



## IPAA/TIPRO Meeting

June 2011

# Cautionary Statement

Statements included in this presentation, other than statements of historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. NFR Energy, LLC (“NFR” or “the Company”) cautions that assumptions, expectations, projections, intentions, or beliefs about future events may, and often do, vary from actual results and the differences can be material. Some of the key factors which could cause actual results to vary from those NFR expects include changes in natural gas and oil prices, the timing and cost of planned capital expenditures, the timing of permits and/or approvals, availability of acquisitions, uncertainties in estimating proved reserves and forecasting production results, reserve estimates, cash flows and production and other costs, the availability and cost of gathering and transportation facilities and transportation arrangements, operational factors affecting the commencement or maintenance of producing wells, the condition of the capital markets generally, as well as the Company’s ability to access them, and uncertainties regarding environmental regulations or litigation and other legal or regulatory developments affecting NFR’s business.



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## // Company Overview



# Company Highlights

## Map of Operations

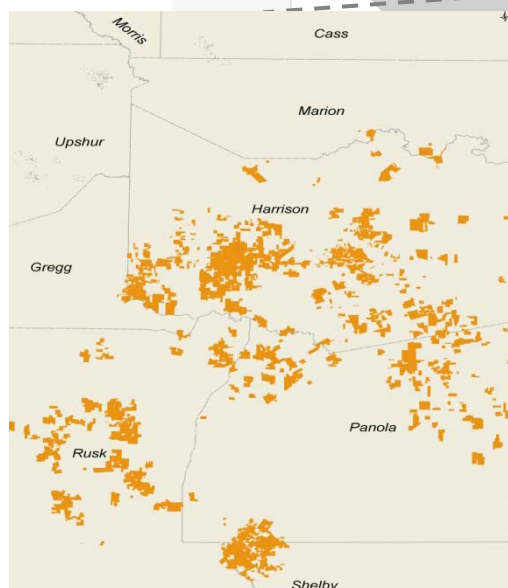
- Producing
- Non-Producing

Total Company	
Proved Reserves <sup>(1)</sup>	1,207 Bcfe
% Proved Developed	28%
% Gas	92%
Current Production	110 Mmcfe/d
Net Acreage	674,867 acres

Rockies	
Proved Reserves <sup>(1)</sup>	39 Bcfe
% Proved Developed	73%
Current Production	12 Mmcfe/d
Net Acreage	545,059 acres

East Texas	
Proved Reserves <sup>(1)</sup>	1,168 Bcfe
% Proved Developed	26%
Current Production	98 Mmcfe/d
Net Acreage	129,808 acres

### Core Asset:



■ NFR acreage position

## Overview

- » Focused on the prolific Haynesville Shale and Cotton Valley Sand fairway in East Texas
- » Low risk, predictable production profile
  - 40+ year reserve life
  - Proved Developed Reserves of 333 Bcfe at year-end 2010
- » Significant visible multi-year development upside
  - Over 1,100 gross unrisks drilling locations identified on East Texas acreage
    - Includes approximately 700 horizontal locations
    - ~3 TCFE of 3P resource potential
- » Well hedged in 2011 & 2012
  - 2011: 86% of Budget hedged at \$6.40
  - 2012: 65% of Budget hedged at \$6.15

## Recent Events

- » Closed East Texas production and acreage acquisition
- » Increased first lien facility from \$300 MM to \$400 MM
- » Reduced ETX rig count from 5 to 3 rigs

(1) Per 12/31/10 Miller and Lents Ltd. (MLL) report.

# Strong Energy Focused Sponsor Support

**NFR formed in late 2006 as a 50/50 investment between Nabors and First Reserve. Total equity investments of \$1.1 billion in NFR to date...**



- » World's leading private equity firm specializing in the energy industry
- » Over 25 years of investing experience solely in the energy industry
- » Broad base of energy industry knowledge provides a competitive advantage for its portfolio companies
- » Currently investing out of \$8.8 billion Fund XII

## Sponsor Investment Thesis

- » Build a "best in class" E&P company focused on utilizing operational expertise to develop a diversified portfolio of assets
- » Support a strong management team with extensive industry and leadership experience
- » Invest through the cycles



- » Largest land drilling contractor in the world
  - Over 538 land drilling rigs worldwide
- » One of the largest land well-servicing and workover contractors in North America
  - Approximately 770 land workover rigs in North America
- » Manufactures top drives and drilling instrumentation systems

**...Both Sponsors have shown a strong commitment to ensure NFR's success to date and will continue to support our ongoing development**

# People, Properties & Program

Combining the best people with great properties to create the optimum program

- » What we like
  - The drill bit and development
  - Projects in early or mid stages of development
  - Repeatable projects that allow efficiency gains and cost savings
  - Projects that have the potential for value creation from development
- » Areas we like
  - East Texas Cotton Valley/Haynesville
    - East Texas Consolidation and converting from vertical to horizontal drilling
  - Similar play areas
- » We will add value through
  - Creative and responsive business development
  - Expert and experienced financial ability
  - Reservoir characterization – develop inventory
  - Applying appropriate technology
  - Trying new techniques – taking calculated risks
  - Operational expertise – land, drilling, completions, production operations

