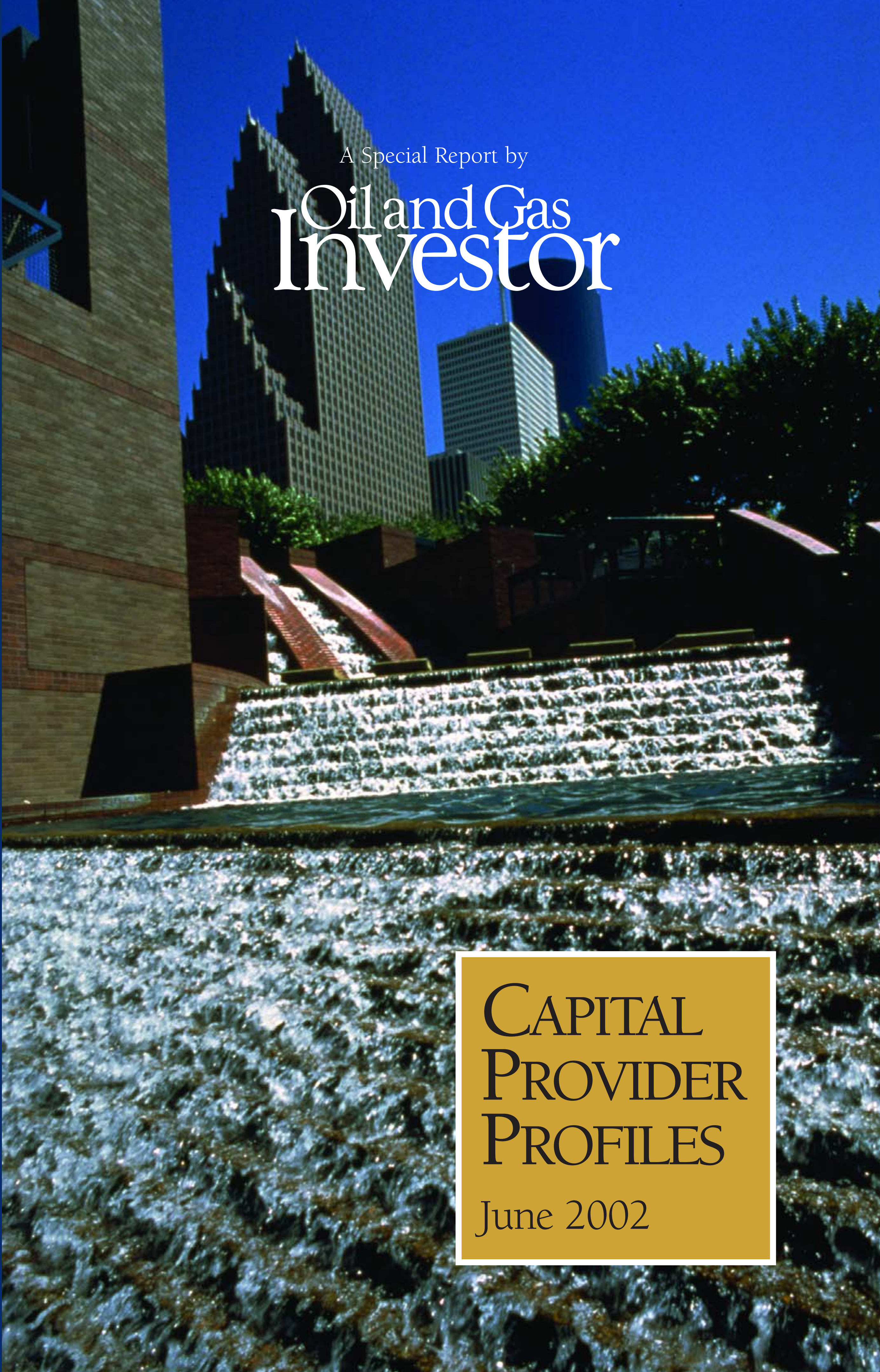
A Special Report by

Oil and Gas Investor

Capital Provider Profiles

June 2002



CAPITAL PROVIDER PROFILES June 2002

With recent energy stock valuations not much to write home about, and interest rates still hovering near record lows, raising capital in the public equity markets has been largely abandoned this year by producers and service providers. Instead, these companies are focusing on debt financing—both public and private—and private equity transactions.

But where to turn for debt, or private equity, if one happens to be a small- or midcap independent or service company? And just what type and level of debt or equity might be appropriate in the capital structure of an emerging or an already fast-growing company? Also, with the exodus of the likes of Shell Capital from the mezzanine-financing arena—and a paucity of players remaining that provide this sort of debt with an equity kicker—how selective is that source of capital now likely to be?

In this supplement, five very distinct providers of debt, private equity and mezzanine capital discuss not only the range and types of energy financing their firms provide, but also the profiles of the companies they target, and their overall financing strategy.

Wells Fargo's Tim Murray points out, for instance, that unlike many of the newer, consolidated commercial banks that have gone up-market—and are now tying lending to investment-banking services—his is still a traditional lending institution, providing reserve-based loans in the $1-million to $100-million range, and nonrecourse development and mezzanine financings between $1- and $20 million. "As part of being a full-service financial partner, we also seek to help our clients manage risk."

