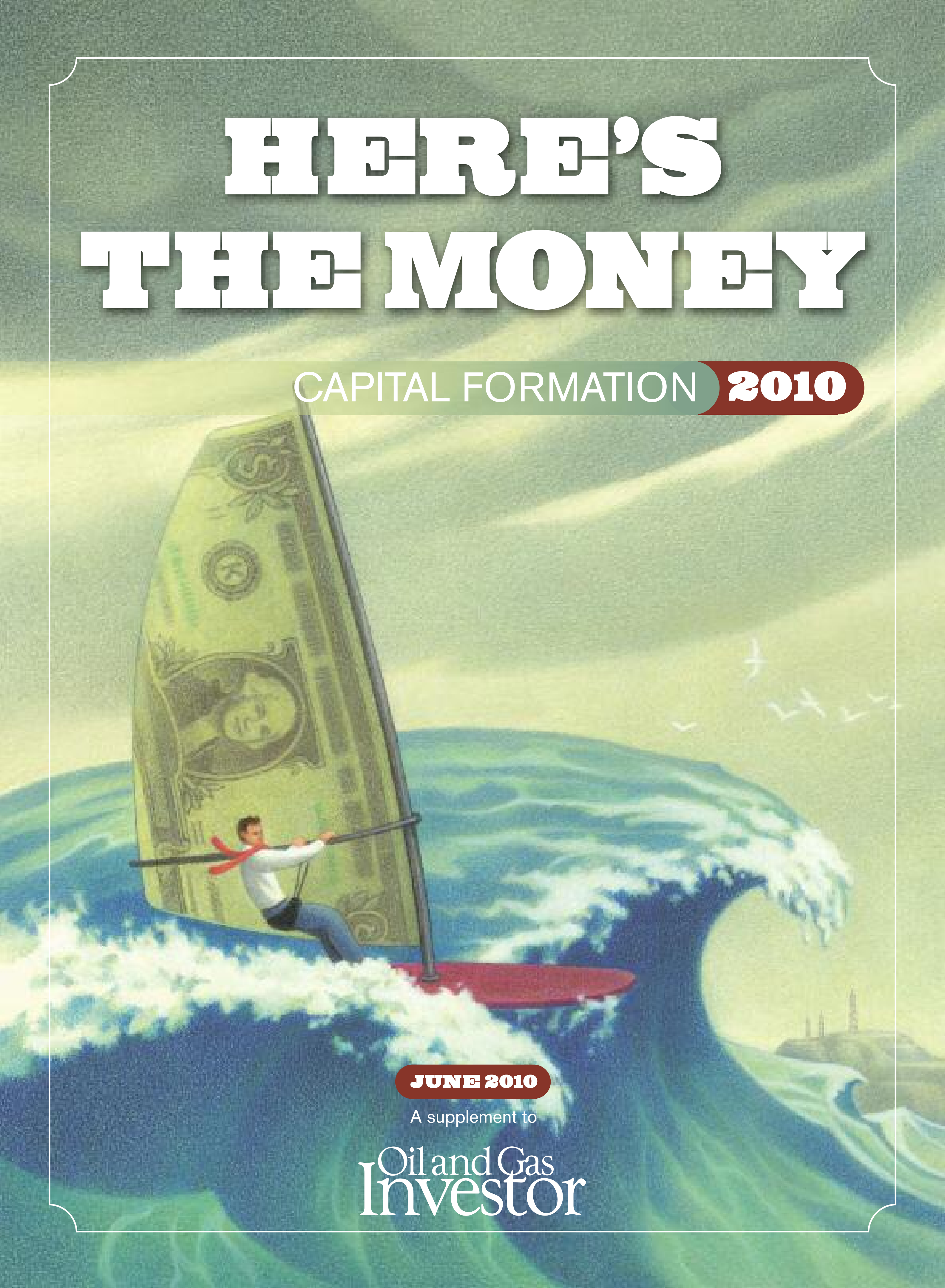
HERE'S THE MONEY

CAPITAL FORMATION 2010



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COVER ILLUSTRATION BY STEVE KROPP

HERE'S THE MONEY

CAPITAL FORMATION 2010

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Let's Make Some Money

Capital markets for oil and gas have been steadily reviving since March 2009, right along with the cautious rebound in the U.S. economy and the rise of crude oil prices. A flurry of debt deals in the past 12 months, to fix balance sheets, was accompanied by the formation of several impressive joint ventures for enhanced drilling-capital plans. The bond market is still strong.

There is still some unease out there, and some challenges, to be sure. Regulatory-oversight reform remains a big question mark. Commodity prices are still the wild card for long-term planning. But E&P and midstream companies, and their bankers and investors, are already focused on where the next opportunity lies.

Merger and acquisition activity is one sector that could present such an opportunity. Deal flow is supposed to continue gaining traction through the rest of this year, as holders of conventional assets sell them in order to favor shales and oilier projects. That opens a window for buyers still committed to more conventional areas. M&A deal flow will drive capital markets activity to some extent—just as availability of capital will drive deal flow.

This report offers an update on what commercial bankers are thinking these days and how ready they are to do new business. The consensus? Talk of commodity-price recovery and borrowing stability has replaced anxieties regarding loan redeterminations and shedding of assets.

Private-equity firms also stand ready to become more active, no longer needing to service their existing portfolio companies. Several are on the road now, marketing their next energy funds. Rodman Energy Group managing director Bill Weidner notes that six energy-focused funds were in the market raising capital during first-quarter 2010. "Plenty of capital remains available for investment in the industry," he says.

Creative structures such as prepays and volumetric production payments continue to be a choice for some companies seeking new capital. Macquarie Bank Ltd. senior vice president David Lazarus describes the asset and reserve profile these instruments fit best. They can be a compelling alternative for smaller producers seeking capital until the second-lien debt markets recover, or the A&D markets are thoroughly reheated.

As for the public debt and equity markets, they continue to fill the funding void left by the pullback of the commercial banks. Adam B. Connors, director of the corporate finance group for investment bank C.K. Cooper & Co., presents two case studies that illustrate how E&Ps are accessing the capital markets to fund exploration and development, particularly in oily plays.

Additionally, this annual report on the capital scene presents a round-up of the new gang of E&P start-ups out there, as well as an updated directory of capital sources.

All in all, the worst appears to be over, and the backers are back.

—Leslie Haines, Editor-in-chief

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Obama and the Banks. Five banking executives discuss the President's proposed penalties and their effect on energy finance. February 2010.

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Venture Capital's 10 Commandments. The must-do rules every energy-technology startup should know to climb the path to successful funding. January 2010.

Economists' Corner. Three economists look into their crystal balls to forecast supply, demand and other factors affecting today's energy finance. January 2010.

Energy's Pivotal Year. This past year will be remembered for its commodity price volatility and financial-markets freeze-out. Nevertheless, capital providers believe in an active 2010. December 2009.

California Buyside. West Coast investors find non-U.S. E&Ps, midstream MLPs and distressed energy equities compelling. November 2009.

I-Banking on the Mend. On the one-year anniversary of the financial freeze, top energy bankers expound on bought deals, transaction fees and the popularity of follow-ons. September 2009.

Private Equity. New PE funds, with billions to place, are zeroing in on energy. July 2009.

Financing the Midstream. General Electric Capital Corp. and Alinda Capital Partners roll up their sleeves and put capital to work in the Haynesville shale. July 2009.

No Safety in Numbers. Bankers discuss energy-finance realities and strategies for survival. June 2009.