# Experienced Management Team

Senior management team has an average of 23 years of industry experience  
Sponsor investment thesis focused on “strength and experience” of management team

## David Sambrooks

*Chief Executive Officer*

- » 30 years of industry experience
- » Prior experience: Devon Energy, Santa Fe Snyder and Oryx/Sun

## Shane Bayless

*Chief Financial Officer*

- » 17 years of industry experience
- » Prior experience: Petrohawk Energy, 3TEC Energy, Encore Acquisition, Hugoton Energy, Ernst & Young LLP

## Mike Griffin

*Chief Operating Officer*

- » 25 years of industry experience
- » Prior experience: Devon Energy, Santa Fe Snyder, Apache, Enron, AEC, Mitchell Energy

## Paul Babcock

*VP of Geology and Geophysics*

- » 34 years of industry experience
- » Prior experience: Peoples Energy Production, Burlington Resources and Mobil/Superior Oil

## Doug Genrich

*VP of Drilling and Completions*

- » 22 years of industry experience
- » Prior experience: El Paso, Anadarko and Union Pacific Resources

## Mike Hinze

*VP of Land*

- » 34 years of industry experience
- » Prior experience: Yuma E&P, Hi-Tech Energy Group, Jordan Oil & Gas, Jaguar Oil & Gas and Tenneco

## Laura Kinningham

*VP of Human Resources*

- » 15 years of industry experience
- » Prior experience: Peoples Energy Production, Chevron, Enron

## Cheryl Levesque

*VP of Production and Operations*

- » 13 years of industry experience
- » Prior experience: Devon Energy and Burlington Resources

## Todd Levesque

*VP of Engineering and Development*

- » 16 years of industry experience
- » Prior experience: Devon/Ocean Energy, Burlington Resources and Amerada Hess



# Key NFR Milestones

2006 /  
2007

- » **Late 2006 / Early 2007– Nabors and First Reserve sign agreement forming NFR Energy LLC. Management team forms, led by industry veterans David Sambrooks (Devon Energy) and Shane Bayless (Petrohawk Energy)**
- » April/May 2007 – Closed Uinta Basin Farm-in and Bakken exploration program
- » December 2007 – Closed two East Texas production/acreage acquisitions

2008

- » April 2008 – Closed East Texas drilling Joint Venture
- » **May 2008– Drilled first Haynesville vertical well, Blalock A-10**
- » October 2008 – Closed on Bear Paw production/acreage acquisition, increased credit facility from \$150 MM to \$210 MM
- » **December 2008 – Drilled first East Texas Cotton Valley horizontal, Beard 4H**

2009

- » **March 2009 – Drilled first Haynesville Shale horizontal well, the Harris Munden #8H**
- » June 2009 – Closed East Texas acreage acquisition
- » November 2009 – Completed Woodley #4H, 30-day IP of over 12.8 Mmcfe/d
- » **December 2009 – Average production exceeds 60 Mmcfe/d**
- » Drilled 20 horizontal wells and 9 vertical wells in East Texas during the year

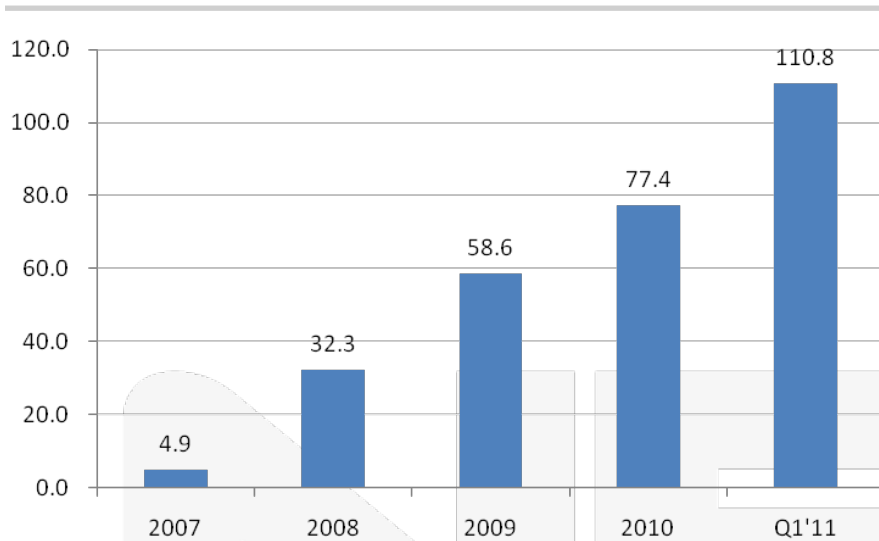
2010

- » February 2010 - Completed \$200 MM bond offering
- » April 2010 – Completed additional \$150 MM bond offering
- » May 2010 – Closed on East Texas acreage acquisition
- » October 2010 – Acquired partner's share of East Texas joint venture and increased borrowing base to \$300 MM from \$250 MM
- » **December 2010 – Production exceeds 100 Mmcfe/d**
- » Completed 19 horizontal wells in East Texas during the year: 11 Haynesville and 8 Cotton Valley