Weisser, Johnson & Co., an arranger of private equity, debt and mezzanine capital in the range of $15- to $50 million, cites the current abundance of private equity capital for the energy industry, but the dirth of mezzanine-capital providers. Says Frank Weisser, "The [mezzanine] providers now have more deals to choose from and are more selective than ever; this is where we can help companies as an experienced advisor."

Aquila Capital, which primarily provides private debt capital in the $10- to $100-million range, brings to the table such forms of financing as mezzanine debt, credit facilities, volumetric production payments, and various forms of corporate and project equity. "We expect to focus our efforts in the near term on development projects that cannot be financed with traditional bank debt," says Aquila's Ken Wyatt.

Natural Gas Partners, an institutional money manager which makes private equity investments in the $10- to $60-million range, targets not only producers with low-risk projects, but also oil-service companies, gas gatherers and other energy-related companies. Natural Gas Partners' particular strength lies in establishing relationships with relatively young companies, which often means funding at the start-up stage, says NGP's Kenneth A. Hersh.

Scotia Capital recently created a nationwide U.S. energy team, expanding its commitment and focus to financing the industry. U.S. team leader Mark Ammerman says, "Helping clients take advantage of business opportunities is our highest priority, whether it's M&A advisory services, equity or debt issuance, corporate lending or other capital markets products."

At a time in the energy industry when consolidation within the financial community is creating a capital vacuum for many small- to midcap producers and service companies, these five sources of debt, private equity and mezzanine funding offer access to both start-up and growth capital that may loom in importance as opportunities in the asset-divestiture market heat up later this year.

—Brian A. Toal, Senior Financial Editor

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ABOUT THE COVER: A view from Buffalo Bayou of some of downtown Houston's skyscrapers, home to several of the energy industry's financiers. (*Photo by Lowell Georgia.*)

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Corporate Background

Aquila Capital Services, created in 1998, is a business unit of Aquila Inc., an international energy and risk management company that is No. 33 in the Fortune 100. Aquila Capital provides capital to a wide range of customers through highly structured financial transactions that serve as alternatives to traditional financing and provide flexible capital solutions to help asset owners maximize acquisition and development opportunities.

Since its inception, Aquila Capital has provided capital products to 26 energy clients in more than 55 transactions resulting in capital commitments of more than $1 billion. Aquila Capital's commitment to customer service is evidenced by repeat business averaging more than two transactions per client. This client loyalty results from Aquila Capital's ability to provide responsive and innovative financing solutions throughout the energy value chain.

Investment Profile

Aquila Capital primarily provides private debt investments ranging from $10 million to $100 million for the acquisition, refinancing and/or development of proven oil and gas reserves. Aquila Capital has also expanded its business lines to include coal, power and midstream projects. This has further pushed the need to tailor financial instruments to fit a broad spectrum of energy related projects.

Structuring alternatives typically include traditional mezzanine debt, credit facilities, volumetric production payments, and various forms of corporate and project equity—including royalty and net profits interests, and convertible preferred equity in public companies. Aquila Capital attempts to fit the terms of transactions to the individual financial goals of the client.

In analyzing an oil and gas financing request, Aquila Capital's focus will be on the experience of the management team, Aquila's ability to market the physical hydrocarbon volumes, the application of price risk management techniques, and the competency of reservoir engineering.

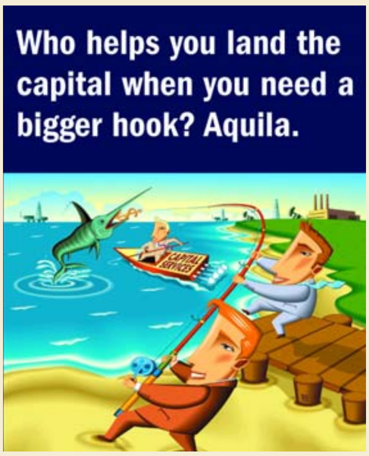
Client Profile

Aquila Capital is focused on providing innovative financial products to a high-quality client base that fully understands the risks and rewards inherent in the cyclical energy industry. Our clients are usually leaders in a specific area, with front-end operations and execution expertise, as well as the necessary back-room support functions to manage the business. Given the cyclical nature of the industry, Aquila Capital's clients are generally opportunistic in their acquisition strategy and are focused on building equity value using a prudent amount of leverage. Geographically, Aquila Capital is active in both the U.S. (onshore and offshore) and in Canada.

Capabilities

Aquila Capital has a strong transaction team that listens to clients' needs and structures transactions that best meet each party's requirements. This is complemented by a strong technical, due diligence and administrative team to effectively support transactions from initial screening through post-deal management. The team is comprised of in-house staff with many years of reservoir engineering and geological experience; strong analytical support; due diligence management with land, title and marketing expertise; and experience in E&P operations and financial management.

In addition, Aquila Capital is affiliated with one of the largest and most responsive energy marketing and risk management organizations in North America.