Meeting the Challenge Amid Change

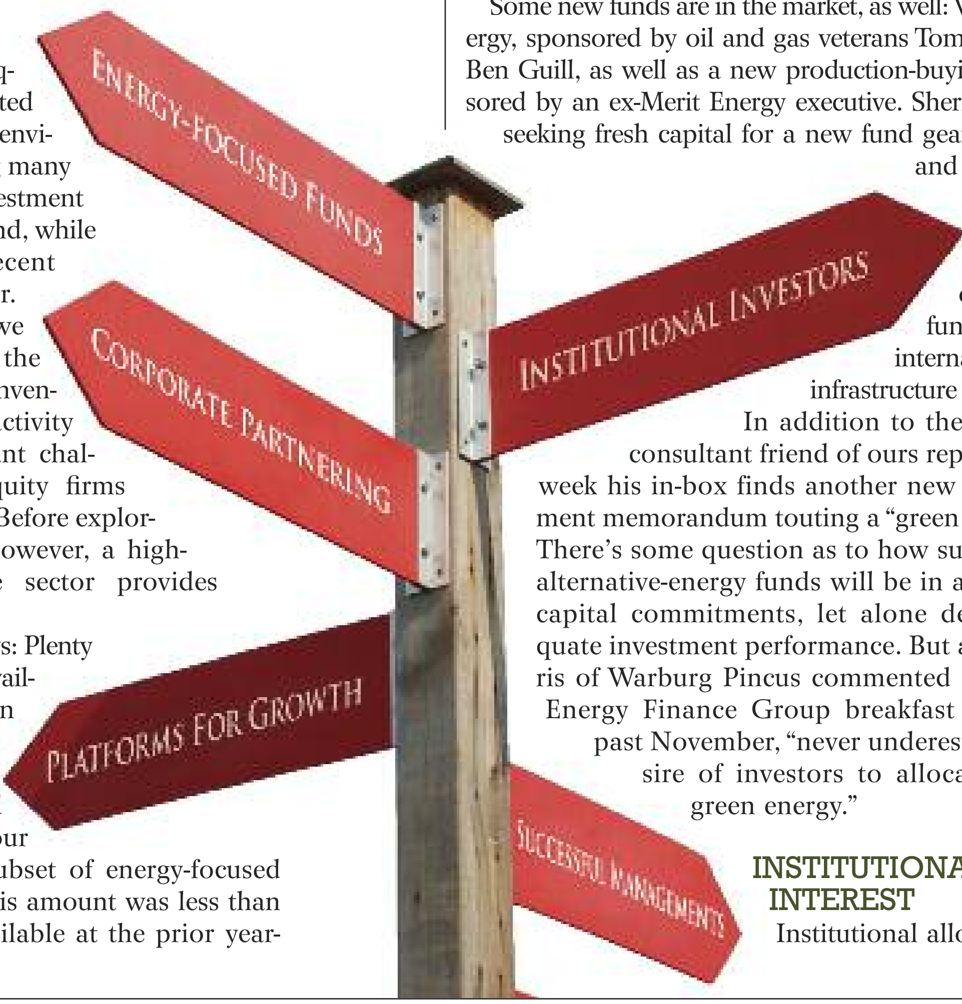
Current private-equity investment themes look backward in some cases and forward in others. Regardless, plenty of money is available.

By BILL WEIDNER

Our equity firm was recently asked the following question: "Private equity talks a big game, but are they really doing anything?"

To answer this question, The Rodman Energy Group gathered information from individual investors, oil and gas money-management firms, and pension consultants advising those institutions allocating capital to private-equity firms.

In preview, we found that private-equity firms have adjusted to the new financial environment, employing many old themes and investment styles on the one hand, while avoiding some recent themes on the other. Not surprisingly, we also found that the dominance of unconventional-resource activity presents a significant challenge to private-equity firms and their investors. Before exploring these details, however, a high-level view of the sector provides perspective.



First, the good news: Plenty of capital remains available for investment in the industry. We counted $25 billion available at year-end 2009, based on our own survey of a subset of energy-focused funds. And while this amount was less than the $31 billion available at the prior year-end, it is clear that new capital flows have not abated.

ENERGY-FOCUSED FUNDS

We counted six energy-focused funds in the market raising capital during first-quarter 2010 and encompassing a variety of investment styles. EnCap Investments is reportedly raising a targeted $3 billion for a new fund, and Quantum Energy Partners reported closing a $2.5-billion fund late last year. Additionally, SB Energy Partners is known to be fund-raising for a targeted $500 million or more for its second fund. All three of these firms focus on backing E&P companies and projects, although their investment styles and those of their peers may be evolving in response to industry trends.

Some new funds are in the market, as well: White Deer Energy, sponsored by oil and gas veterans Tom Edelman and Ben Guill, as well as a new production-buying fund sponsored by an ex-Merit Energy executive. Sheridan Energy is seeking fresh capital for a new fund geared toward oil and gas production acquisitions, as is Global Energy Capital, a fund investing in international energy-infrastructure projects.

In addition to these, a pension consultant friend of ours reports that each week his in-box finds another new private-placement memorandum touting a "green energy" fund. There's some question as to how successful these alternative-energy funds will be in attracting new capital commitments, let alone delivering adequate investment performance. But as Jeffrey Harris of Warburg Pincus commented at a Houston Energy Finance Group breakfast meeting this past November, "never underestimate the desire of investors to allocate capital to green energy."

INSTITUTIONAL INTEREST

Institutional allocations to oil

and gas are being driven by a macro-perspective, with inflation-hedging the key factor in attracting capital to private-equity energy funds. "There is strong relative interest" in energy funds, observes our pension consultant friend, with some performance-chasing by institutions, but not much. Other sectors simply have less traction than energy, which has received "eye-popping" amounts of capital in the past few years, he tells us.

A few concerns exist among energy-hungry institutions, however. First, some energy-focused private-equity firms have crept up in size, generating concern among some investors that these sponsors may lack sufficient motivation to grind out the work required to achieve satisfactory investment returns.

Second, there has been growing investor interest in lower-yielding energy investments focused on lower-risk, long-term ownership in conventional oil and gas fields, instead of the higher-return, private-equity corporate build-up-and-sell model. And third, institutions have become cognizant of the unconventional-resource drilling wave, and they note, with some circumspection, that certain money managers believe firmly in the economic attraction of such plays, while others remain openly and vocally skeptical.

These three observations are reflected in the question at issue. Private equity talks a big game, but these lingering institutional concerns may be manifested in the general sense that activity seems to have slowed, notwithstanding the current economic recovery and flurry of M&A activity. To this we offer the definitive response: maybe it has, and maybe it hasn't.

We spoke with a singularly cynical private-equity-investment fund manager who further corroborated these concerns. "Are there any PUDs (proved undeveloped reserves) at $4/Mcf gas?" he asked, rhetorically. But he went further, stating that oil and gas private-equity managers are returning to their profit model of the 1990s—namely, that they'll make their money on management fees rather than on carried interest performance back-ins.

On a roll, he explained that private-equity firms are avoiding start-ups now and are focusing, instead, on reserve-aggregation strategies to build greater scale for exit. There is widespread frustration that last year's distress didn't generate more opportunities, and concern that shale plays, in general, tend to shrink over time, as experienced in the Barnett shale. This play, he noted, went from a 12-county play to a two-and-a-half-county play. Skepticism is the true measure of a good investor.

Money managers funded so many new investments over the past several years that they now must focus more on investment management, as opposed to origination.

But no one can achieve equity returns from the sidelines. And indeed, we found plenty of private-equity activity consistent with investment practices over the past one or two decades.

INVESTMENT THEMES

Private-equity firms are actively pursuing four familiar investment themes that provide plenty of capital for oil and gas entrepreneurs and growing energy companies, whether public or private. These four themes include aggregating conventional oil and gas reserves; backing successful management teams; corporate partnering with public companies; and funding platform companies for growth.

Not only did investors express to us their desire to pursue each of these four strategies, but also we found concrete examples of each in the market over the past several months.

CCMP Capital Advisors recently announced its $350-million equity commitment to Chaparral Energy Inc., a platform oil and gas company to which considerable value can be added through capital markets and M&A assistance. CCMP's Chaparral investment occurred in parallel with a significant new commercial bank loan facility led by JP Morgan Chase, demonstrating that the model of funding companies that can reinvest and leverage predictable cash flows is alive and well and attractive to private-equity firms.

Another example is Lime Rock Partners, which recently announced funding PDC Mountaineer, a joint venture with Petroleum Development Corp. to develop a specific set of held-by-production acreage in the Marcellus shale play of Pennsylvania. This investment demonstrates the use of a corporate-partnering investment structure to proactively mitigate the risk of PUD-value sensitivity to gas prices, by building in and retaining optionality on the timing of drilling relative to prevailing gas prices.