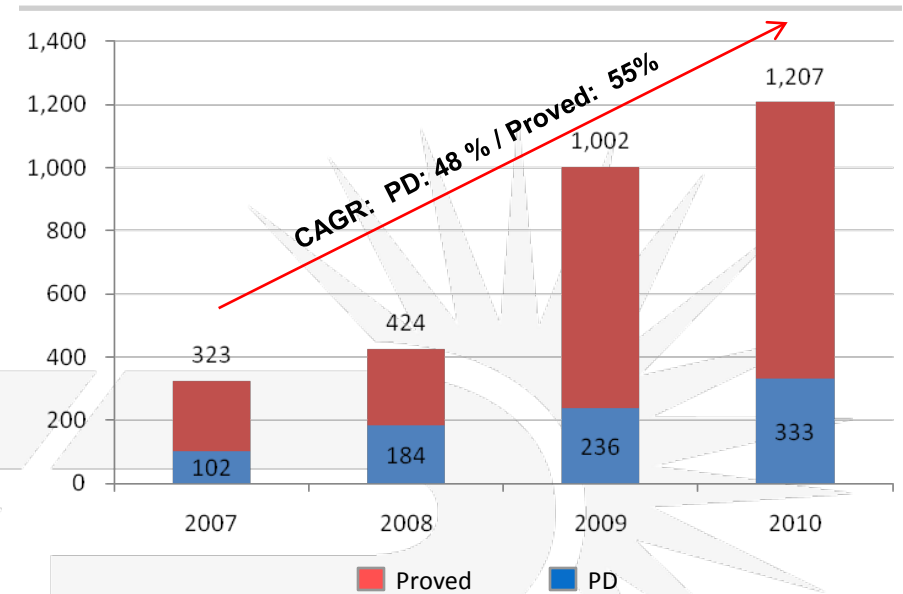


# Efficient Production and Reserve Growth

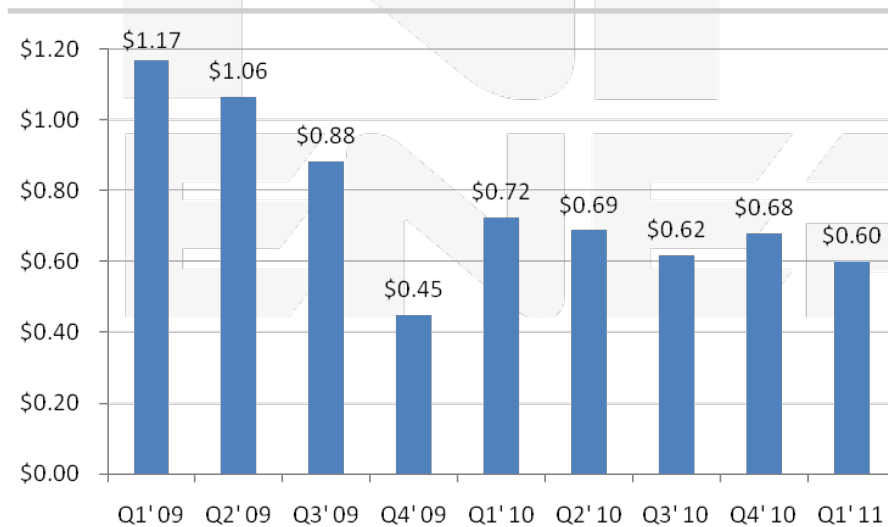
## Production (Mmcfe/d)