Approximately $1 billion committed since September 1998

Getting Started

To tailor your financing needs to your goals, Aquila must understand the specific project and your long-term plans. Tell us your story with the following information:

- Reservoir engineering report;
- Business plan;
- Management profile;
- Project description;
- Current financials;
- Commodity detail (marketing arrangements, transportation, quality specifications; delivery points; and access to commodity.

Corporate Spotlight

Oil and Gas Investor spoke with Ken Wyatt, vice president of Aquila Capital, about the services the firm offers.

Investor: *Please explain Aquila Capital's overall business strategy.*

Wyatt: The energy business is a complex sector in which volatile commodity prices lead to volatile capital availability. Because there are opportunities at all points throughout the cycle, it is our goal to navigate through all stages of the cycle and find the management teams who know how to take advantage of these opportunities. Our track record of continual and increasing capital commitments since our inception in 1998 has demonstrated our ability to do this.

Aquila Capital can provide stability in accessing the capital markets, allowing management teams to focus on operations in the field as well as the back office. At Aquila Capital, we believe a lender must develop a dynamic strategy using all available current information. We understand that nothing goes exactly as planned but recognize that those who make decisive and timely corrections will be the ones that succeed.

Investor: *How does Aquila Capital differ from others providing these capital services?*

Wyatt: Before we set up this business nearly four years ago, we spent a lot of time evaluating our competitors' track record. We also paid careful attention to emerging market dynamics. We decided that if we were going to be successful, we had to create a fast, responsive process without compromising risk controls.

We are also committed to finding the simplest structure that accomplishes all the goals of the client and Aquila Capital. We avoid complexity: it slows down the process, runs up legal costs and leads to misunderstandings. We also avoid last-minute surprises in the final deal structuring. Due diligence nearly always turns up surprises. At Aquila Capital, we let the client help shape how those changes affect the financing structure.

Also, we do not have an E&P company in our corporation that could present either a conflict or distraction. However, we have highly experienced professionals with significant E&P experience.

Back, l-r: Mike Fiuzat, Tony Schnur and Rick Adams. Front, l-r: Tim Lindvall, Ken Wyatt and John Howard.

Investor: *What changes do you foresee for Aquila Capital or the capital markets for the remainder of 2002?*

Wyatt: The market for the issuance of corporate equity is likely to stay dormant as long as interest rates stay at current levels, and producers will continue to focus on restructuring debt until rates begin to rise. We expect to focus our efforts in the near term on development projects that cannot be financed through traditional bank debt. As interest rates move back up and bank debt becomes more expensive, we expect to see an increase in acquisition activity and financing.

We expect the resurgence of the mergers and acquisitions market but see it as unlikely to gain much strength during the remainder of 2002. The exception to this will be a couple of large packages up for sale from a few major companies who are high-grading their assets. Until such a resurgence, capital markets are expected to focus on general corporate debt restructuring with a few market-makers pushing the envelope through increased developmental funding.

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Aquila

Natural Gas Partners

Corporate Background

Natural Gas Partners is a private equity investment firm focused exclusively on providing growth capital to energy companies. Senior management has worked together since NGP's formation in 1988, providing the continuity and depth of experience needed in an effective financial partner. The firm is owned solely by its principals.

NGP's investment record displays unrivaled maturity and depth. More than $780 million has been invested in 51 entities since inception. Among these investments, 33 have been fully realized through outright sales, mergers or other forms of exit. Of the 18 companies currently in its portfolio, six are operated by people with whom NGP has invested in the past.

The firm focuses on building lasting investment relationships with skillful management teams. NGP is particularly adept at identifying and investing with relatively young companies, which often means funding them at the start-up stage.

NGP likes to invest between $5 million and $60 million in its portfolio companies. Smaller investments are considered when the potential for meaningful incremental investments exists. More than 70% of NGP's capital is invested with companies that acquire and exploit producing oil and gas properties. In addition, NGP actively seeks to invest in the oilfield service, gas gathering, power generation and other energy-related fields.

Investment Profile

The character and skills of NGP's portfolio company "owner-managers" form the keystone for each investment. NGP often finds owner-manager teams in small, private companies, but it also has teamed with employees of large companies looking to step out on their own. Beyond technical and business competence, NGP looks for people who are willing and able to:

- Invest much of their liquid net worth in the enterprise;
- Devote all of their efforts to increasing the equity value of a single enterprise;
- Demonstrate a unique and sustainable flow of transaction opportunities; and
- Buy or sell opportunistically as business conditions fluctuate.

Where these traits are in place, NGP is able to achieve its primary goal of aligning interests of operators with investors. The financial commitment made by the owner-manager team is usually invested in the same security purchased by NGP. Success in building value is recognized chiefly by management's participation in company stock options.

L-R, David Albin, John Foster and Kenneth Hersh.

Initial Relationship

Not all capital is created equally. NGP believes entrepreneurs should consider not only the terms under which they raise capital but also the relationship they expect to form with their capital provider.

