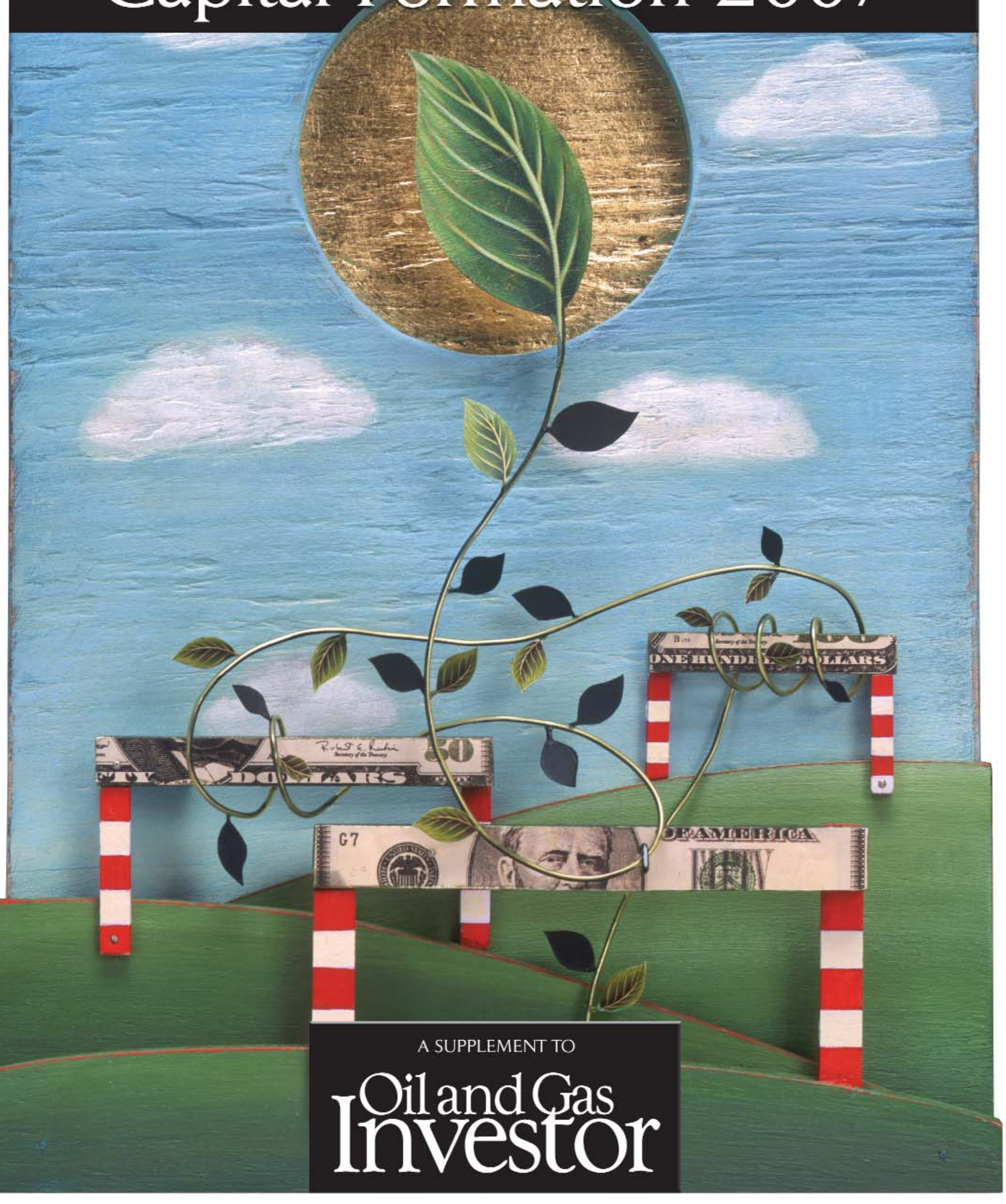
HERE'S THE MONEY:
Capital Formation 2007