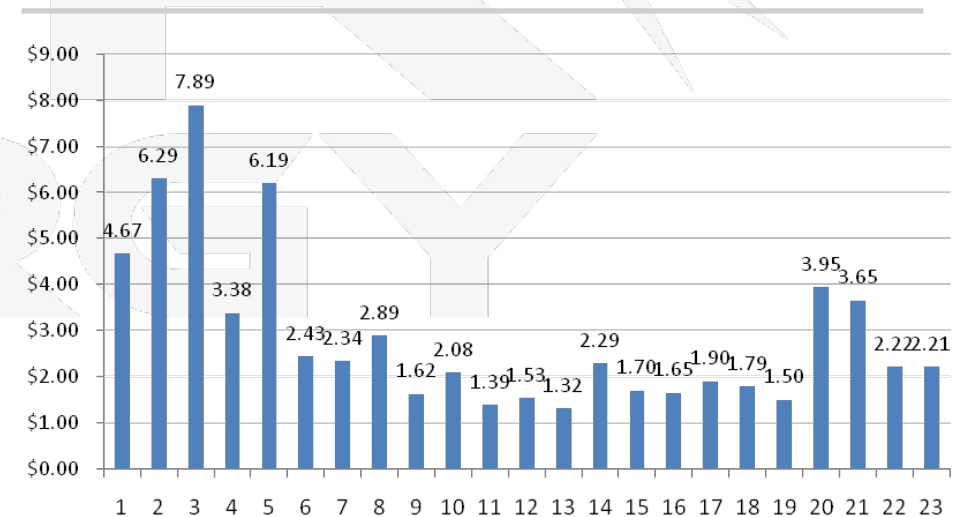
## Reserves (Bcfe)<sup>(1)</sup>



## LOE (\$/Mcf)<sup>(2)</sup>



## Haynesville Shale Horizontal Well Costs (\$/Mcf)<sup>(3)</sup>



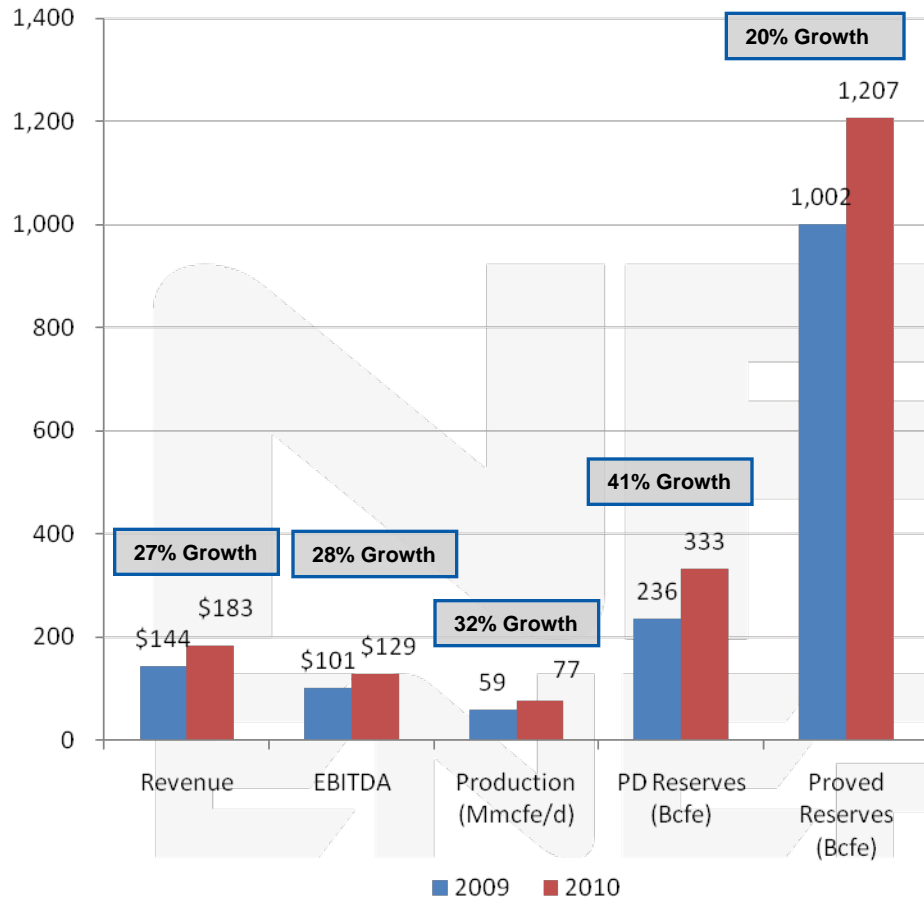
(1) Reserves per Miller and Lents, Ltd.

(2) LOE excludes tax, marketing, transportation and workover expenses.

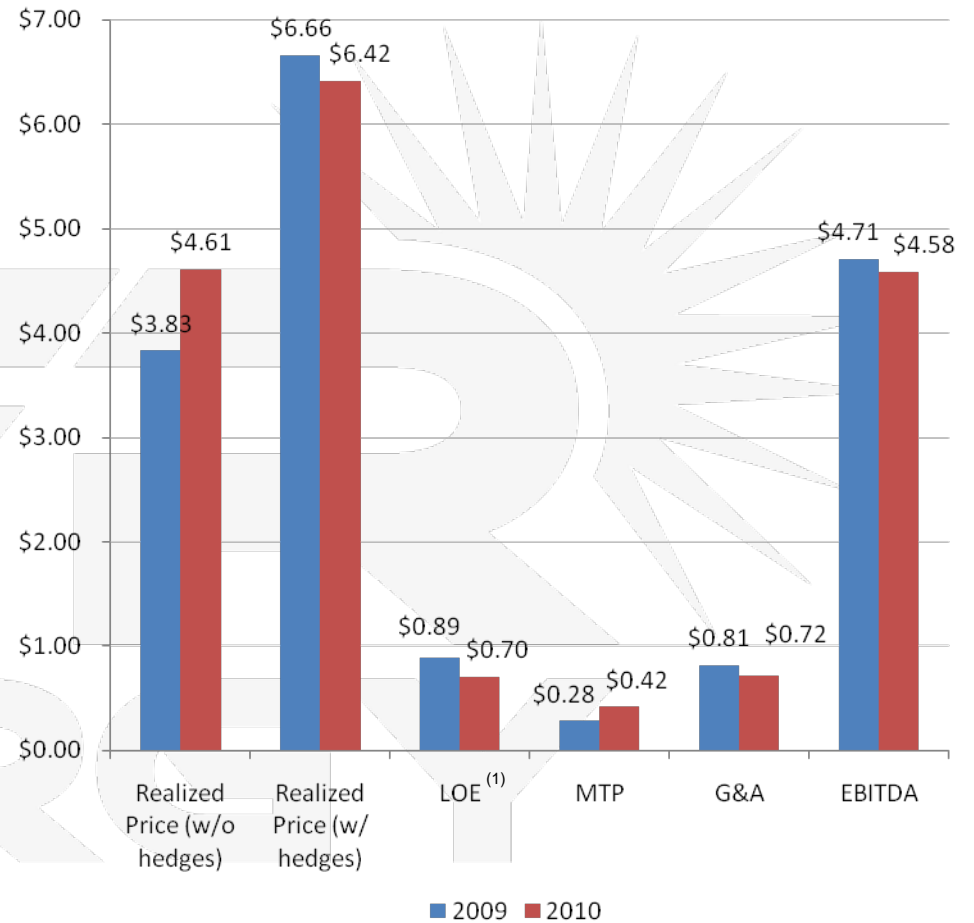
(3) Net drilling and completion costs / net EUR per well (\$/Mcf).