2001-02 Investments

May 2002	Start-up of Craton Energy Corp. (Houston) with a $15MM equity commitment for oil and gas property acquisitions in north Louisiana and east Texas.
April 2002	C$10.2MM investment in Anderson Energy Ltd. (Calgary) for O&G property acquisitions in western Canada.
March 2002	Start-up of White Oak Holdings Corp. (Houston) with a $10MM equity investment to facilitate a $20MM Gulf Coast O&G property acquisition.
February 2002	Start-up of Grid Resources Ltd. (Calgary) with a C$1MM investment for O&G property acquisitions in western Canada.
September 2001	Start-up of Northern Crown Resources Ltd. (Calgary) with a C$1.5MM investment to facilitate a C$2MM O&G property acquisition in western Canada.
August 2001	Start-up of Action Energy Inc. (Calgary) with management from Action Energy Corp., a successful prior NGP company. Provided C$2.5MM for O&G property acquisitions in western Canada.
July 2001	Start-up of Rising Star Holdings Corp. (Dallas) with a $25MM equity commitment for O&G property acquisitions in Texas and the Midcontinent.
May 2001	Start-up of NGP Power Corp. (Irving, Texas) with a $15MM equity commitment for development of power projects.
March 2001	Start-up of Classic Petroleum Inc. (Dallas) with management from Classic Resources Inc., a successful prior NGP company. Provided a $16MM equity commitment for O&G property acquisitions in east Texas.
January 2001	Start-up of Trioco Resources Inc. (Calgary) with management from EBOC Energy Ltd., a successful prior NGP company. Provided a C$15MM investment to facilitate a purchase of O&G properties in western Canada.

L-R, Billy Quinn, John Weinzierl and Dick Covington.

Often, the differences are identifiable upon the initial introduction. With NGP, expect questions aimed at learning about the personal and business history of the management team, the team's ownership stake in the enterprise, and the team's technical and transactional skills.

With its sharp focus on the people involved, NGP's decision process is straightforward and can lead to the crafting of an investment proposal within a week or two. The structure usually involves the purchase of common stock. NGP realizes that common equity provides the most financial flexibility in the early stages of a business. This is especially important given the unpredictability of commodity prices.

After Closing

NGP provides significant assistance to its family of portfolio companies, using both its financial and industry network to enhance the ability to succeed. NGP's sponsorship results in more flexible terms, faster executions and larger commitments from third-party follow-on capital sources, providing meaningful advantages over companies operating on their own.

NGP participates actively on the board of directors, preferring to entrust the day-to-day operating issues to its owner-managers. NGP understands that the cyclical nature of the energy business is inescapable. It views industry downturns as a positive condition that creates attractive acquisition or expansion opportunities. It also sees industry upturns, while enjoyable, as providing potential selling windows for specific assets or entire companies.

The viability of NGP's approach is measurable in the high number of its current owner-managers who are running their second or third company to be backed by NGP. By focusing on getting into and then staying in business with the best people, NGP has created a unique investment franchise for the benefit of both its investors and its portfolio companies.

Corporate Spotlight

Oil and Gas Investor Investor spoke to Kenneth Hersh and David Albin, managing partners of Natural Gas Partners.

Investor: *Please explain your firm's overall investment strategy.*

Albin: We apply a leveraged build-up strategy that is used by many private equity firms. It works well in deal-driven industries like ours and generates returns that do not depend on catching commodity prices just right. We particularly like the results we can achieve in the acquisition and exploitation business.

Hersh: The risks that are unique to the energy industry are all overshadowed by the bigger risk of investing in the wrong people. When compared to finding the right people, finding good assets is easy!

Investor: *How does your firm differ from others that provide these types of investment services?*

Hersh: There has been a lot of change among private energy investors in the last year. Some are out of business, new players are trying to get involved, and others changed their investment style. Choosing a capital provider that lacks durability, is inexperienced or is changing its spots can lead to unexpected headaches. NGP is owned by its principals and we have invested in private equity for more than 13 years. Our strategy allows us to be a constant source of capital for the industry no matter what oil and gas prices are doing.

Albin: Private equity firms differ in the way they participate on the board, provide in-depth proprietary research or help with executing hedging strategies. We try to be hands-on with the highest degree of integrity, building up a trusting, two-way relationship. That's easy for us to say, so anyone seeking capital needs to do their own due diligence on NGP as much as we're doing it on them.

We openly recommend contacting the portfolio companies of each equity provider they are considering. When this is done, NGP competes very effectively. We are proud of our active partnerships with our portfolio companies, the value that we add, and the repeat investments we have done with several management teams.

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Natural Gas Partners

Scotia Capital

Corporate Background

Scotia Capital's recent creation of a nationwide U.S. energy team demonstrates its expanded commitment and focus to financing the industry. Scotia Capital's energy group, which has provided up to $8 billion in loans to North American companies, has expanded its U.S. team and reorganized its corporate structure to make an even greater commitment and focus to the energy industry, largely by concentrating resources to address the financing needs of U.S.-based companies. For oil and gas exploration and production companies, Scotia Capital is consistently a top provider of debt and lending services, and now will be concentrating its efforts to expand its presence in related investment products, advisory services and international services leveraging its position as Canada's most international bank. "We are lenders first and foremost," says Mark Ammerman, managing director and industry head of energy in the U.S.