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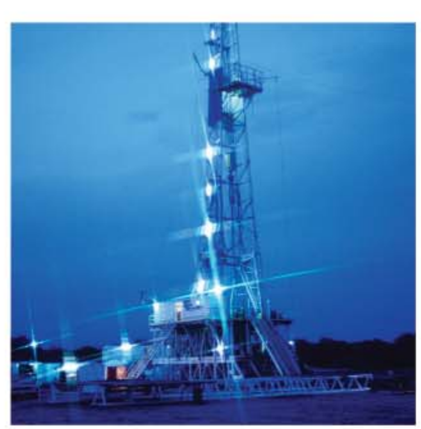
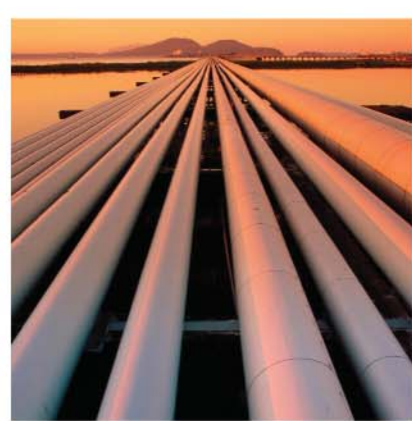
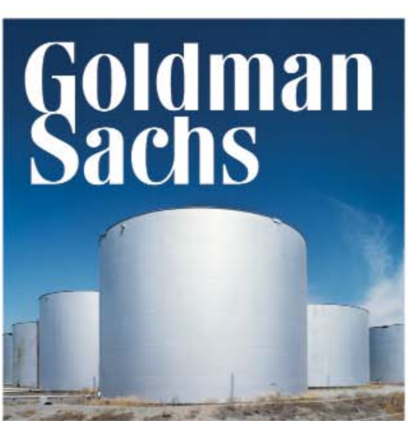
Oil and Gas Investor

MAY 2007

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HERE'S THE MONEY:
Capital Formation 2007

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A Leading Capital Provider

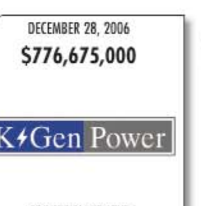
PROVEN LEAD UNDERWRITING EXPERTISE IN ENERGY & NATURAL RESOURCES

JANUARY 11, 2007
$131,100,000

INITIAL PUBLIC OFFERING
Joint Book-Running Manager

JANUARY 10, 2007

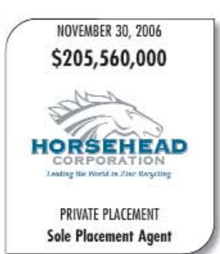
Acquisition of Partnership Interests
Financial Advisor

DECEMBER 28, 2006
$776,675,000


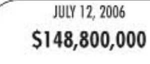
PRIVATE PLACEMENT
Sole Placement Agent

DECEMBER 22, 2006

HAS FORMED A LIMITED PARTNERSHIP
QUEST MIDSTREAM PARTNER'S LP
Financial Advisor

NOVEMBER 30, 2006
$205,560,000


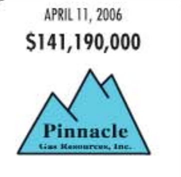
PRIVATE PLACEMENT
Sole Placement Agent

JULY 12, 2006
$148,800,000


PRIVATE PLACEMENT
Sole Placement Agent

JUNE 28, 2006
$389,515,000

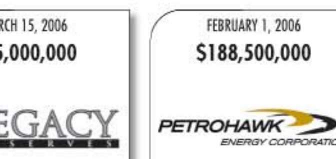
INITIAL PUBLIC OFFERING
Joint Book-Running Manager

APRIL 11, 2006
$141,190,000


PRIVATE PLACEMENT
Sole Placement Agent

MARCH 15, 2006
$85,000,000

PRIVATE PLACEMENT
Sole Placement Agent

FEBRUARY 1, 2006
$188,500,000


PRIVATE PLACEMENT
Placement Agent

DECEMBER 20, 2005
$275,325,000

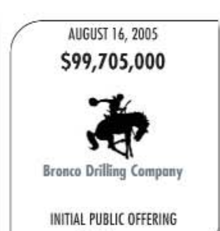
PRIVATE PLACEMENT
Sole Placement Agent

NOVEMBER 14, 2005
$198,355,000

PRIVATE PLACEMENT
Sole Placement Agent

SEPTEMBER 14, 2005
$599,695,000

FOLLOW-ON OFFERING
Co-Manager

AUGUST 16, 2005
$99,705,000


INITIAL PUBLIC OFFERING
Co-Manager

AUGUST 8, 2005
$446,985,000

PRIVATE PLACEMENT
Sole Placement Agent

JULY 7, 2005
$800,000,000

PRIVATE PLACEMENT
Sole Placement Agent

JUNE 8, 2005
$113,940,000

FOLLOW-ON OFFERING
Joint Book-Running Manager

MARCH 11, 2005
$440,335,000

PRIVATE PLACEMENT
Sole Placement Agent

NOVEMBER 23, 2004
$200,000,000

PRIVATE PLACEMENT
Sole Placement Agent

SEPTEMBER 23, 2003
OCTOBER 9, 2003
FEBRUARY 19, 2004
$1,308,500,000

PRIVATE PLACEMENT
Sole Placement Agent

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Harvesting Capital

Most people in the E&P and financial worlds agree: there has never been a better time to access capital for an exploration and production company. There is plenty of fertile ground to plow.