# Full Year 2010 versus 2009

## Selected Financial Data



## Per Unit Data (\$ / mcfe)



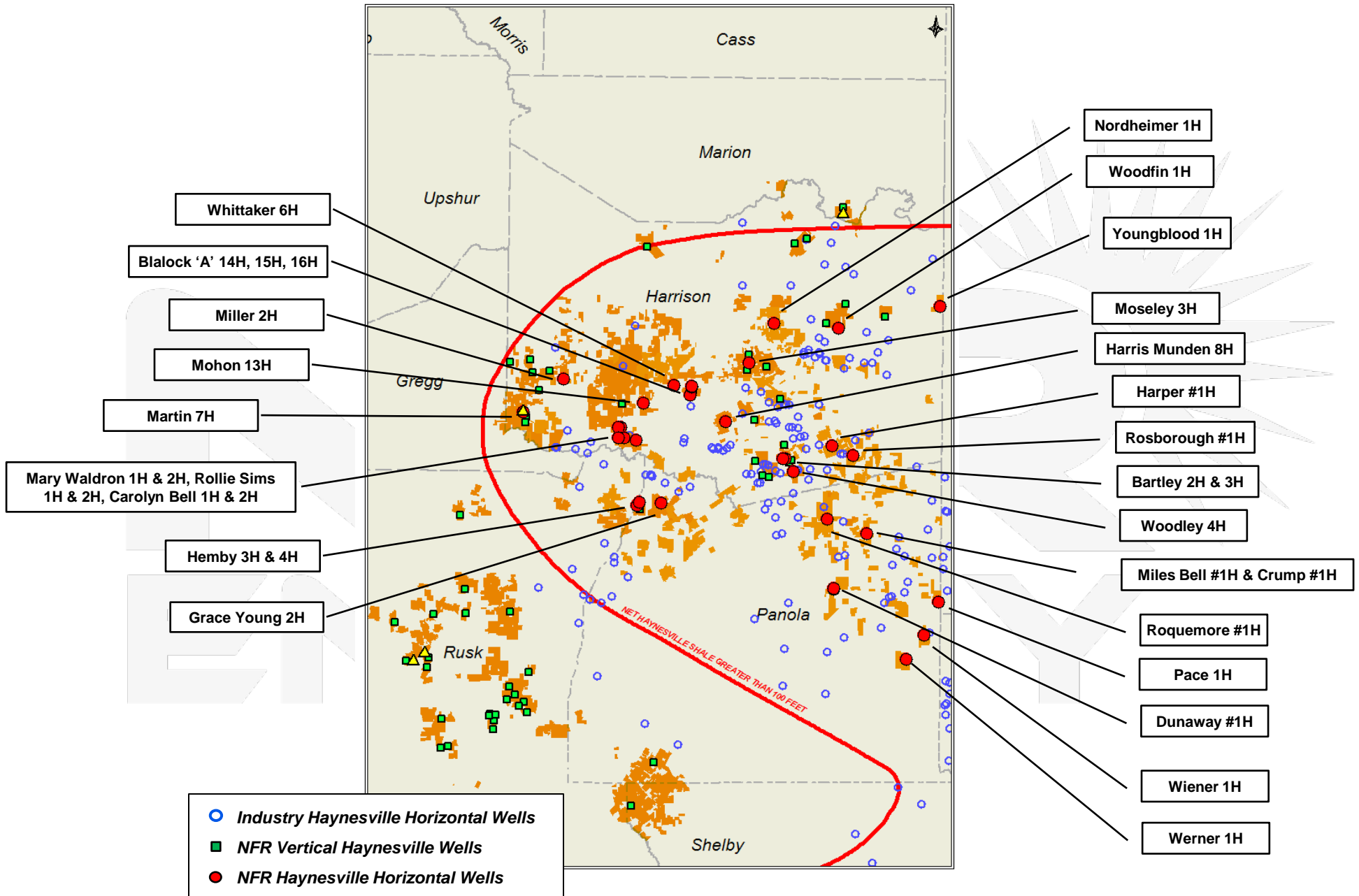
Financials are audited.  
 (1) Includes workovers.