Scotia Capital previously focused on up to 20 different industries. Now, with a recent U.S. reorganization, it has narrowed its business focus to eight industries, with energy and power being two of the largest. "Since we are organized around core industry groups, and have a nationwide mandate, our industry specialists can work closely with our product professionals, ensuring that we develop customized solutions for a company's needs to assist in providing a competitive advantage," Ammerman says.

Scotia Capital has maintained an energy lending office in Houston since 1962, serving a four-state oil-producing region. It has historically focused on independent producers, pipelines and specialty chemical companies, with an emphasis on bank lending. In the past three years, however, this emphasis has been redefined with services added or augmented. For example, merger and acquisition advisory services, corporate bond placement, foreign exchange, and interest-rate risk management services are all tied-in to Scotia Capital's product offerings.

To better coordinate its product mix and services, Scotia Capital has expanded the jurisdiction of its Houston-based office to cover the entire U.S., and beefed up the staffing by four additional officers, including one with capabilities in Spanish and Portuguese. Now its U.S.-based team operates parallel to its Canadian counterpart, headed by managing director Mike Jackson, and a new London-based energy team headed by former JPMorgan Chase banker Guy Spaull, now managing director in London. Requests for capital, originated in the U.S., Canada or Europe, can be screened, customized and processed by a team of industry experts located in each respective market.

The U.S. energy team has eight managing directors and directors in Houston, each averaging more than 10 years of industry experience. Ammerman has 18 years experience in banking and two in investment banking, providing capital and M&A advisory services for independent E&P, oilfield service and diversified energy companies. A recent addition, Jim Allred, managing director and team leader for the oil and gas producers segment, has 14 years in oil and gas and oil-services financing. Joe Lattanzi, well known in the energy market, leads the team covering refining and specialty chemicals and also oversees the group's efforts in energy-related project finance.

E&P Financing

Scotia Capital's roster of existing U.S. energy client relationships includes more than 85 companies. Its energy lending covers four segments: E&P companies; gas transmission, pipelines and master limited partnerships; refining and petrochemicals; and oilfield services. The U.S. team covers more segments than does the Canadian team that limits itself to financing pipelines and E&P.

The firm's energy-industry commitments are generally equally divided among investment and non-investment grade borrowers and evenly distributed among industry segments, but Ammerman expects that with the expansion of the U.S. team, oil and gas producers will become the largest. Scotia Capital is making an increased commitment to the E&P sector at a time when some lending institutions are shying away from the industry, Ammerman says, or their commitments have remained stagnant. The E&P segment will be a growth area for Scotia Capital, which will form the "bedrock" for the U.S. team.

While Scotia Capital has provided capital for several high-profile projects, its client base generally is the junior and midsize independents. "We always have focused on the $25 million to $50 million loan size as our bread and butter," Ammerman says.

In 17 years of energy financing, the company has no upstream E&P loan losses. Maintaining that record will require discipline, diligence and relationship building, Ammerman says, as it does no party any good to provide capital to parties that can't meet terms, when the oil and gas industry—characterized by price cycles—encounters a dip. "I learned my underwriting skills under some of the best bankers around at First City in the 1980s, and we didn't lose any money during the 1986 downturn."

Transactions

Scotia Capital provides senior debt, corporate and high-yield bond capability, project finance and crossborder advisory. Its lending culture emphasizes highly structured and customized solutions. It looks for deals of a minimum of $15 million to $20 million, unless a smaller project has a larger upside potential for additional development.

Scotia Capital combines the strength of a global investment firm with that of a large international bank to service its clientele. "Helping clients take advantage of business opportunities is our highest priority, whether its M&A advisory services, equity or debt issuance, corporate lending or other capital markets products," Ammerman says.

Scotia Capital employs a relationship-driven philosophy stressing, consistency, continuity, credit culture and capital struc-

Mark Ammerman

Mike Jackson

ture solutions. "Scotia Capital's integrated structure and client focused approach means we are now able to offer greater opportunity to U.S. clients, as well as to Canadian companies, including crossborder opportunities," Ammerman says.

Scotia Capital's three-fold approach is to offer an array of products, industry knowledge, and relationships. "Our corporate and investment-banking professionals work closely with corporate clients to structure the debt or equity package that is right for the borrower," he says. "In the U.S. alone, it has provided advisory services for U.S/Canadian crossborder deals, with transactional value totaling more than $5 billion."

Debt and lending services include a wide range of debt products, such as: acquisition financing, public and private debt issuance, securitizations, structures leases and financings, commercial paper and related liquidity credit back-up, oil and gas reserve-based loans, project financing, high-yield issuance, and bank credit for general corporate purposes. Corporate Banking is responsible for all credit-related activities. These responsibilities include identifying opportunities, structuring of appropriate solutions, managing the credit process, and negotiating the credit documentation.