Jefferies Capital Partners recently committed to a $50-million common-equity investment in start-up Exaro Energy II LLC to fund aggregation, development and field optimization of conventional reserves in proved onshore Texas fields. This tried-and-true strategy has typified successful oil and gas private-equity investments over the past couple decades.

Blackstone Group and First Reserve recently announced their participation with famed oil refinery investor Tom O'Malley in the $220-million buyout of a Delaware City refinery from Valero Corp. as part of a $2-billion commitment to fund refinery consolidation, in a classic strategy of backing a successful management team with a great track record consistent with its business plan. There is perhaps no one with a better record of rolling up refineries than O'Malley, whose previous success building up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and selling Tosco, and then Premcor, provides historical underpinning for the confidence demonstrated by these private-equity firms in backing him yet again.

Finally, another familiar theme has reemerged among private-equity firms. Several indicated they are spending much more time with their existing portfolio companies rather than seeking out new ones. This appears to have three causes.

First, money managers funded so many new investments over the past several years that they now must focus more on investment management, as opposed to origination. Second, public-company appetites for buying conventional PUD locations have been fully sated for the time being, costly shale acquisitions notwithstanding. The closure of this outlet has forced private-equity firms to grow their portfolio companies to a larger size than originally planned, to reach a viable exit strategy.

… oil and gas private-equity managers are returning to their profit model of the 1990s—namely, that they'll make their money on management fees rather than on carried interest performance back-ins.

And third, sourcing new deals comes more easily and cheaply through existing relationships than it does through new ones, particularly if investment firms are cautious about adding new investment personnel, following last year's capital crunch.

These practical responses and investment strategies may appear, from the outside, like a retrenchment in private-equity activity. But in reality, the firms report being as busy as ever.

And so they are. •

Bill Weidner is managing director of The Rodman Energy Group.

Banker's Roundtable

Activity between banks and E&Ps is on the upswing, but concerns about natural gas prices linger.

By GARY CLOUSER, CONTRIBUTING EDITOR

As energy lenders resume more normal lending activity to E&P companies, talk of commodity-price recovery and borrowing stability has replaced anxieties regarding loan redeterminations and shedding of assets. Prompting the lending revival is the commodity-price rebound, particularly for oil, coupled with overall less-restrictive credit markets.

This is the consensus of five leading energy bankers asked by *Oil and Gas Investor* to give their perspective on lending trends. Their responses, given in April, touched on credit demand and availability, the kinds of deals that are getting done, and redeterminations (the twice-annual process that values an E&P's borrowing base and resets loan values).

Participating bankers were:

- Mark Thompson, senior vice president, energy industries division, for U.S. Bank, Denver;
- Jim McBride, executive vice president, Capital One Energy Banking and managing director, and head of investment banking, Capital One Southcoast, Houston;
- Dan Steele, senior vice president, energy lending, Bank of Texas, Houston;
- Mark Fuqua, senior vice president and manager, energy lending, Comerica Bank, Dallas; and
- Jeff Forbis, senior vice president and energy group head, Sterling Bank, Houston.

Investor *How do you view the E&P sector now and through the first half of 2011? Are you taking on new customers or largely serving existing ones? Are you increasing your E&P lending capacity?*

Thompson, U.S. Bank The E&P and midstream segments have stabilized since a year ago and are finding ways to return to a profitable growth trend. In addition, most banks have survived the turmoil of the past year and are now back in business, actively looking for new clients and expanding their relationships with existing clients. We generally add 15 to 20 new E&P clients to our portfolio every year, and expect this year to be no different.

McBride, Capital One From a debt standpoint, we expect the E&P sector to perform well overall through 2011, although there could be some tough patches if natural gas prices continue to fall and stay low for an extended period of time. We continued to provide new capital to E&P companies with strong management teams and good assets throughout late 2008 and 2009, at a time when many banks had very little new capital for the sector. We expect to continue to grow our loan portfolio through 2011, and to have capacity for new capital for our existing clients and well-qualified new customers.

Steele, Bank of Texas As a commercial bank, our major emphasis is reserve-based lending. A key contributor for portfolio expansion is increased activity levels within the M&A space. For first-quarter 2010, the M&A market was somewhat flat; however, we have added new clients by virtue of borrowers capitalizing on their prior-year reserve additions and increasing their borrowing bases.

For fiscal-year 2009, our energy loan portfolio grew in excess of 15%. The bank anticipates moderate growth in 2010, but the bulk of this growth will be in the second half, subject to expanding M&A transactions. Our business strategy for 2010 will remain unchanged from prior years. The bank's intent is to establish banking relationships with entities that are well capitalized and managed by teams who have successful track records of dealing with the cyclicality of the oil and gas markets. We are adequately staffed to manage future expansion of the portfolio.

Fuqua, Comerica Bank We are bullish on all three sectors that we bank in the energy area. We're about 60% E&P, 20% midstream, and 20% services. Soft gas prices will likely dampen the demand for credit somewhat, but we expect that to be offset by excellent shale economics, strong capital markets, and high crude and liquids prices. We have continued to add new relationships as well as increase existing clients throughout 2008 and 2009, and we expect a continuation in 2010 and beyond.

Energy lending has performed very well for us in terms of credit quality, relationship enhancement and profitability. As a result we are adding personnel in both Dallas and Houston. We have budgeted for an increase in loans despite seeing significant run off in "outstandings" the past two years, both from lower borrowing bases in many cases and lower utilization in others. Many clients have accessed capital markets to pay down debt and build liquidity.

Forbis, Sterling Bank We are bullish on the E&P sector. The doors are open, and our energy group is lending money. We are hoping to add six to 10 new upstream lending relationships this year. We have the capacity to add more if the opportunities present themselves. Our target deal size is in the range of $15- to $25 million.

"During the past 14 months, we have seen commitment utilization drop from 64% to 44%, and we believe this trend will continue until the alternative debt markets begin to cool off."

—Mark Thompson, U.S. Bank

Investor *Are credit demand and the ability to meet it increasing? Give us a sense of what kinds of deals are getting done and the terms.*

Steele Credit demand appears to be increasing. Borrowers are beginning to experience windows of opportunity in capital markets and various banks are returning to the energy sector after 2009, when they were in somewhat of a capital-preservation mode.

The deals being done today are not unlike transactions of the past. The transaction "du jour" would be characterized as an equity-sponsored borrower who is either leveraging existing reserves to supplement its capital plans, or a management team acquiring a property set that offers exploitation potential.

Lending rates for E&P companies experienced upward movement during 2009, but these rates are anticipated to remain somewhat flat throughout 2010. Throughout 2009, banks instituted interest-rate floors; shortened maturities; and tightened financial covenants. The major change for 2010 seems to be some leniency on debt maturities, i.e., four years as opposed to 2009's standard three-year maturity.

McBride Credit demand is increasing as E&P companies seek to step up asset development in 2010, after slowing down in 2009.

This demand is being met by both the public debt capital markets (primarily high-yield bond transactions) and by increasing credit capacity from energy banks.

In late 2008, credit spreads increased and terms tightened somewhat in response to falling commodity prices and general economic conditions. We expect this trend to continue for the next 12 to18 months, with the potential for loan spreads to tighten slightly, as more energy banks begin to put their balance sheets back to work.

Thompson The real issue banks have been facing during the past nine months is that most energy companies with an external debt rating of single B or better have been paying down their bank debt primarily by refinancing with high-yield and high-grade debt, but also through nonstrategic property sales and from cash flow. High-yield and high-grade debt is relatively cheap by historical standards, particularly for investment-grade companies.

So, while banks really want and need to make more loans, borrowers are actually paying down their bank debt. During the past 14 months, we have seen commitment utilization drop from 64% to 44%, and we believe this trend will continue until the alternative debt markets begin to cool off. By the way, banks are seeing this phenomenon across most sectors of the economy.

Fuqua Demand for credit appears to be increasing slightly due to better commodity prices early in the year, but could diminish somewhat if gas prices stay in the $4 or lower range for long. Lower expectations for price increases have lowered the price that companies can hedge at, also. Tenors are moving out again from three to four or even five years depending on quality. Pricing seems to have plateaued.

Lenders are still being pretty selective, with the emphasis on good overall credit metrics and quality of the overall relationship.