The multitude of sources providing that capital seems to keep spreading like welcome new growth in a green spring garden. The array of choices of types of capital and deal structures makes for a long list of opportunities, quite like looking through a seed catalogue full of promise.

Private capital in particular is abundant, by one estimate now totaling US$18 billion available for energy. Its investments show no indication of slowing down, if it can find good companies with top-notch management.

But, how does an E&P company decide when and where to sow and reap? By studying the field, the players and their strategies. This annual special report will be your guide.

We have profiled some of the new capital sources such as Quintana Energy Partners LP and Tudor Pickering and Co. LLC, and some of the E&P companies that have chosen to pursue the master limited partnership (MLP) format to raise equity.

Today there is more than one way to monetize reserves and more than one type of buyer to court. The newly public MLPs fit both as they are willing to monetize long-life assets and bid aggressively to buy predictable cash flow from proved developed producing reserves.

Like Jack on the beanstalk, they are climbing to prosperity, deal by deal.

—Leslie Haines, Editor-in-Chief

Previous Financing Articles

These articles on all aspects of accessing capital have appeared in Oil and Gas Investor *since last year's* Capital Formation *report.*

Financing Micro-Caps. A growing number of investment and commercial banks are connecting small public companies with growth capital. August 2006.

New Wave Hits Banking Beach. Foreign banks with active U.S. energy lending arms. Standard Bank Americas, Bank of the West and Sumitomo Mitsui Banking Corp. September 2006.

Capital Choices. The deal strategies of four capital providers: Energy Capital Solutions, Trust Co. of the West, BlackRock Energy Capital (now BlueRock) and GasRock Capital LLC. November 2006.

Capital Curves Ahead. Investment bankers and private-equity providers offer their opinions on debt and equity financing possibilities for 2007. (December 2006 cover story)

IPO Alternatives. Reverse mergers into public companies and 144A offerings, which may be less risky than a regular IPO. December 2006.

Private Capital Choices. CIT Energy, Lime Rock Partners and Avista Capital Holdings are profiled. January 2007.

Funding Prospects. Patriot Exploration Co., SouthView Energy LP, Access Exploration Corp., PLS Inc. and PetroInvest help companies fund drilling prospects. January 2007.

Carve-Outs. Upstream partnerships, LLCs and trusts access public equity. January 2007.

Mezzanine Mojo. Profiles of NGP Capital Resources Co., Petrobridge Investment Management LLC and Post Oak Energy Capital. February 2007

Tristone Capital's Energy Lender Price Survey. The quarterly price decks of 44 commercial banks. March 2007.

Capitalizing a Management Buyout. Advice on preparing to sell, documenting and financing the deal. March 2007.

The SPAC. Using the special-purpose acquisition company to raise equity. March 2007.

COSCO Private Capital Energy Index. Semi-annual analysis on capital raised, available, invested and monetized in 2006 for 22 private capital providers. April 2007. •

Rising Credit Tide

Amid frothy commodity prices and cash flows, 2006 oil and gas loan volume hit a 10-year high, with international capital providers sharpening their U.S. focus.

BY BRIAN A. TOAL, Senior Financial Editor, *Oil and Gas Investor*

Despite record US$78-plus oil prices last summer, Nymex natural-gas futures prices in the $10 to $11 range, and producer cash flows shooting through the roof, the energy credit markets in 2006 saw a record level of borrowing activity.

Last year, oil and gas loan volume soared to a 10-year high of $164.57 billion, up 36% from a 2005 watershed mark of $120.84 billion and a 2004 credit-flow pace of $87.81 billion. To put this in broader perspective, oil and gas loan volume in 1997 was just $66.95 billion.

This energy credit surge wasn't an isolated phenomenon. Across all industries, syndicated lending last year totaled about $1.67 trillion, up from about $1.5 trillion in 2005, says Diana Diquez, senior oil and gas market analyst for Reuters Loan Pricing Corp. in New York.