# NFR Energy: East Texas Haynesville Leader

- » On the leading edge of completion design evolution
  - Over 20 Haynesville horizontal wells producing – 6 have averaged 10+ Mmcfe/d for first 30 days on production
- » Superior performance through extensive analysis
  - NFR completed over 25 Haynesville vertical wells before moving to horizontals
  - Continually refine completion/stimulation designs, willingness to push the envelope
- » Focus on maximizing value and returns
  - Some shale players sacrifice returns when attempting to reduce costs
  - NFR's focus is on optimizing returns

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# NFR Haynesville Horizontals



# Financial Strategy

## Maintaining conservative leverage allows Management to maximize value

- » Continue to drive down operating costs and increase overall operating efficiency
  - Maintain low cost structure through continued improvement in drilling, completion and recovery methods
  - Continue to find more efficient ways to further develop existing asset base
- » Maintain operating flexibility to manage capital budget
  - Balance the amount of leverage with the Company's growth objectives
  - Maintain sufficient covenant cushion to allow Management full flexibility to optimize business
- » Actively-managed hedge program
  - Strategically apply hedging in order to limit cash flow volatility and commodity price downside risk
  - Hedge majority of near-term production to minimize the impact of short-term commodity price volatility on capital program

# Finance Update

## » **Restructured Hedges (February 2011)**

- Sold/modified 2013-2014 natural gas hedges
- Increased 2011/2012 hedges
- Result:
  - 93 Mmbtu/d hedged for remainder of 2011 at \$6.40 (86% of forecast production)
  - 88 Mmbtu/d hedged in 2012 at \$6.15 (65% of forecast production)

## » **1<sup>st</sup> Lien Credit Facility Modifications (April 2011)**

- Increased Facility amount from \$600 million to \$750 million
- Increased borrowing base from \$300 million to \$400 million

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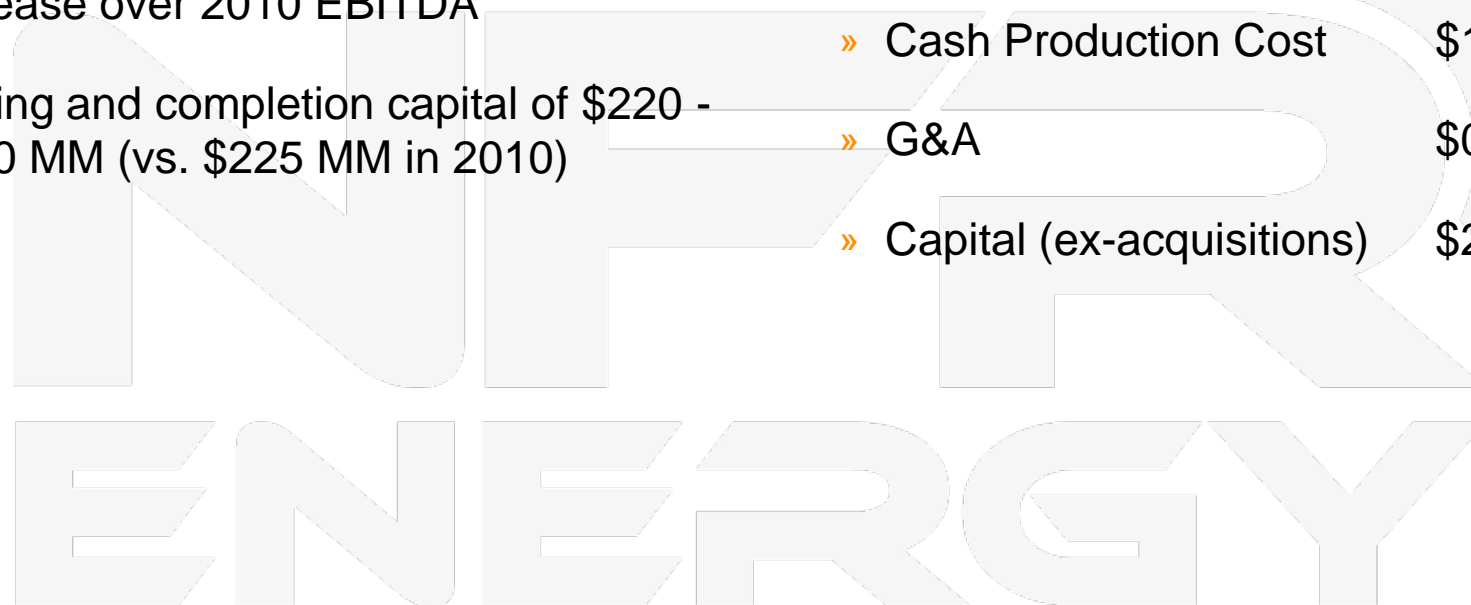
# 2011 Forecast

## Summary: Strong growth while living within means

- » 2011 average production of 105 - 110 Mmcfe/d, results in ~40% year over year production growth
- » 2011 EBITDA of \$155 - \$175 MM is a 10%+ increase over 2010 EBITDA
- » Drilling and completion capital of \$220 - \$250 MM (vs. \$225 MM in 2010)

## 2011 Outlook

- » Nymex Gas / Oil Price \$4.50/Mcf; \$80/bbl
- » Net Production 39 - 41 Bcfe
- » EBITDA \$155 - \$175 MM
- » Cash Production Cost \$1.50 - \$1.55/Mcfe
- » G&A \$0.50 - \$0.55/Mcfe
- » Capital (ex-acquisitions) \$260 - \$290 MM