Forbis From our perspective, upstream credit demand is about the same as last year, although the bank market seems to have a more positive outlook.

Investor *Will loan redeterminations be tough again this year in light of low natural gas prices?*

Fuqua Current prices are generally below many banks' base case on natural gas, so that will put pressure on banks to lower their economic forecasts. So yes, I would expect gassy companies to see some reduction, unless

"Transactions that are appropriately structured and priced are not currently having problems clearing the market."

—Jim McBride, Capital One Bank

they have significant hedging.

Forbis Although some higher-priced hedges have rolled off for some of our customers, we have not seen significant stress in borrowing-base redeterminations. Despite low current prices, the Energy Information Agency is projecting average natural gas prices of $5.17 per thousand cubic feet (Mcf) for 2010. As such, the price decks banks are using have not come down all that much. This has mitigated any real pressure on the new borrowing-base amounts.

Steele It is my belief the redetermination cycle will be similar to 2009. During 2009, oil prices were plummeting and natural gas prices were remaining somewhat flat. For 2010, this scenario appears reversed, whereby oil prices have stabilized and natural gas prices are trending downward. Given this scenario, one could deduct that companies whose reserve base is predominantly gas are at greater risk of experiencing difficulty as they navigate the redetermination process.

Thompson Most of our clients have been successfully growing their reserves during the past six months, so we do not expect to see many borrowing-base deficiencies this spring,

PRICE DECKS

Investor *What are your current price decks for oil and natural gas? How are they determined? And how has the recent price volatility affected those price decks and the procedures and frequency to re-examine them?*

Bank of Texas

Bank of Texas' price deck is market driven. It uses a formula blending current prices with the forward curve and then setting a ceiling for the price. The current price for natural gas is $5.30 escalating to a Nymex-adjusted price of $7.50 per MMBtu in 2021 and held constant thereafter. Oil is priced at $75 flat.

The bank establishes its price deck on the first day of every month in accordance with Nymex prices. In light of the price deck being established on a monthly basis, the bank is not compelled to alter its methodology.

Comerica

The bank is currently using base-case pricing starting at $55 going to $63 for oil and $4.50 going to $6 for natural gas. It normally looks at the forecasts quarterly (sometimes monthly), depending on the markets. The bank tends to follow historical trends and tries not to react too quickly to ups or downs in the market.

U.S. Bank

Oil and gas price parameters are comparable to those of the other top energy banks. For natural gas, it uses a $4.50 Nymex price for 2010, increasing by $0.50 each year to $6 flat. The bank has seen a couple of large banks reduce this year's price to $4 during the past two weeks and will likely follow suit, in view of weakness in current and futures prices through the remainder of 2010. For crude oil, it is using $55 this year, increasing by $5 each year to $65 flat. Like most banks, it gives significant borrowing-base value to in-the-money hedging arrangements with reputable counterparties.

Capital One

The bank lending market is generally assuming $4 natural gas in 2010 climbing to $5.50 to $6 over the next several years. On oil, banks are generally assuming $55, climbing to $65. Capital One is in line with the general market. Like most energy banks, it redetermines its price deck at least quarterly based upon its analysis of current commodity prices and reasonable and conservative expectations of future price movement. When prices become more volatile, it is able to adjust price decks more often if necessary, as new information becomes available.

Sterling Bank

The price deck is reviewed on a quarterly basis and changes are made when and if deemed appropriate. Because the prices used reflect the average price for an entire year (unless there is a dramatic shift in commodity price expectations), the bank is reluctant to make changes based on near-term price movements. The current price deck is $50/$4.25, $55/$4.50 and $58/$5.50 for oil/gas in 2010, 2011 and 2012, respectively.

Editor's note: The bankers made their comments in April.

"Current prices are generally below many banks' base case on natural gas, so that will put pressure on banks to lower their economic forecasts."

—Mark Fuqua, senior vice president and manager, energy lending Comerica Bank, Dallas

despite the fact that banks have begun to lower their near-term natural-gas-price parameters.

The refinancing and delevering trends I mentioned have positioned most E&P companies to be able to accept a reduction in their bank-borrowing bases if that becomes necessary.

McBride Most E&P borrowers have adapted very well to falling commodity prices. Many have adjusted capital spending in order to live within cash flow and to increase liquidity. Others have accessed the public debt and equity markets to fund development and to create liquidity. Most of the capital spent in 2009 was directed at high-return projects, and many E&P borrowers have continued to increase production and reserves during this period.

Investor *Is the syndication market getting better than it was in 2009?*

Steele I would characterize the syndication market as having stabilized and showing some signs of improvement. During 2009, bank capital was a very precious commodity, and many banks chose to remain on the sidelines as they worked to improve their liquidity and balance sheets.

Furthermore, with access to capital markets improving for both banks and borrowers, banks are returning to the energy space and either pursuing new opportunities, or increasing their commitments to existing clients.

Thompson The syndication market has remained competitive during the past 18 months, particularly among the top syndicators, and syndicators are finding willing participants now that banks' internal problems are behind them. Many loan transactions have been oversubscribed recently, particularly for companies in the BB and BBB ranges. Loan tenors are lengthening from three to four years, with some attempts recently to push five years. Loan covenants and other requirements are also loosening a bit.

Fuqua We are starting to see some oversubscription on good-quality deals, and underwritings are starting to gain momentum. Some of this has been fueled by extremely robust capital-market activities.

McBride Beginning this spring, we are seeing energy banks more willing to commit new capital. Transactions that are appropriately structured and priced are not currently having problems clearing the market.

Forbis It appears the syndication market has improved. While certain deals seemed to have struggled a bit, in general there is more capacity for well-structured deals, and loan pricing has improved for high-quality borrowers.

Investor *How have the new SEC reserve rules affected your ability/capacity to loan to E&P companies?*

McBride Banks generally take an independent view of oil and gas reserves, based upon their own technical analysis. Additionally, banks apply their own price decks. For these reasons, SEC pricing and reserve-reporting rules have minimal impact on bank lending.

Steele Bank of Texas is unaffected by the SEC reserve rules, since the bank determines loan values only on proved developed producing (PDP) properties. On an exception basis, the bank might allocate some small portion (≥ than 10%) of their loan value to nonproducing reserves.

Forbis Because we use an independent engineering analysis of our clients' oil and gas reserves, the changes in the SEC rules have had no effect on our ability to lend. While the new SEC guidelines have impacted financial statements, these are not crucial to our underwriting activity.

Fuqua The SEC reserve rules have had little to no impact. We have always relied on our own engineering analysis.

Thompson We happen to be one of the strongest banks in the U.S., so we have a relatively low cost of capital and don't have any noticeable restrictions on our ability or capacity to lend. •

"Although some higher-priced hedges have rolled off for some of our customers, we have not seen significant stress in borrowing-base redeterminations."

—Jeff Forbis, senior vice president and energy group head, Sterling Bank, Houston

The Rodman Energy Group

Corporate Summary:

The Rodman Energy Group ("**Rodman Energy**") is a sector vertical within Rodman & Renshaw, LLC ("Rodman"), created in June 2008, when Rodman, a full service investment bank and for the past 8 years the number one agent for Private Investments in Public Equities ("PIPEs"), purchased COSCO Capital Management LLC ("COSCO"), for the previous 17 years a leader in private placements of private equity and debt for oil and gas companies. By combining Rodman's preeminence in public securities with COSCO's deep knowledge of the energy industry and private finance, Rodman Energy can now provide its clients the services of a full investment bank, including public equity placements, M&A and research, but also including superior private market advice and unmatched private equity and debt placement services.

COSCO Background:

Over the seventeen years post inception in January 1992 and prior to its acquisition by Rodman, COSCO had become a leading advisor to professional investors in the energy sector and the go-to agent for private placements for small and mid-cap private energy companies in the U.S. and Canada. Since 2000, COSCO and now Rodman Energy have arranged or advised on private placements and transactions aggregating over $2 billion, roughly three-quarters of which were equity placements or M&A transactions, and one-quarter of which were mezzanine debt placements. Throughout this history, clients have typically been start-up or growth-stage oil and gas companies who, with COSCO's assistance, issued securities to energy focused closed-end funds and other institutional investors, or have been professional energy investors, themselves, seeking to develop new investment strategies or to utilize COSCO's assistance buying or selling portfolio companies or assets.