"For both debt and equity products, we have a strong syndication and distribution capability and have recently acquired some well-known players from other major banks, underscoring our ability to ensure efficient syndication and placement," Ammerman says. For corporate finance and distribution, Scotia Capital utilizes a fully integrated deal team approach to syndication, in which the entire deal team is involved in each phase of the transaction. The emphasis is on understanding and effectively communicating the issuer's story.

Scotia Capital provides a range of M&A services including takeover, divestiture, restructuring, reserves valuation, and related services. The Houston- and Canada-based teams work closely to provide services related to crossborder acquisitions. When a transaction occurs, the company is a major underwriter of debt and equity securities for Canadian issuers.

The Firm's History

Scotia Capital's history dates back to 1832—the year its parent company, The Bank of Nova Scotia, was founded. For the duration of that century and throughout the next, bank branches expanded across Canada, into the U.S. and overseas. In addition to its growing retail services, The Bank of Nova Scotia began providing corporate banking services from its New York offices in the early 1980s. By 1983, in response to increasing client demand, corporate-banking services were offered in other U.S. cities and Canada. In 1987, The Bank of Nova Scotia acquired McLeod Young Weir, later renamed ScotiaMcLeod Inc., a leading Toronto brokerage company.

In November 1995, ScotiaMcLeod was formally integrated with the capital markets business of The Bank of Nova Scotia, under the marketing banner Scotia Capital Markets. On Nov. 1, 1999, The Bank of Nova Scotia combined the strength of both its Corporate Banking and Scotia Capital Markets divisions, integrating them under the name Scotia Capital.

The Bank of Nova Scotia has more than $50 billion in commitments to U.S. borrowers and over 250 energy relationships worldwide. Scotia Capital utilizes a team of four petroleum engineers, which assesses the lending value of all reserves associated with The Bank of Nova Scotia's worldwide energy-lending business. "Scotia Capital, and its predecessors, have long had a huge exposure to the energy industry, and under the recent expansion of its U.S. energy office is poised to take advantage of the company's heritage, resource base, and experience," Ammerman says.

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Scotia Capital

Weisser, Johnson & Co.

Corporate Background

Weisser, Johnson & Co. is a leading investment banking advisor to oil and gas companies and other energy companies on private equity and mezzanine financing, and assists in property sales and merger transactions. Since its founding in 1991, the firm has arranged numerous financings, mergers, and asset sales ranging in size from several million dollars to more than $400 million. To date, the firm has completed more than $600 million of A&D transactions.

The two co-founders offer clients experience in energy investment banking, spanning a combined 50 years, 30 of them on Wall Street. Prior to forming Weisser Johnson, they had successful careers with top firms: Goldman Sachs, Merrill Lynch, Morgan Stanley and Bear Stearns. Additional firm professionals have oil industry, petroleum engineering and energy consulting backgrounds. The firm has successfully completed transactions with clients spanning the spectrum from early-stage private companies to large public companies in the upstream, midstream and service sectors.

Private Financings

Private financings—equity, debt or mezzanine—provide energy companies with a sophisticated, flexible and customized source of capital. Structures can be tailored to fit the client's specific timing, cash flow and risk level. Many investors are looking for long-term relationships where they can invest capital over several years.

Weisser Johnson has raised more than $250 million for growing energy companies. Financings are typically between $15 million and $50 million, but the firm has completed larger transactions.

The firm helps clients assess valuation and a financial investor's likely perception of risk profile and of a business strategy's strengths and weaknesses. Weisser Johnson then advises a client on the financing approaches most likely to bring success, and helps to package and present their story in a way that will attract the greatest interest from the investment community. The goal is to bring multiple investors to the table to receive maximum value and to choose a financial partner that best fits the client's needs. Focused targeting and optimal presentation are more important than ever in the current environment where some of the sources of financing in past years are no longer active.

Client Profile

A&D (acquisition and divestiture) clients are private and public energy companies of all sizes seeking to grow and/or optimize their asset portfolios. Financing clients are often (but not always) small to midsize independents and other energy companies seeking capital to fund accelerated growth, focused on specific niches of expertise.

Equity investors usually expect a rate of return of at least 25% to 30% and focus on finding a management team with a demonstrable record of success in making money with a strategy similar to the proposed business plan.

Mezzanine investors concentrate on drilling projects and acquisitions with high-quality development and exploitation opportunities, often with some existing production, where they have little risk of losing their capital and a good chance of earning a return in the neighborhood of 20%.

Mohajir A&D Alliance

Weisser Johnson has established a strategic alliance with petroleum engineering firm Mohajir Engineering Group to offer sale and divestiture clients a unique blend of investment banking expertise combined with engineering, geological and geophysical skills. Traditionally, A&D advisory firms have been either engineering-driven or investment banking-driven. By teaming with Mohajir, Weisser Johnson offers the best of both of these worlds.

