling

Importance of Competition

• A myth exists regarding the ease at which it is to find an aggressive buyer willing to pay a premium and do it by yourself, sequentially, rather than simultaneously.

• People like the allure of the private deal. It’s difficult to do and you typically leave money on the table.

• Conventional wisdom says the operator of a working interest, ORRI or royalty interest is the logical buyer. This is typically not correct.
Access to the Marketplace

1,000 Buyers
EnergyNet Reaches All Well Known Buyers
• Top 250+ Public E&P Companies
• Top 250+ Private E&P Companies
• Private Equity Backed E&P’s
• Upstream MLP’s

15,500 Buyers
EnergyNet Also Reaches All Less Known Buyers
• Regional O&G Companies
• Royalty Aggregators
• Investor Groups / Institutions / Funds
• High Net Worth Individuals
Considerations when Selling

We like to describe the makeup of the EnergyNet bidder universe using the iceberg as an analogy. The top 4 categories of buyers are your name-brand companies. They have long histories, lots of employees, huge market caps, they are making headlines with big acquisitions, divestments or new discoveries, but they only represent a fraction of the companies buying assets.

There is an unseen market of aggressive and active buyers.

The number of possible buyers increases exponentially for deals selling for $50MM and below and that is the competition and exposure EnergyNet tries to harness.
Describes the Assets (Fully and Completely)

Active and aggressive buyers in the market are impatient. They don’t waste their time trying to help sellers fix their incomplete offerings --- they move on to the next deal.

Put together a comprehensive set of buyer due diligence materials before you start. Revenue and expense data, master well list with API #s and decimal interests, ownership/land data, production data, engineering, geology, maps, plats.

It is important to have the due diligence materials in a format that can quickly be disseminated to interested buyers. This could be physical data room, a hard copy bound book, a flash drive or CD-Rom, or a web-based platform.

Our ideal/goal at EnergyNet is to create a data room that is SO thorough and complete that a buyer can review it, satisfy all of their due diligence requirements and be the winning buyer without ever having to pick up the phone.
Considerations when Selling

Control the Parameters of the Sale

Create as few variables to the sale as possible in order to maximize competition for it.

Show potential buyers how you will convey the property to them if a deal is made.

Let buyers know ahead of time what effective date you will want for the transaction.

Set expectations for closing and when you will expect the funds.

Avoid complicating the sale with different options for offers, funding, closing, conveyances, etc. You want the offers that you receive to be as close to apples-to-apples as possible.
Considerations when Selling

The Sum of the Parts is Greater than the Whole

There is always a debate within E&P companies whether to sell a group of properties as a package or break them up into their component pieces.

We firmly believe and have empirical evidence to prove that the sum of the parts is indeed greater than the whole.

We never want to exclude buyers from participating in the bid process for assets they want to buy. The pyramid of money has a very small number at the very top and very large number at the bottom. We try to harness that competition.

Since EnergyNet handles 2000+ deals a year, it does not slow our process if we turn a $50MM geographically scattered package into 25 transactions, if it will get the seller a higher net result.
Chevron Case Study
Chevron Case Study

Chevron EnergyNet Property Sales: June 2003 – April 2011

Auction Lots Sold
2,069
Negotiation Strategies

Negotiation Auctions
NegotiAuctions

The phenomenon of across-the-table competition, as exists in a negotiation, and also same-side-of-the-table competition, as exists in an auction, is fairly ubiquitous in our increasingly competitive marketplace.

A “negotiauction,” “is the commonplace situation in which negotiators are fighting on two fronts—across the table for sure, but also on the same side of the table, with known, unknown, or possible competitors.”

The “negotiauction” concept resonates with deal-makers because it captures the way most high-stakes assets are actually transferred.

The deal-makers talk about the friction at the margins and how you have to understand that to predict how these deals will come out.

Auctions sometimes turn in to private negotiations with the top two or three buyers, and negotiations regularly culminate with the seller going from buyer to buyer extracting successively higher prices, similar to an auction.
Negotiation Strategies
Negotiation Strategies

Set-Up Moves

Rearranging Moves

Shut-Down Moves
EnergyNet Advantages

• **Proven**
  – 35,000+ property transactions closed in 11 years
  – 2,750 unique sellers (significant repeat business)
  – 16,500+ active qualified buyers

• **Creates Value for Sellers**
  – 88% sales success rate
  – Efficient online sales and closing
  – Sellers choose when to sell – 140 auction closings annually

• **Creates Opportunity for Buyers**
  – Easy to access standardized due diligence set
  – Buyers can evaluate, bid and transact from anywhere
  – Link to DrillingInfo embedded in due diligence
  – Input can be downloaded to (PHDWin, Aries, IHS, HPDI, DI)
EnergyNet Services

Success-Based Commission Includes

- Property Preparation
- Land Staff Support
- Scanning Hardcopy Data / Electronic Data Transfer
- Online Data Rooms for Each Lot
- Creation & Delivery of Bound Data Packages & CD-ROM
- Property Marketing
- Facilitate Competitive Bid Process
- Screen Buyers / Credit Verification / FINRA Suitability
- Closing Services / Post Sale Negotiation Services
- Wiring / Escrow Services
- Conveyance Documents to Seller & Buyer Recorded
Have Fun Storming the Castle!

--Miracle Max – The Princess Bride
Timing ♦ Exposure ♦ Value

Please feel free to contact us if you have questions, or would like to learn more about EnergyNet. Thank you!

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The Storefront

EnergyNet offers an easy-to-use oil and gas auction service that facilitates the sale of producing working interests (operated and non-operated), overrides, royalties, mineral interests, and non-producing leasehold. EnergyNet is a continuous oil and gas property marketplace with due diligence and bidding available 24/7/365, where auctions close weekly. Most of the properties EnergyNet sells are located in the lower 48 United States and typically range in value from $1,000 to $20,000,000. Using an Internet platform, EnergyNet allows buyers the flexibility and convenience of conducting their acquisition and divestment activities online.