The firm collects, analyzes and publishes loan-data activity on all industries. Its data on the oil and gas industry include aggregate loan volume across five sectors—E&P, oil service, pipelines, refining and integrated oils.

"In the overall market, there was unprecedented liquidity—huge demand from banks and from non-bank institutional investors such as mutual funds and hedge funds to book loans in attractive sectors such as energy," says Diquez. "So it was very easy to get large lending transactions done."

In addition, the analyst points out the spreads or margins on loans in 2006 dipped to record lows, so it was attractive for borrowers to tap the credit markets for funds. For instance, for leveraged oil and gas borrowers—those credits below a BBB- rating with interest rates of at least 1.5% higher than the London Interbank Offering Rate (Libor)—the average drawn spreads last year on loans syndicated to banks dropped to Libor plus 210 basis points versus Libor plus 220 in 2005 and Libor plus 245 the prior year.

Other factors spurring 2006 oil and gas loan volume were low default rates, high earnings and the fact that the overall global economic environment was benign. Also, banks were providing longer tenors on loans and looser covenants. In short, there was more willingness to lend—and on more favorable terms.

"All these factors, taken in combination, led not only to a robust level of refinancing activity, but more visibly, to a huge surge in M&A activity—on the part of both investment-grade and non-investment-grade borrowers—which was financed in the loan market," says Diquez.

Indeed, the dollar value of M&A activity for all industries in 2006 climbed to $421.9 billion, up from $260.7 billion in 2005. Much of this activity—worth $114 billion—was the result of leveraged buyout (LBO) transactions driven by private-equity investors taking public companies private.

Noteworthy in this context was that the overall dollar value of oil and gas investment-grade lending—only $46.3 billion in 2005 versus $74.5 billion for the non-investment-grade sector that year—reclaimed its 10-year dominance in 2006, shooting up to $94.9 billion versus $69.6 billion for non-investment-grade credits.

The reason: investment-grade lending was revived by the surge in M&A activity, the analyst explains. Specifically, $40 billion of last year's oil and gas M&A activity involved investment-grade names out of a total of $63 billion worth of energy M&A-related credits. Comparatively, total energy-related M&A borrowings for 2005 totaled only $18.4 billion and just $9.4 billion in 2004.

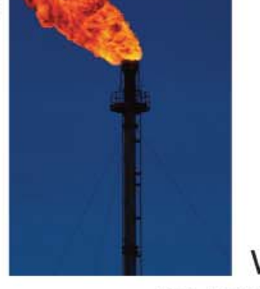
Among the bigger investment-grade M&A-related credits for 2006, Diquez cites Anadarko Petroleum's aggregate $24-billion credit that backed the buyout of Kerr-McGee Corp. and Western Gas Resources.

Among the larger non-investment-grade names involved in M&A-related lending activity last year, she cites within the midstream the announced $8.4-billion credit backing the LBO of Kinder Morgan; within the downstream space, Western Refining announced $1.4 billion credit for the acquisition of Giant Industries; and within the E&P space, Exco Resources' dual-tranche, $1.4 billion credit that allowed that producer to purchase Winchester Energy.

"All these events, including the revived level of investment-grade borrowings spurred by the strong uptick in oil and gas M&A activity, were caused by strong industry fundamentals, a perception of sustainable high commodity prices and continued high asset values, plus a very friendly borrowing environment," says Diquez.

What's her outlook for oil and gas credit activity this year?

"Lending activity in first-quarter 2007 has started lower than for the same period last year, so 2006 is going to be a tough year to beat, in terms of oil and gas



with the track
record to prove it.

290

ENERGY EQUITY FINANCINGS WITH PROCEEDS OVER

$13.1 billion

59

CORPORATE ENERGY M&A TRANSACTIONS VALUED OVER

$17.5 billion

176

ENERGY ASSET PACKAGES VALUED OVER

$23.5 billion

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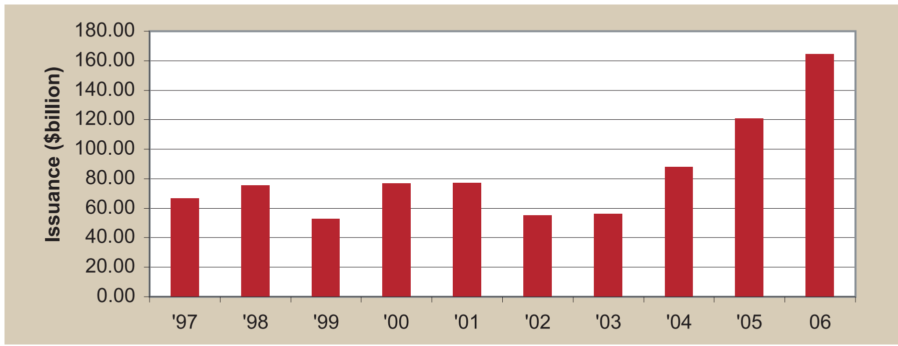