Examples of Deals

Osprey Petroleum	$40MM mezzanine (debt with royalty) for offshore exploration and development.
Tipperary	$17MM mezzanine for development of Australian coal-seam gas project.
Antara Resources	Sale of substantially all of the company's assets, in Colorado and on Gulf Coast.
Benz Energy	$30MM mezzanine for refinancing and development drilling.
Xplor Energy	$25MM convertible preferred to repay bridge loan and fund exploration; $60MM preferred stock and warrants to fund exploration.
Vessels Energy	Sold assets in Colorado and Wyoming in two transactions for $28MM.
South Coast Exploration	Arranged sale of common stock and established an LP to fund exploration. Advised company on its stock merger with Araxas to form Xplor Energy.
Magnum Hunter	$10MM of convertible preferred stock to fund acquisitions and exploitation.
Natural Gas Clearinghouse	$120MM sale of majority interest.
Costilla Petroleum	$10MM preferred and common equity for acquisition and drilling prior to IPO.
United Gas Pipe Line	$400MM+ sale to Koch Industries.
Republic Gas Partners	$20MM private debt placement for the acquisition of Mid Louisiana Gas.

Mohajir brings a uniquely appealing tool to the A&D alliance: the Mohajir Virtual Office (MVO). This web-based service, which Mohajir has offered since 1994, provides a controlled access display of the full spectrum of information concerning a set of properties on the Internet, from a descriptive memorandum to reserve reports, maps, logs, seismic images, and well files.

In addition, the MVO allows for online reserve reporting and data transfer between the client, Mohajir and approved buyers. The MVO can save both time and money, as it replaces overnight shipping of data to multiple parties and permits immediate distribution of revisions of data. It can also allow prospective buyers to quickly review the data most important to them while retaining access to all the remaining data when they need it. The result is more attention and interest from buyers who are too short on time to review massive piles of paper-based information.

Corporate Spotlight

Oil and Gas Investor editors spoke to Scott Johnson and Frank Weisser about the firm and its services.

Investor: *What recent trends have you seen in the mezzanine financing market?*

Johnson: Some of the most active providers of mezzanine financing for development drilling and acquisitions have withdrawn, including Shell Capital and TCW, whose mezzanine fund is fully invested. Enron Capital & Trade is no longer active, and some other firms have pulled back due to after-effects of the Enron bankruptcy.

There remains a number of suppliers of mezzanine capital, but they now have more deals to choose from and are more selective than ever. This increases the importance of making the best possible first impression and of making a clear and concise presentation that covers all of the key points that interest them. We think that in this environment, we can be especially effective in our role as an experienced advisor who can help companies improve their chances of success.

Investor: *What's happening in private equity financing?*

Weisser: Private equity investors have reacted to the roller-coaster of commodity prices differently from public market investors. Through the high gas price environment of 2000-01, private investors held back, believing that there was too great a risk of falling commodity prices destroying investment values. In early 2002, with lower gas prices, private investors were eager to find attractive opportunities.

Until oil and gas prices reach levels that once again are viewed as unsustainable, we think private investors will actively continue to seek managements with strong value creation records that they can back. As always, the trick will be getting the investor and the company to agree on valuation, but that is where our experience and leading position as an advisor on private equity deals comes in handy.

Investor: *Where is the A&D market going?*

Johnson: For some time, many in the industry have expected a flood of property sales, partly as a result of some of the megamergers. We had thought the decline in commodity prices in late 2001 might encourage more sales of properties which are viewed as noncore or marginal by the larger companies. As a result of the quick rebound in commodity prices, that flood may be somewhat delayed and moderated, but we still expect an increase in activity.

Sellers should view this as an attractive time to market nonstrategic properties. Working jointly with Mohajir, we are well qualified to assist companies in evaluating and presenting the potential of their properties, or to evaluate and pursue merger and other strategic and financial alternatives. We are also well positioned to evaluate the financial capability of the buyer or merger partner.

From the left, David Taylor, Scott Johnson, Frank Weisser and Lynn Bass.

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Corporate Background

Wells Fargo is celebrating its 150-year anniversary in 2002. The fifth largest U.S. bank, with more than $300 billion in assets, Wells Fargo is headquartered in San Francisco and has more than 5,000 banking locations in 23 states.

Wells Fargo has been serving the energy industry for more than 30 years, employing over 50 representatives in Houston, Dallas, Midland and Denver. The energy portfolio includes almost $4 billion of commitments, approximately half to the E&P sector, with the balance in the oil-service and other sectors. In addition to traditional senior credit facilities, Wells Fargo provides asset-based and equipment financing, leases, development/mezzanine loans and equity to energy industry clients. Wells Fargo Energy Capital has been active over five years providing development financing and nonrecourse loans to assist clients in exploiting their proved undeveloped reserves.

Further demonstrating Wells Fargo's commitment to the energy sector, Wells Fargo Energy Advisors was formed in 2001 to complement Wells Fargo's energy banking franchise. Wells Fargo Energy Advisors provides focused, high-quality advisory and divestment services to the oil and gas industry. Since its inception, Energy Advisors have been engaged on 15 assignments involving firms such as Burlington Resources, Pure Resources, 3Tec Energy, EnerVest and St. Mary Land & Exploration.