Rodman Energy Value Creation Process:

Rodman Energy offers more than a financial advisor and placement agent, however. Because the original COSCO principals came first from the oil and gas industry, before establishing careers in proprietary investing and finance, they understand intimately, are accepted in, and can bridge both worlds. As a consequence of this background and having now advised over 160 industry clients and seen, literally, thousands of business

***Bill Weidner**, Managing Director and Head of the Rodman Energy Group, **Scott Kessey**, Managing Director, and **Jason Reimbold**, Vice President*

plans and proposals, Rodman Energy personnel can often understand even better than managements, themselves, what constitutes their particular strengths and competitive advantages. Rodman Energy typically assists its private clients to refine their investment strategies and improve their outward appearance to investors by linking their operational and creative skills to the capital allocation discrimination of potential investors. Through its own A&D and M&A expertise, Rodman Energy can also help effect transactions, either as an alternative to financings or to be augmented by financings. Finally, Rodman Energy also assists institutional investors, themselves, with secondary placements of portfolio companies or fund limited partnership interests.

Over $2 billion in energy financings and transactions since 2000

Exaro $50,000,000 Common Equity Units Rodman & Renshaw December 2009	SunTerra $15,000,000 Common Equity from HM Capital Partners Rodman & Renshaw February 2009	An Affiliate of Dewbre Petroleum Corporation and $50,000,000 Senior Secured Notes Rodman & Renshaw October 2008	Mt. Dora $35,500,000 Line of Equity COSCO Capital Management LLC May 2008
Lake Ronel Energy Partners, LLC $40,500,000 Common Equity For Exploration and Development COSCO Capital Management LLC January 2008	Red Arrow $85,600,000 Line of Equity EnCap Investments L.P. and COSCO Investments LP COSCO Capital Management LLC July 2007	An Affiliate of Jones $100,000,000 Senior Secured Notes Guggenheim COSCO Capital Management LLC May 2007	An Affiliate of Sanchez Oil & Gas Corporation $50,000,000 Secured Notes TCW COSCO Capital Management LLC December 2006

"Promoting Sound, Sustainable, and Profitable Relationships Between the Financial and Operational Segments of the Energy Business" ™

Rodman Energy Personnel:

Bill Weidner, Managing Director and Head of Rodman Energy, has an MS in Geology and worked in industry as a practicing geologist before transitioning to finance as a commercial banker, then as a proprietary investor with Resource Investors Management Company (RIMCO), an oil and gas mezzanine lender, before joining COSCO in 1997. Scott Kessey, Managing Director and Head of Rodman's Houston office, served as a principal financial officer for a number of Houston-based E&P and service companies, prior to joining COSCO in 2000, and he has since that time been involved as a co-lead or lead in nearly every single placement of equity or debt by the firm. Jason Reimbold, Vice President and A&D Manager in Rodman Energy's Houston office, worked in the commercial lending group of the Bank of Oklahoma and in divestitures for Petroleum Listing Service, and is widely recognized in the oil and gas acquisition and divestiture community.

In addition to its core oil and gas advisory professionals, Rodman Energy enjoys full access to a strong team of investment bankers in New York that are originating and participating in private placements of public stocks, follow-on equity offerings, and a variety of other capital markets activities, trading and research, providing depth and diversity of experience not shared by other private finance advisory peers.

Rodman Energy Services:

Capital Formation. Rodman Energy's strengths lie in knowing intimately the current investment criteria of private and public energy investors and which energy companies, managements, and projects are likely to meet their investment goals and why. This investor intelligence stems from Rodman Energy constantly marketing specific transactions, as well as its legacy of conducting surveys and hosting or moderating conferences focused on energy financing. Rodman Energy's industry acumen reflects the technical and operational training of its personnel. Rodman Energy has earned investor confidence through its consistent application of The Rodman Energy Value Appreciation Process™, which begins with a frank assessment of a client's management and the company's competitive position and value in the marketplace. If a financing is required and appears feasible, it then assists private clients to prepare necessary descriptive documents and marketing materials, arrange meetings with likely financing candidates, negotiate agreements, and close on terms fair to all stakeholders.

Advisory. Rodman Energy provides financial, investment/divestiture, and general business advice to both industry and professional investors, alike. For investors, services include consultation on investment strategies and execution, specific due diligence, and peer comparison. For private and public energy companies, Rodman Energy provides sound business and financial advice designed to focus managements on their own competitive advantages, business opportunities, and financing potential. For its private clients, Rodman Energy's advisory role often extends well into the execution stage, post financing.

Mergers & Acquisitions / Divestitures, Secondary Placements. Rodman Energy's addition of Jason Reimbold in 2009 has added an important dimension to the private financing process by increasing client options and solutions to financial problems. Additionally, due to Rodman Energy's history with partners and colleagues in multiple cities and geographies, the firm is comfortable managing assignments in any part of North America, and it is well positioned to match industry clients with acquisition, divestiture, or merger candidates in a variety of petroleum provinces. Finally, because Rodman Energy has close working relationships with most of the professional energy investors in the U.S. and Canada, it is particularly adept in arranging secondary placements of public and private energy securities, as well as entire energy portfolios.

Rodman & Renshaw, LLC

Rodman is a full-service investment bank dedicated to servicing companies that have significant recurring capital needs due to their growth and development strategies. It also provides research and sales and trading services to institutional investor clients that focus on such companies. Since 2003, Rodman has been a leading investment banking firm to the biotechnology sector, a capital intensive market segment, as well as a leader in the PIPE and RD (registered direct placements) transaction markets. Over the past 5 years, Rodman has raised billions in capital for its clients and is currently ranked by Sagient Research Systems, Inc as the #1 Placement Agent among full service investment banks for PIPE financing arrangements, having maintained its position of completing more PIPEs than any other investment bank on or off Wall Street.

In May 2008, Rodman expanded its focus beyond biotechnology into the natural resource arena by purchasing Miller, Mathis & Co, arguably the leading boutique investment bank dedicated to minerals and mining, and, then, in June, COSCO, thus dramatically enhancing its capabilities in both sectors. Since then, Rodman has demonstrated further its dedication to energy by hiring Jeff Hayden as a senior energy analyst and building up an energy research team around him in Houston, as well as adding further capability to the Houston office.

The Rodman Energy Group

Rodman & Renshaw®

Rodman & Renshaw, LLC Member SIPC, FINRA

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Prepaid Commodity Swaps

These financial instruments offer a number of advantages for producers seeking capital.

By DAVID LAZARUS

David Lazarus, senior vice president, Macquarie Bank Ltd.

Over the years, volumetric production payments (VPPs) have gone in and out of style, depending on commodity prices and market conditions. In the 12 months leading up to the July 2008 crude-oil-price peak, a number of VPPs were done in the market at very attractive discount rates (sub-Libor plus 400 points). But the number was not significantly greater than previous periods of high commodity prices.

Given the magnitude of the commodity price run-up, it was surprising there were not more VPP transactions. The primary reason? During the same period, the second-lien/term-loan B market was extremely active, and oil and gas producers were able to get attractive rates on junior capital with light covenants.

VPPs and similar products compete with the second-lien market, and during periods of readily available second-lien debt at attractive rates and terms, they are generally not done. Second-lien debt can be more attractive than VPPs, because it is more easily repaid, does not have the same amortization features as a VPP, is less difficult to paper, and can require less hedging.

The evaporation of the second-lien market in the aftermath of the credit crisis resulted in renewed VPP demand, even with severely depressed commodity prices. And the rebound in crude prices while capital markets remain tight has led to an even higher level of interest.