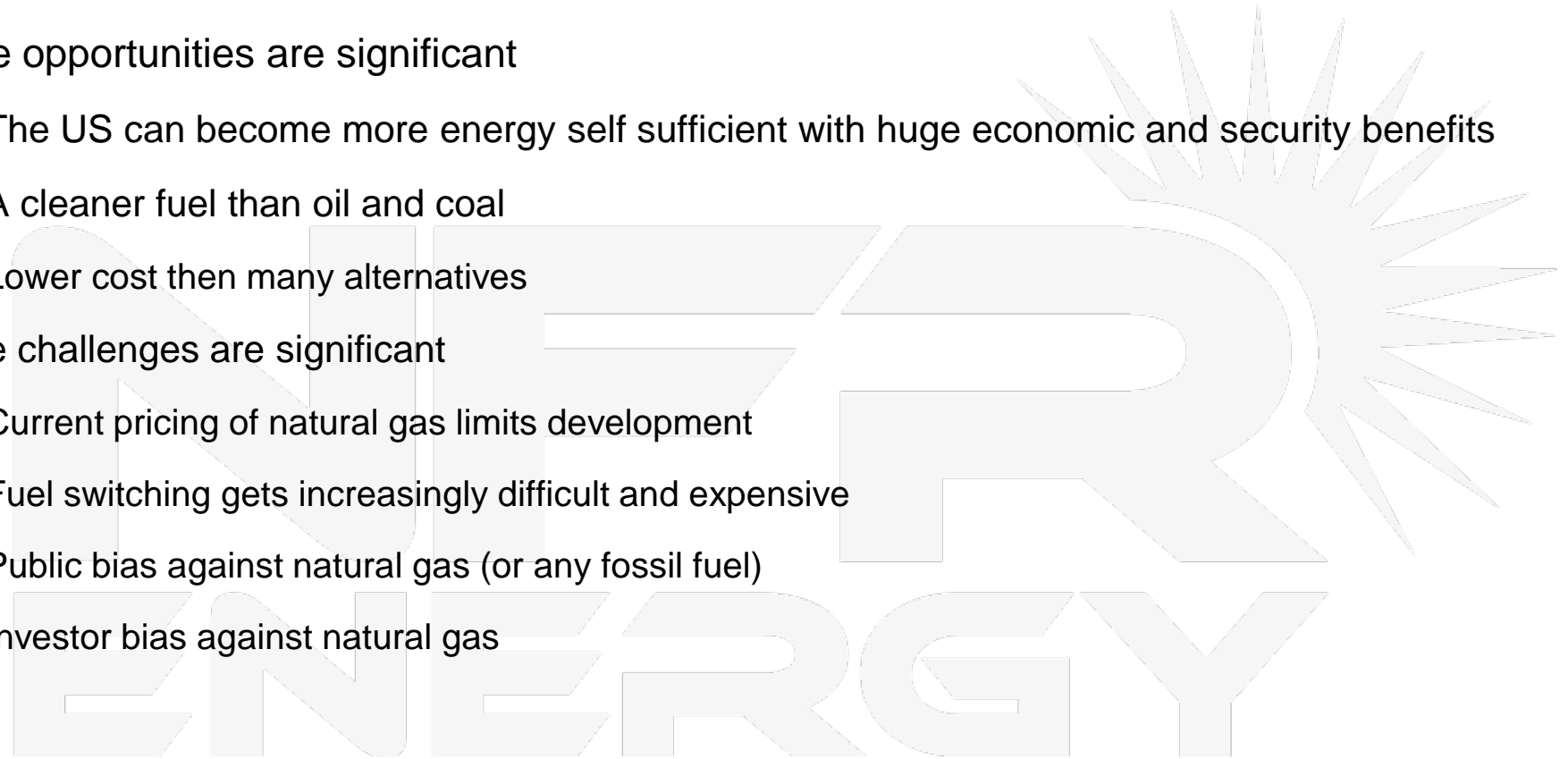
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**// NFR's Plan**



# Confession – We are a Natural Gas Company

- » The vast increase in domestic natural gas resources has brought challenges and opportunities
- » The opportunities are significant
  - The US can become more energy self sufficient with huge economic and security benefits
  - A cleaner fuel than oil and coal
  - Lower cost than many alternatives
- » The challenges are significant
  - Current pricing of natural gas limits development
  - Fuel switching gets increasingly difficult and expensive
  - Public bias against natural gas (or any fossil fuel)
  - Investor bias against natural gas



# Investing in Natural Gas?

## » Investing with the drill bit?

- More drilling going on now than supported by well economics
  - Joint Venture money still in the system
  - Acreage holding efforts still underway
- Some plays or prospects work well at current forecast pricing, but not all
- Rig count will continue to drop over time