Tim Murray, an 18-year veteran of Wells Fargo, manages the Energy Group. Murray earned degrees in chemical engineering and an MBA and has two years of refining and six years of petroleum engineering experience with major oil companies before joining Wells Fargo. The technical background and $10-million loan approval authority enables Murray to quickly assess and respond to middle-market opportunities, a primary focus of Wells Fargo.

Lending Profile

For reserve-based loans, Wells Fargo extends commitments ranging from $1 million to more than $100 million. For smaller independents, the bank provides loans, treasury and investment management, advisory services, and acquisition and divestiture (A&D) opportunities to help the client grow. Wells Fargo seeks to underwrite and arrange syndicated credit facilities or play a significant role in syndicated credits for larger independents.

Wells Fargo Energy Capital provides development financing for established independents with a well-defined development program. Development and mezzanine financings range in size from $1 million to $20 million dollars. Typical development loan structures include a higher degree of performance monitoring, requirement to hedge the commodity price risk, and an equity participation feature (ORRI or NPI).

In the oilfield-service and equipment segment, Wells Fargo is one of the most active lenders and a leading provider of purchasing card and treasury management services. The bank's dedicated oilfield-service group provides financial services to large publicly traded as well as private companies, across all segments of the industry. Wells Fargo extends commitments from $10 million to more than $50 million. The bank generally leads or plays a significant role in most of the credit facilities in which it participates.

Client Profile

In the E&P sector, Wells Fargo caters to the small to medium-sized independents that are focused on domestic activity. Wells Fargo has the geographical reach and resources to support an independent's growth. Wells Fargo's typical oilfield service client is the larger, geographically diversified company in need of comprehensive financial services. Smaller service companies with a significant market position or niche focus are also preferred clients. In the pipeline and gas gathering/processing arena, the bank has led and participated in a number of transactions with both private and public entities.

Corporate Spotlight

Oil and Gas Investor talked to Tim Murray, Wells Fargo's energy group manager, about the firm's services.

Investor: *Please explain your overall energy strategy.*

Examples of Deals

Bonneville Fuels Corp. manages the domestic operations for its parent, Carbon Energy Corp. (Amex: CRB). Wells Fargo's Denver Energy Office provides a $20-million revolving line of credit as well as comprehensive treasury management services. Wells Fargo has assisted Bonneville Fuels in managing its risk profile by providing interest rate protection, commodity hedges and foreign exchange services. Private Client Services provides personal banking and investment services to company employees. Bonneville Fuels is a prime example of relationship banking as Wells Fargo defines it.

Wells Fargo co-arranged a $200-million unsecured revolving credit facility for Noble Drilling Corp. Noble uses the Wells Fargo Purchasing Card to streamline the payments process through automated downloads of the small-dollar purchasing card transactions and to reduce the number of payments, invoices and vendor setups previously required by its accounting and treasury staff. In January 2001, Wells Fargo launched an award winning global payment system that allows Noble to process its worldwide payments seamlessly through a direct transmission from its ERP system (SAP).

Murray: Our strategy is to become a full-service financial partner and form strong relationships with our clients. We define a "relationship" as a financial partnership, in which we provide more than just a loan. We seek to assist our clients in managing risk with commodity and interest-rate hedges, and foreign exchange protection. We help clients maximize cash flow and reduce expenses with sophisticated treasury management services and purchasing cards. Our investment management and private banking services assist clients in managing their investments.

For middle-market clients that are capital-constrained, Wells Fargo provides alternative sources of capital through our asset-based lending, leasing and equipment finance groups. Wells Fargo Energy Capital provides higher risk capital such as nonrecourse development loans, mezzanine facilities, and subordinated debt. For larger clients with access to the capital markets, we seek to arrange and lead syndicated credit facilities.

Wells Fargo Securities is a full service investment bank that can serve the capital market needs of middle-market clients.

Wells Fargo Energy Advisors serves as an intermediary, helping client acquire or divest assets.

***Investor:** How does your bank differ from other banks?*

Murray: I believe that the primary difference is our ability to deliver big bank services to middle-market companies in a responsive fashion. At Wells Fargo, our corporate mantra is "Run it like you own it." We enjoy significant autonomy in running our business to serve the clients in our best judgment. The flat organizational structure and Energy Group credit approval limits enable us to be very responsive to the needs of our middle-market clients. Wells Fargo Energy Capital provides alternative sources of capital and A&D services to help our clients grow.

Unlike many banks, Wells Fargo will remain a traditional commercial bank focused on loans, treasury and investment management, trade services, risk management, and private banking services. For clients that require investment-banking services, Wells Fargo Securities can provide them. Our approach will remain focused on delivering excellent client service on the traditional commercial banking services.

***Investor:** Why did Wells Fargo form an A&D Group? Isn't that already a very competitive market?*

Murray: The A&D business is not rocket science--it has many similarities to the loan syndication business. We've hired two very experienced principals that manage the business, with additional manpower supplied when required by bank or Energy Capital personnel. We place great emphasis on this business since it does not require capital and enhances the relationship profitability so that we can price our loans more competitively. It's a win-win for us and our clients. I believe that we will be very successful in the A&D business for one very simple reason: we are serving our clients and to us, it's not just another transaction, it's a relationship builder.

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