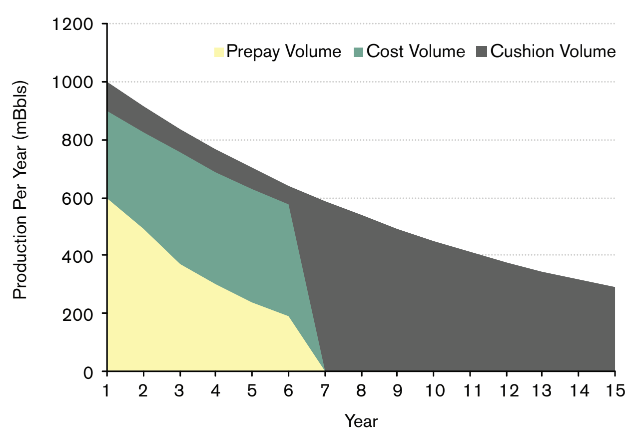
In addition to conforming VPPs, however, a number of other financial-derivative products are now being used as an alternative to traditional capital sources. Over the past 24 months, capital has been raised through production payments having no set monthly schedule but having a monthly percentage-of-production mechanism with an aggregate volume cap; and through overriding royalty interests (ORRIs) that reduce to a smaller percentage or are removed once an internal-rate-of-return or a return-on-investment threshold has been met. These products are especially useful for higher-risk assets or offshore production where a set monthly schedule is not optimal.

PREPAID SWAPS

A product that was in favor in the 1980s and 1990s but has not been used extensively since is the prepaid swap transaction. During the past year, a number of such transactions have been completed with Macquarie Bank Ltd., a leader in this space. Prepay swaps are a good fit for assets that are onshore, PDP–heavy, have defined decline curves, are longer life, and have stable operating expenses.

A prepaid swap is similar to a VPP, but it is a financially settled instrument rather than an ORRI purchase. A producer enters into a financial-derivative transaction for a specified volume and tenor, but instead of the swap price being set at the prevailing market price, it is set at zero. The difference between the market price and zero is discounted at an agreed-upon rate and paid out to the producer up front.

The swap is the same as a standard fixed-for-floating swap, except for the zero price. It settles monthly under the same mechanism as a vanilla ISDA (International Swaps and Derivatives Association) trade (settlement is the

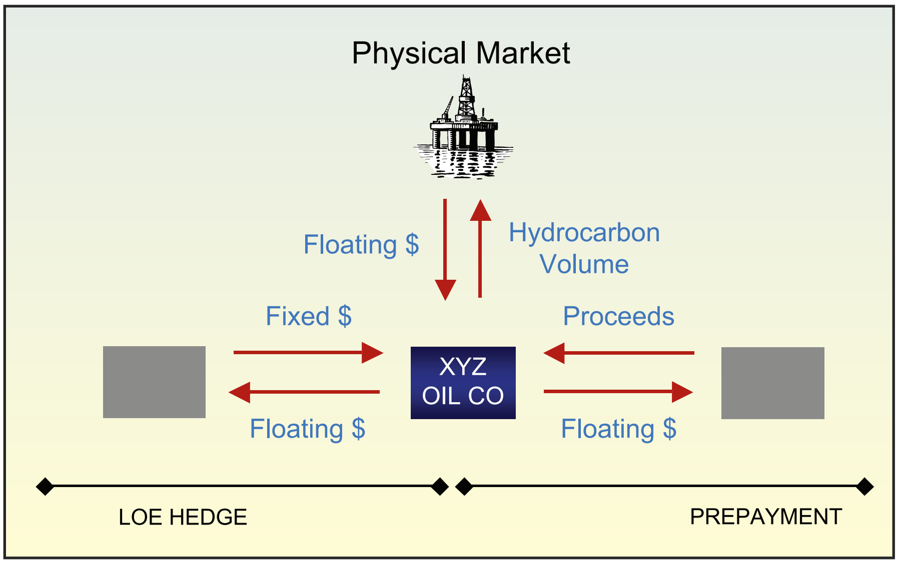


This production profile of a prepaid swap compares prepay volumes, cost volumes, and remaining volumes per year.

difference between the monthly settlement price for the underlying commodity and zero—i.e., if WTI crude oil for April 2010 averaged $80 per barrel, the producer would owe the swap provider $80 per barrel).

In a typical prepaid swap transaction, the swap provider hedges between 70% and 85% of proved developed producing (PDP) production for five to eight years at the prevailing forward market price. The swap provider will then determine the amount of the hedged production needed to cover lease operating expenses (LOE), basis differentials, taxes, and applicable G&A expenses.

In addition to the portion of hedges dedicated to costs, the unhedged volumes also contribute to covering costs, but are generally valued at the swap provider's credit price deck. The remaining portion of the hedged volume is then reset to a zero price and discounted at the agreed-upon discount rate—typically between 7% and 10%. Advance and discount rates under a prepaid swap transaction are similar to rates in a VPP.



The prepaid swap is particularly attractive for smaller transactions, due to the easier entry process.

PREPAID ADVANTAGES

Prepaid swaps have a number of advantages when compared with traditional VPPs. The primary advantage is less documentation, because prepaid swaps are documented under an ISDA agreement and a first-lien mortgage. VPPs also require a purchase and sale agreement and an overriding-royalty agreement.

While the ISDA agreement has several additional loan-like terms, its form and substance are similar to an ISDA agreement for traditional hedge products. Prepaid swaps generally can get documented and closed in three to six weeks. Like a senior loan, the time line is subject to title work that is acceptable to the swap provider. If the title is in good order, the closing time is typically on the shorter end of the spectrum.

Prepaid swaps generally have significantly lower legal expenses due to reduced documentation. Another benefit: a prepaid swap is a financial-derivative transaction, so it can be unwound similarly to a hedge, versus a negotiated process with a VPP.

Further, prepaid swaps allow producers to retain both the upside related to the nonproducing reserves and on the unhedged volumes; still receive related COPAS payments; lock in price protection for a significant tenor on the prepaid volumes; and hedge additional volumes to protect costs in a down-price environment.

The prepaid swap is particularly attractive for smaller transactions, due to the easier entry process. Although larger prepaid swaps have been done, recent transactions have ranged between $5- and $40 million. In a transaction larger than $40 million, providers typically prefer to execute a VPP.

The re-emergence of the prepaid swap has been a welcome capital option for smaller producers, as capital availability for this space has shrunk to a greater extent than it has for larger companies. While the stretch-senior, second-lien, public-debt, and equity markets for mid- to large-cap producers have recovered somewhat over the past 12 months, capital sources on the smaller end of the market have not kept pace. Senior and mezzanine capital is available in this space, but the availability of stretch-senior and second-lien debt has lagged. The prepaid swap is thus attractive, as the advance rate on a prepaid swap is greater than that for a conforming senior facility.

Prepaid swaps' other advantages are significant: term financing, limited financial covenants, ability to hedge longer tenors (takes advantage of the steepness of both the crude and natural gas price curves), no facility fees, and a potentially easier documentation process.

The sudden drop in commodity prices concurrent with the evaporation of capital availability and bank stresses caused a number of producers to experience both covenant breaches and large borrowing-base downward redeterminations. Companies were forced to re-examine the stability of their capital sources. The term-financing and covenant-structure features of prepaid swaps make them a good alternative to senior debt.

Under a prepay, the amount of debt available is not subject to borrowing-base redeterminations. The entire capital amount is paid up front and repaid through the monthly hedge settlements. The downside is that the prepayment amount is repaid through a fixed amortization schedule, but this, too, can be amended by entering into subsequent prepaid swaps during the life of the original prepay transaction. Subsequent prepaid swaps are subject to reserve evaluation at the time of request, but are easily executed as add-ons once the initial structure is in place.

A prepaid swap has affirmative and negative covenants similar to a senior loan that are documented in the ISDA agreement, but the prepay lacks the traditional financial covenants that are standard in conforming senior loans. The primary "financial" covenant in the prepay swap is a reserve-coverage calculation, which is generally defined as a ratio between PDP reserve PV-10 value and outstanding exposure (mark-to-market) under the prepay and LOE hedge volumes.

Additionally, the prepaid swap provides more capital and cost stability through the longer tenor of the hedges when compared with senior loans. Often, senior lenders are reluctant to enter into hedges well beyond the tenor of their loans (three to five years), while a prepay swap can have both prepay and LOE hedges out to eight years.

All fees relating to a prepay swap are embedded in the hedge transaction, so, in contrast to a senior facility, there are no commitment fees or maintenance fees. And since there is no borrowing base, there are no utilization fees.

SALE OR FINANCIAL MONETIZATION?