Oil and gas loan issuance. (Source: Reuters Loan Pricing Corporation/Deal Scan)

loan volume," the analyst believes. "That said, energy loan volume should be very robust relative to historical norms as M&A activity and refinancings at lower spreads continue to remain strong and as market liquidity continues to show no signs of slowing down."

DRAWING A CROWD

The rising tide in the energy credit markets in 2006 wasn't entirely due to the willingness of domestic banks to book loans. For the past two decades, major international financial institutions—the likes of BMO Capital Markets, Societé Générale, RBC Capital Markets, the Royal Bank of Scotland and BNP Paribas—have been steadily expanding their footprint in the U.S. energy space.

With the growth in unconventional gas-resource plays domestically, the need for more midstream infrastructure to bring new energy supply to high-demand domestic markets and small-cap U.S. independents seeking to access energy opportunities abroad or reshape themselves into more attractive investment vehicles, the opportunity for these institutions to provide integrated capital solutions to the U.S. energy sector is ballooning.

Among such global financial players, BMO Capital Markets—a member of the North American-based BMO Financial Group—and Paris-based Societé Générale have been especially effective recently in making inroads in U.S. energy financing.

INTEGRATED SOLUTIONS

Active in the U.S. energy-finance space for more than 45 years, BMO Capital Markets—a member of the North American-based BMO Financial Group—had in fiscal 2006 about $4.9 billion of committed capital to the U.S. energy and power industries, a level about 40% higher versus fiscal 2005, primarily through participations in syndicated credit facilities. (The accompanying Reuters Loan Pricing Corp. league table reflects only lead-arranged U.S. oil and loan activity.)

On the capital-markets side of the equation, BMO Capital Markets since early this decade has completed in the U.S. energy sector public equity transactions that raised more than $4.7 billion while participating in more than $11.7 billion worth of high-yield offerings and $37 billion-plus of investment-grade public debt deals. Its U.S. energy M&A activity for the past nine years eclipses $31.3 billion worth of advisories.

Tod Benton
Managing Director
Energy and Power Group
BMO Capital Markets

As part of an effort to further accelerate its growth in the U.S. energy space, BMO Capital Markets in February announced the appointment of Tod Benton as managing director and head of investment banking for the firm's energy and power group in Houston. Previously, he had been head of energy corporate banking for Deutsche Bank and co-head of syndicated energy finance at JPMorgan Securities.

"My goal is to grow both our loan and investment-banking business in the energy sector," says Benton. "The way I see us broadening our footprint in this space is by working more closely with smaller-cap and mid-cap E&P companies by providing loan capital—which is the first product these companies typically need—and then as they grow, providing private-equity and debt placements, mezzanine capital if necessary, and eventually, M&A advisories and execution of capital-raising transactions in the public equity and debt markets."

In February, BMO Capital Markets, demonstrating its integrated approach to lending and investment-banking activity, acted as advisor to The Exploration Co., a publicly traded San Antonio, Texas-based producer, on its planned $95.6-million cash and stock purchase of Output Exploration LLC, a private Houston operator.

Concurrently, the capital provider underwrote a new, four-year, $125-million senior secured revolving credit facility and a five-year, $80-million senior secured second-lien term loan to fully finance the acquisition and provide additional funding for bolt-on acquisitions, development drilling and working capital.

The Output acquisition, which closed in April, doubles The Exploration Co.'s proved reserves and increases its current oil and gas production by nearly two thirds.

Also in first-quarter 2007, BMO Capital Markets advised Whittier Energy Corp., a publicly traded Houston E&P company, on its $188-million sale to U.K.-based Sterling Energy plc and also rendered a fairness opinion to the seller. That same quarter, it acted as co-manager on a $500-million, 10-year public offering of 7% senior notes by

QUANTUM ENERGY PARTNERS

is pleased to announce the formation of

QUANTUM ENERGY PARTNERS IV, LP

$1,320,000,000

Equity investments in oil and gas companies focused on building reserves through acquisitions, exploitation and exploration, as well as opportunities associated with midstream activities, oil field services, coal, power generation and transportation, and alternative energy.