## » Acquisitions?

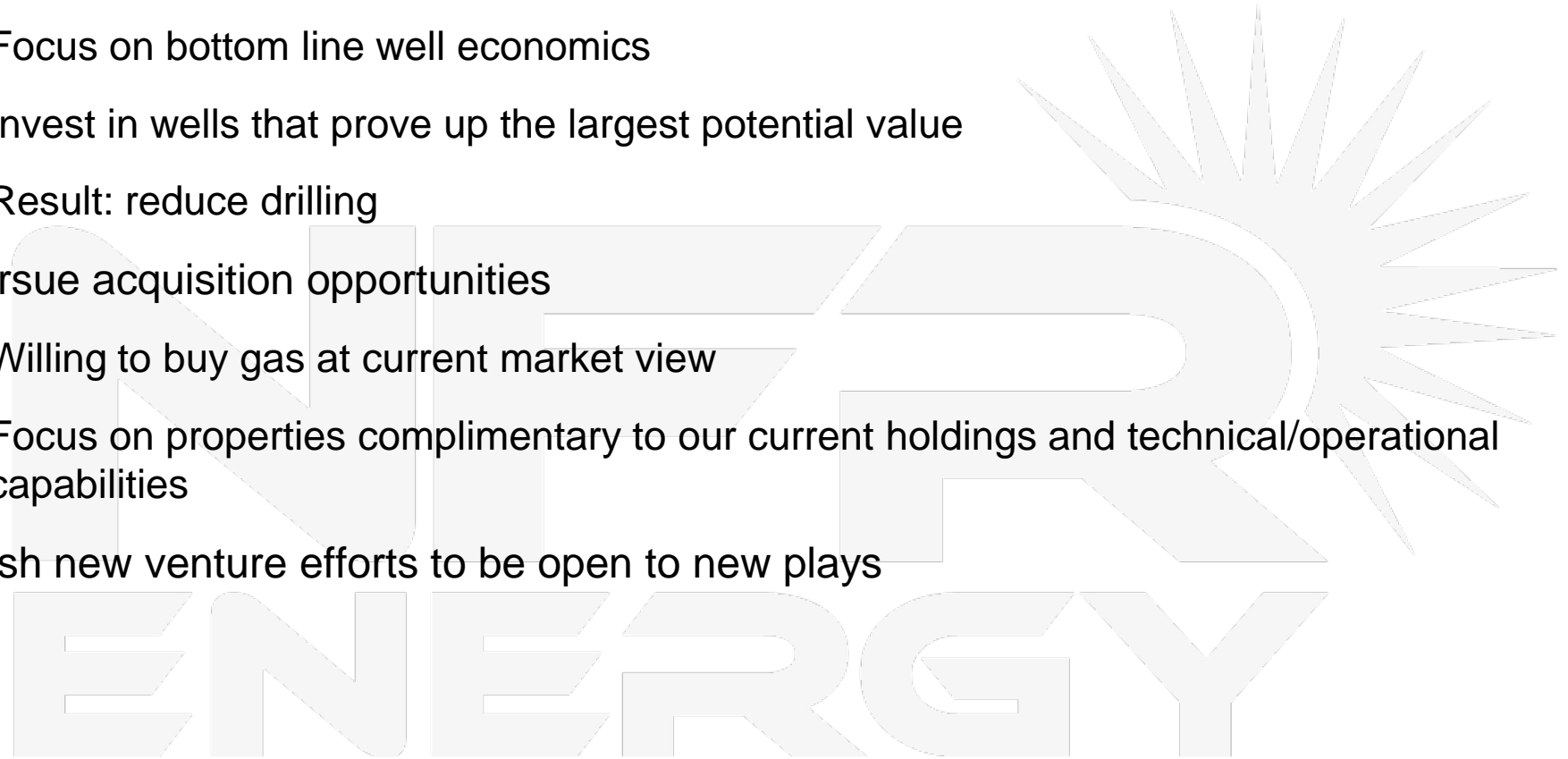
- Question – Do you think gas has more potential to go up than down? What about oil?
- The public investor has a negative view, is it more a private company opportunity?
- Can you take a long enough view?

## » What about economics?

- Can I make more money drilling a gas well than an oil well?
- Can I make more money buying a gas property than an oil property?

# NFR's Strategy

- » Prioritize drilling on the most value adding wells/plays
  - Focus on bottom line well economics
  - Invest in wells that prove up the largest potential value
  - Result: reduce drilling
- » Pursue acquisition opportunities
  - Willing to buy gas at current market view
  - Focus on properties complimentary to our current holdings and technical/operational capabilities
- » Push new venture efforts to be open to new plays



# Recent Acquisitions

## » East Texas Acquisition #1:

- Closed purchase of partner's remaining 50% interest in our Joint Venture properties in October 2010
- \$65 million purchase price
- Transaction Metrics:
  - \$8,000 per flowing Mcfe/d
  - \$2.65/Mcfe F&D on developed reserves

## » East Texas Acquisition #2:

- Closed purchase of Haynesville production and acreage in January/February 2011
- \$76 million purchase price
- Transaction Metrics:
  - \$3,500 per flowing Mcfe/d
  - \$1.75/Mcfe F&D on proved developed reserves

1. 4Q'10 average production rate.

# Investment Highlights

- » Proven track record of efficient production and reserve growth
- » Industry leadership in core area of operations
- » Established operator in the prolific Haynesville Shale
- » Multi-year, low-risk, development drilling inventory
- » Significant liquidity and conservative capital structure
- » Actively-managed hedge program
- » Experienced management team
- » Strong sponsor support

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