A prepaid swap offers these advantages for producers compared with an asset sale:

- The producer retains full ownership and therefore all the reserve upside. Additionally, the producer retains operational and management control over the assets.
- There are potential tax benefits, because a producer may be able to deduct interest charges associated with the prepay.
- The buyer's closing risk is removed from the process, as swap providers do not have financing risk.
- An asset sale often will have larger staff resource requirements.
- A divestiture incurs broker fees of 2.5% to 3.0% plus expenses.
- Average closing time is three to four months.
- The divestiture market for small asset sales is still a buyer's market. Often, the pickup of an asset sale over a prepay is minimal due to the low value assigned to nonproducing assets in smaller packages.

At Macquarie, if a producer is interested in exploring a prepay swap, we begin by analyzing the third-party reserve engineering report, title opinions, environmental studies, physical marketing contracts, financial statements and lease-operating statements. Once we've reviewed this information and formed an internal view of the reserves, the producer is given a term sheet outlining the indicative advance rate based on current market prices, discount rate, tenor, prepay volumes, required LOE hedges and covenants. If the producer wants to pursue the transaction, we require an expense deposit for title review and environmental and legal documentation. During this process, Macquarie seeks its own internal approvals.

Once those approvals have been received, the producer is provided with a binding commitment letter allowing it to execute the required hedges that support the prepay swaps. The prepay hedged volumes are discounted to zero, and the resulting sum is paid out as an up-front advance.

Because the prepayment amount is market contingent, the producer can wait for the opportune price environment to enter into the transaction. Given that these are smaller transactions, normally the producer can enter into the swaps in a single day to take advantage of price spikes, or average in swap values over a period of time.

Prepaid swaps are not suitable for all situations. Often, a producer's capital needs are better met with traditional conforming senior debt, an asset sale, mezzanine finance or an equity raise. However, a prepaid swap may be an attractive and compelling alternative for smaller producers seeking capital in excess of senior debt until the stretch/second-lien debt markets recover, and/or the A&D market heats up again. •

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Volumetric Production Payments	Prepaid Swaps
Actual Purchase Of Oil And Gas Reserves	Derivative Transaction
Physically Settled	Financially Settled
Embedded Hedge	Embedded Hedge
Term Financing	Term Financing
Potential To Treat As "True Sale"	Reduced Documentation
Bankruptcy Remote	Requires LOE hedges
May Not Require LOE hedges	Ability To Unwind/Terminate Transaction
Sizing: $40 million +	Sizing: $5- To $40 million

The prepaid swap is the same as a standard fixed-for-floating swap, except for the zero price.

Markets Open For Small- and Mid-Cap E&Ps

The capital markets will continue to fill the funding void for E&Ps through 2010.

Article and Data By ADAM B. CONNORS

For the past five years, C. K. Cooper & Co. has tracked capital markets activities for relevant small-cap and mid-cap exploration and production companies. In the last six months of 2009, for the universe we cover, there were 15 equity issuances totaling approximately $687 million in gross proceeds, with an average issuance size of $46 million. As one may recall, the last six months of 2009 were riddled with balance-sheet concerns, and investors and bankers alike were focusing on potential credit-facility redeterminations, although elevating oil prices served as a silver lining in accelerating confidence.

Beginning in April of last year, the equity window began to open. This allowed E&P companies the chance to tap the awakened investor community. Using the capital thus raised, companies first "right-sided" their balance sheets, removing the potential overhang of being over-levered. This put smiles on commercial bankers' faces.

Paying down debt, while not typically a compelling use of proceeds, became a common story as companies, especially the oilier ones, demonstrated sound EBITDA (earnings) performance thanks to increasing commodity prices. Thus, a quick pay-down of debt began to make

SELECTED DEBT ISSUANCE–

Last Six Months 2009

Issuer	Symbol	Exchange	Issue Date	Maturity Date	Type	Gross Proceeds Raised	Coupon	YTM at Offering	Current YTM	Years Until Maturity	Conversion Premium
Altagas Income Trust	ALA.UT	TSX	06/29/09	06/29/16	Senior	$100,000,000	6.9%	6.8%	5.5%	7.0	-
Bill Barrett	BBG	NYSE	07/08/09	07/15/16	Senior	$250,000,000	9.9%	10.2%	8.2%	7.1	-
Petrobank Energy	PBG	TSX	07/10/09	07/10/15	Convertible Preferred	$400,000,000	5.1%	-	-	6.0	27.0%
Quicksilver Resources	KWK	NYSE	08/14/09	09/15/19	Senior	$300,000,000	9.1%	9.6%	8.3%	10.2	-
Baytex Energy Trust	BTE	NYSE	08/26/09	08/26/16	Senior	$150,000,000	9.2%	7.8%	7.1%	7.0	-
Plains Exploration	PXP	NYSE	09/11/09	10/15/19	Senior	$400,000,000	8.6%	8.7%	7.8%	10.2	-
Concho Resources	CXO	NYSE	09/18/09	10/01/17	Senior	$300,000,000	8.6%	8.4%	7.9%	8.1	-
Goodrich Petroleum	GDP	NYSE	09/28/09	10/01/29	Convertible Preferred	$190,000,000	5.0%	-	-	20.1	30.0%
Venoco	VQ	NYSE	10/07/09	10/01/17	Senior	$150,000,000	11.5%	12.3%	10.5%	7.9	-
GMX Resources	GMXR	NASDAQ	10/28/09	05/01/15	Convertible Senior	$75,000,000	4.5%	-	-	5.6	25.0%
Pacific Rubiales Energy	PRE	TSX	11/10/09	11/20/16	Senior	$450,000,000	8.8%	8.0%	7.9%	7.1	-
Callon Petroleum	CPE	NYSE	11/24/09	09/15/16	Senior	$138,000,000	13.0%	-	20.3%	6.9	-
Swift Energy	SFY	NYSE	11/25/09	01/15/20	Senior	$225,000,000	8.9%	9.0%	8.2%	10.2	-
					Mean	$240,615,385	8.4%	9.0%	9.2%	8.7	27%
					Median	$225,000,000	8.8%	8.7%	8.1%	7.1	27%
					Total Gross Proceeds	$3,128,000,000					

SELECTED DEBT ISSUANCE–

First Four Months 2010

Issuer	Symbol	Exchange	Issue Date	Maturity Date	Type	Gross Proceeds Raised	Coupon	YTM at Offering	Current YTM	Years Until Maturity	Conversion Premium
Forest Oil	FST	NYSE	01/21/10	02/15/14	Senior	$600,000,000	8.5%	7.1%	6.6%	4.1	-
Stone Energy	SGY	NYSE	01/26/10	02/01/17	Senior	$275,000,000	8.6%	8.9%	8.9%	7.0	-
Venoco	VQ	NYSE	02/03/10	10/01/17	Senior	$149,000,000	11.5%	10.7%	10.2%	7.7	-
Continental Resources	CLR	NYSE	02/09/10	10/01/19	Senior	$300,000,000	8.3%	8.0%	7.1%	9.6	-
NFR Energy	Private	NA	02/12/10	02/15/17	Senior	$200,000,000	9.8%	10.0%	10.1%	7.0	-
Harvest Natural Resources	HNR	NYSE	02/17/10	03/01/13	Senior Convertible Debt	$32,000,000 "	8.3%	8.3%	8.3%	3.0	30.0%
Plains Exploration	PXP	NYSE	03/29/10	04/01/20	Senior	$300,000,000	7.6%	7.7%	7.6%	10.0	-
Continental Resources, Inc.	CLR	NYSE	4/05/2010	10/01/2020	Senior	$200,000,000	7.4%	7.3%	6.9%	10.5	
NFR Energy LLC	Private Co	NA	4/14/2010	2/15/2017	Senior	$150,000,000	9.8%	10.0%	10.1%	6.8	
Rosetta Resources, Inc.	ROSE	NASDAQ	4/15/2010	4/15/2019	Senior	$200,000,000	9.5%	9.2%	9.1%	9.0	
					Mean	$240,600,000	8.9%	8.7%	8.5%	7.5	30%
					Median	$200,000,000	8.6%	8.6%	8.6%	7.4	30%
					Total Gross Proceeds	$2,406,000,000					


sense as a means to take the "investor-credit-worries lid" off their respective stock prices, by decreasing interest expense—and providing confidence that equity dollars were available if banks came knocking.