For more information on Quantum, or to submit information on your company, please contact the following:

S. Wil VanLoh, Jr. | **Alan L. Smith**

Quantum Energy Partners
777 Walker Street, Suite 2530, Houston, TX 77002
Phone 713.225.4800 Fax 713.225.5700
www.quantumep.com

Plains Exploration Co., which will enable that publicly traded Houston producer to repay debt and pre-fund capital-spending programs.

Showing another side to its financing capabilities, the capital provider last year acted as joint arranger on a $150-million private investment in public equity (PIPE) deal for Black Hills Corp., a Rapid City, South Dakota-based diversified energy company.

"The advantage of a PIPE is that it allows quick access to institutional capital as opposed to going to the public markets to do a secondary stock offering," explains Benton. "What we brought to the table through our investor relationships was non-mainstream institutional money that might not have otherwise been brought into the deal."

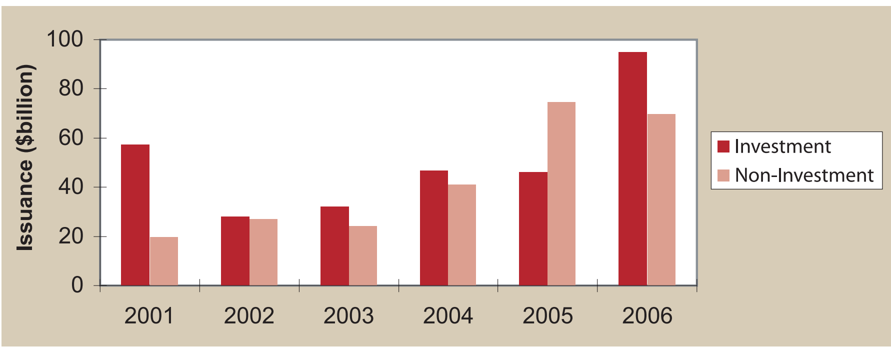
What is Benton's outlook for 2007 for U.S. lending and capital-markets activity?

"In terms of energy lending, we've developed a number of new upstream and other energy/power relationships—our client base is now close to 100—so we're already trending up from 2006," he says. "As for M&A activity, we had a banner year in 2006, advising the likes of Petrohawk Energy Corp. on its $1.5-billion buy of KCS Energy, so it's going to be challenging to match that pace. Winning M&A mandates is a low-probability proposition."

The dominant challenge, he points out, is that there's a lot of capital flowing into the U.S. energy space, with competition coming not only from U.S. financial institutions, but also from big international players—and even from hedge funds and institutional investors chasing terms loans and direct investments in the energy sector.

"So we're going to have to see how the U.S. oil and gas industry shakes out this year," says Benton. "If commodity prices fall and some of the fair-weather competition from hedge funds disappears, that will be good for the capital markets long term.

"Also, if we were to see E&P capital-spending remain at high levels in conjunction with a drop in commodity prices, that would create the need for operators to borrow more money because they would be outspending their cash flow at that point. And, if they build more credit outstandings, they'll typically go to the public bond markets to term out those outstandings and refresh their revolvers. So we would see more capital-markets activity as well."



Investment grade versus non-investment grade lending. (Source: Reuters Loan Pricing Corporation/Deal Scan)

This said, the energy investment-banking head predicts M&A will be the driver of energy financing activity this year.

"We see commodity prices standing still for a while. And as buyers and sellers begin to come together on where prices are likely to remain for 2007—and what fair-market values are likely to be—there'll be more consolidation activity, and that will play to our financing and M&A-advisory strengths."

TRENDS FOCUSED

With assets of more than $900 billion globally, Societé Générale has had a presence in Houston since 1979. Notably, during the past 24 months, it has increased by 50% its lending commitments to the U.S. upstream, midstream and downstream sectors, to $4- to $5 billion—nearly half that geared to the E&P space.

"There are a couple of trends that have emerged recently in the energy sector that are driving the growth not only of our U.S. lending activity, but that are also allowing us to make greater use of our hedging and capital-markets capabilities, particularly the underwriting of public-debt issuance," says Jim Allred, managing director and head of the U.S. oil and gas group for Societé Générale in Houston.

Jim Allred
Managing Director
Oil and Gas Group
Societé Générale

The first trend: the globalization of the natural gas market.