For the first five months of 2010, we have already witnessed 13 equity issuances totaling more than $1 billion in gross proceeds. While the same story rings true concerning companies paying down debt with equity, we have also witnessed a "back to business" theme. Companies now quickly deploy new investor capital into the ground as a way to take advantage of higher oil prices that appear to be here to stay.

It is interesting to highlight that both the average market capitalization of the issuers, and gross proceeds per issuance, have approximately doubled between the two periods. This undoubtedly is a function of an investor revival in the E&P space, along with higher oil prices.

TWO CASE STUDIES

We note two deals, by Brigham Exploration Co. and Northern Oil & Gas, in particular. Brigham, one of the most active operators in the oily Bakken shale play, raised $168 million in October 2009, and at the time was an $885-million company. Brigham tapped the equity markets again in April 2010 for $290 million, and only six months after its 2009 raise, was valued at $1.8 billion.

Brigham was one of the stretched E&P companies during the equity-market collapse of early 2009, with looming debt issues. However, once the company was able to tap the equity markets, it first addressed its balance sheet. Later, it went back into the markets to accelerate its Bakken drilling program, with investor confidence flooding back to the company along the way.

Additionally, Brigham began to fire on all cylinders when it started announcing huge IP (initial potential) flow rates in its Bakken wells. When it was time to tap the equity markets again in April 2010, its use of proceeds was very simple: put as many rigs to work on its Bakken acreage as possible, and keep hitting great wells.

Northern Oil & Gas, a Bakken story as well, tapped the equity markets in October 2009 to help pay down debt, protect its lease positions and acquire new leases. At the time, Northern was a $340-million company. On the heels of Brigham's raise in April 2010, Northern also revisited the equity markets, but this time it had recovered to a size of $695 million. Its stated use of proceeds of the $86-million raise was to fund a war chest, to continue leasing highly sought-after Bakken acreage and position itself for the flood of authorizations for expenditures on the verge of pouring in.

Of course, the equity markets and investors always favor great, proven management teams. Other factors also keep the sector's buzz alive: oil prices are back in favor, some factors point to a global economic uptick, and the dramatic increases in share prices over the past year keep at least the short-term E&P investor's outlook rather favorable.

PIPEs

In 2010, we have also seen evidence of the "Return of the PIPE" (private investment in public equity). For all of 2009, only one PIPE was issued, early in the year. However, thus far in 2010, we have already tracked three PIPEs, suggesting that investors might be nudging out a little further on the risk curve, to take on the six-months-or-so illiquidity risk of a PIPE, if the issue is right. This could signal the revival of a key capital source for microcap E&P companies that are not eligible for a shelf registration (S-3) and wish to forgo the S-1 process.

DEBT

The debt yield has continued to come down in 2010 from 2009, and even yields from issues in the first quarter of 2010 have declined, indicating a growing appetite for debt and risk tolerance. A string of recent debt transactions have come to market.

We believe that the outlook for oil prices, coupled with strong yields versus comparable interest-bearing securities, is drawing investor attention to E&P issuers with solid production profiles. This suggests a more secure position for investors in an inflation-adjusting underlying product.

We generally believe that commercial banks are reluctant to lend aggressively to the sector, so we expect the capital markets to continue to fill the funding void through the end of 2010. •

Adam B. Connors is director, corporate finance group, for investment bank C.K. Cooper & Co. in Irvine, California.

Meet The New Gang

These E&P newcomers, though often helmed by well-known industry veterans, are the latest new class of start-ups.

Compilation by Stephen Payne

From June 2009 through early May 2010, the oil and gas industry struggled to overcome, and did successfully work through, a number of challenges. But nevertheless, the hardy souls listed here, all experts in their respective E&P and financial disciplines, decided the time was right to forge ahead.

They accessed private capital to support their visions of forming new E&Ps—or version 2.0 after monetizing earlier corporate efforts. Armed with knowledge, contacts and strategies, these executives represent the best of the business. They also represent potential partners for other E&Ps or financial companies.

Aries Resources LLC and **Energy Special Situation Funds** launched **Aries Energy LLC** to acquire mature properties in the Permian, Midcontinent, East Texas and Louisiana. Aries president Rueven Hollo says, "Of particular interest are properties with secondary-recovery and/or development-drilling potential."

Jim Lightner, Rod Mellott and Stu Wagner have formed Denver-based **Beacon E&P Co. LLC** to acquire and exploit unconventional resources onshore the U.S. with $150 million of equity commitments from **Kayne Anderson Energy Funds**, **BAML Capital Partners**, management and other investors.

Lea Crump and Will Crump have formed Midland, Texas-based, Permian-focused **Crump Energy Partners LLC**, Houston, with a $100-million private-equity commitment from **Quantum Energy Partners**. Lea Crump says, "Now is a great time to be approaching the market with dry powder."

Privately held, Fort Worth-based **Enduro Resource Partners LLC** has been formed with $200 million capital provided by **Riverstone Holdings LLC**, a Fort Worth, Texas-based private investor group and company management. Enduro's founders led the executive team of **Encore Acquisition Co.** (recently sold to Denbury) and include Jonny Brumley, who is now CEO of Enduro, and John Arms. Jonny's father, I. John Brumley, a founder of what eventually became XTO Energy, will be an investor, board member and advisor to the new company.

Dick Frazier, Earl Krieg et al.'s **Keystone Petroleum LLC**, Dallas, has formed **Keystone Petroleum II LP**, a second E&P start-up, with initial capital commitments of $50 million, a majority from **Energy Trust Partners III LP**, to drill and acquire assets in southeastern New Mexico.

Dallas-based **Regal Energy LLC** has formed **Regal Energy Operating LLC** (REO), which will be in charge of all operations for Regal Energy with its primary focus on the Barnett shale in north

Having successfully accessed capital, those start-ups are ready to do deals.

Texas. Regal Energy CEO and co-founder of REO, Brian Hardwick, says, "Regal Energy Operating provides everything needed to drill a well and bring it into production. We're excited to have our own operating company, both for our own wells and to have the ability to offer its services to others."

Permian-focused **Storm Peak Energy LLC** has been formed by David Cox, Bill Coggin and Mark Ellerbe with start-up private equity capital from Joe Foster's **TPH Partners LP**, an affiliated division of **Tudor Pickering & Holt.** Foster says, "The Permian Basin offers an excellent opportunity set for operators with the right expertise and relationships."

Michael Wichterich, Gabe Ellisor, Jim Keisling and Barry Smith have formed privately held, Austin, Texas-based **Three Rivers Operating Co. LLC,** with a strategic investment from **The Riverstone/Carlyle Global Energy and Power Funds,** managed by **Riverstone Holdings LLC.** Three Rivers will focus on the West Texas and southeast New Mexico sides of the Permian Basin. Riverstone co-founders Pierre Lapeyre and David Leuschen report, "We are excited to work again with Mike, as well as his team…"

Louis Stipp and Steve Robinson have formed Houston-based **Tradition Resources LLC** with funding from **ZBI Ventures.** They will acquire and exploit mature, long-lived oil and gas properties in established, producing regions of the central U.S. Stipp, Tradition's president and CEO, was with **Citation Oil & Gas Corp.** for 21 years and was a co-founder and executive vice president.

Former **Triana Energy** and **Chesapeake Energy Corp.** vice president Mike John et al. have launched Marcellus shale-focused E&P start-up **Northeast Natural Energy LLC** with private equity funding from **Metalmark Capital**, an original investor in Triana, which was purchased by Chesapeake in 2004. John says, "Our team possesses an enormous amount of expertise regarding the Marcellus shale…."

The Woodlands, TX-based **Vitruvian Exploration LLC** has been formed by former **Southwestern Energy E&P Co.** president Richard F. Lane with assets from the former CDX Gas. The company will focus primarily on oil assets and also some CBM in Appalachian plays. •

Finding Capital: A Directory

I = Investment banking; C = Commercial banking; M = Mezzanine; P = Private equity/debt; A = Advisor

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