"Natural gas is in great supply in places like South America and the Middle East, but there's never been a market for gas in those regions, so that commodity has gone largely unused," explains Allred. "Now, however, gas prices are at a high enough level in North America and Europe, where it makes sense for energy companies to build large LNG (liquefied natural gas) facilities in those places of great gas supply and ship that gas in liquefied form to markets like North America and Europe—where the demand is."

A top advisor on arranging and syndicating debt financing for the construction of huge gas-liquefaction facilities worldwide, Societé Générale within the past 18 to 24 months has advised ConocoPhillips on arranging the debt financing for such a multi-billion-dollar facility in the Middle East, and a private Texas-

based operator about funding a similar facility in South America.

The other trend Allred is following: the advent of master limited partnerships (MLP) in the upstream space.

"Right now, we're seeing a confluence of factors that didn't exist before in the oil and gas business," says the banker. "One is a very low interest-rate environment; the other, high commodity prices, with the futures market showing a strong contango curve for commodity prices four to five years out.

"When you couple these two factors, there's the opportunity to create publicly traded E&P-focused entities that can distribute strong cash flows and provide very attractive yields to investors, in the range of 7% to 8%."

Before and after the $261-million IPO of Linn Energy LLC in January 2006, Societé Générale acted as an agent-level bank to the now-Houston-based upstream partnership on hundreds of millions of dollars worth of acquisition-related credit facilities. Currently, it is seeking to provide a similar level of financing for two more U.S. producers that are planning to form upstream MLPs this year.

Allred stresses his firm is not only able to provide reserve-base revolvers and bridge loans to such entities, but just as importantly, hedging facilities to mitigate the risk related to interest rates and commodity prices. "The more an MLP can lock in future commodity prices and interest rates, the more stable and less volatile its cash flows are, which is essential for maintaining distributions that provide attractive yields to unitholders," he says.

With an eye on making its reserve-base lending skills available to smaller-cap, private E&P companies in the U.S., Societé Générale in March was the lead arranger on a five-year, $75-million credit facility for a private Denver-based operator seeking to develop its coalbed-methane asset base in the San Juan Basin in New Mexico.

Late last year, it also committed to a four-year, $40-million credit facility for a New Mexico-based private E&P company to enable that producer to develop a carbon-dioxide and natural-gas project in Colorado.

"The financing involved extensive commodity-price and interest-rate hedging in order for the client to get the money it needed to complete the development of this project," says the banker.

There is yet another potential driver for Societé Générale's growth in the U.S. energy-lending arena this year: the M&A market.

"There's a vast amount of oil and gas assets on the market right now, notably from both Anadarko Petroleum and Dominion E&P," says Allred. "In fact, it's likely that 2007 will see bigger A&D activity than last year—and 2006 was a record year for such activity, with $60 billion worth of assets changing hands in the U.S. This causes me to believe that we're going to have the ability to put more capital to work, in terms of acquisition financing." •

2006 U.S. Oil & Gas Lead Arrangers

RANK	BANK HOLDING CO.	LEAD ARRANGER VOLUME	NO. OF DEALS	MARKET SHARE
1	JP Morgan	38,235,000,000	78	23%
2	Bank of America	22,149,100,000	51	13%
3	Credit Suisse	16,645,000,000	15	10%
4	Citigroup	15,331,000,000	21	9%
5	UBS AG	13,749,475,000	5	8%
6	Wachovia Securities	11,775,000,000	30	7%
7	BNP Paribas	11,260,000,000	27	7%
8	Royal Bank of Scotland Plc	7,900,000,000	7	5%
9	Wells Fargo & Co.	5,150,350,641	17	3%
10	Barclays Bank Plc	4,050,000,000	2	2%
11	Union Bank of California	2,987,200,000	10	2%
12	SunTrust Bank	2,710,000,000	9	2%
13	Goldman Sachs & Co.	2,048,316,000	4	1%
14	RBC Capital Markets	1,596,001,382	9	1%
15	Lehman Brothers	1,450,000,000	5	1%
16	Fortis Bank	1,275,000,000	5	1%
17	BMO Capital Markets	1,110,000,000	5	1%
18	TD Securities	1,091,001,382	3	1%
19	General Electric Capital Corp.	906,136,842	6	1%
20	Scotia Capital	775,000,000	4	0%
21	Deutsche Bank	512,500,000	3	0%
22	Guggenheim Partners	415,000,000	3	0%
23	BOK Financial Corp.	275,000,000	1	0%
24	PNC Bank	267,500,000	5	0%
25	Midland Financial Co	265,000,000	2	0%
26	Morgan Stanley	200,000,000	1	0%
27	Capital One Financial Corp.	100,000,000	1	0%
28	KeyBank	90,000,000	2	0%
29	Guaranty Bank	82,000,000	1	0%
30	Comerica	75,000,000	1	0%

Source: ***Reuters Loan Pricing Corporation/Deal Scan***

A Proven Track Record Of Success

What distinguishes EnCap from the competition?

The depth and experience of our investment team is unparalleled. Three of the EnCap partners have run E&P companies and three other members of our investment staff are petroleum engineers. We understand the technical as well as the financial aspects of the business. We also understand the opportunities and challenges presented by the cyclical nature of the industry, and appreciate the fact that there will be bumps in the road. Ask the CEOs of our portfolio companies, many of whom we have backed multiple times. EnCap is a patient, value-added financial partner. After successfully investing eleven funds over almost two decades, we've earned the respect and support of our institutional investors, and we are well equipped not only to provide your company with growth capital, but also help you smooth out the inevitable bumps encountered in the process of building a substantial enterprise and achieving your financial goals.

D. Martin Phillips, Robert L. Zorich, David B. Miller, Gary R. Petersen
Co-Founders and Partners

The Leading Source of Private Equity Capital to the Independent Sector since 1988

- EnCap has been a significant and innovative financing source to the independent sector for almost two decades.
- Provided 125 companies with growth capital and value-added strategic support.
- Closed over $6 billion of oil and gas transactions (institutional funds aggregating $4 billion and $2.5 billion of corporate finance transactions).
- Currently investing 12th oil and gas fund with aggregate commitments of $1.5 billion from 100 major institutions.

Houston Office Team:

Gary Petersen **Marty Phillips** **Bob Zorich**

Brent Bechtol
Mark Burroughs
Jason DeLorenzo
Ryan Devlin
Bobby Haier
Mitch Hovendick
Kyle Kafka
Sean Smith
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Open for Business

Three new companies that will finance energy deals share their views.

By Bridie Isensee, Contributing Editor

Energy entrepreneurs know there has never been a better time to access capital for building their dreams. Several billion dollars are available, and new providers keep showing up. They will learn about those new names while perusing updated lists of capital providers, but behind those names are seasoned E&P teams eager to tailor their services for a range of clients, from institutional investors to small operators and independents.

Quintana Energy Partners LP and Tudor Pickering LLC, both based in Houston, and BSI Energy Partners in Dallas, Texas, join this list of new equity buyers with centuries of combined experience, and they even include a former U.S. Cabinet secretary.

QUINTANA

The Quintana name is already a well-known commodity in the energy arena. Quintana Energy Partners L.P. (the Fund) was formed by Quintana Capital Group L.P. to make control-oriented equity investments across the oil and natural gas, coal and power industries. With US$650 million in capital commitments, the Fund will seek to continue the investment history of the Houston-based family of Corbin J. Robertson Jr.

Corbin J Robertson Jr.
Principal
Quintana Energy Partners

The family traces its roots in the energy industry through four generations, commencing with the founding of Quintana Petroleum Corp. in the 1930s by Hugh Roy Cullen, Corbin J. Robertson Jr.'s grandfather. In addition to the operational expertise of Quintana's organization, Donald L. Evans, the former Secretary of the U.S. Department of Commerce, brings more than 25 years of experience gained during his tenure at Tom Brown Inc., a leading independent energy company. Under Secretary Evans' leadership, Tom Brown became a pioneer in developing the prolific natural gas resources of the Rocky Mountains.

Quintana Energy Partners will scout a wide variety of ideas throughout the energy space, says the Fund's chief operating officer and spokesman, Loren Soetenga, from exploration to oilfield service, from underexploited conventional oil and gas producing properties to unconventional opportunities.

The Fund is interested in backing proven E&P and service-oriented management teams, looking to start or grow new companies. In addition, it will likely invest in niche natural gas storage or other midstream opportunities, coal mining operations and infrastructure, clean coal technology opportunities, renewable and alternative energy opportunities, and power generation or transmission opportunities, Soetenga says.

"This is a broad-based, opportunistic fund that will go upstream, midstream and downstream, domestic and international," says owner and partner, and former U.S. Department of Commerce Secretary, Donald L. Evans, who has known the Quintana principals since his oilfield days in West Texas in the 1980s.

As far as size of deals, the new fund will focus on the $10- to $50-million range in equity, Soetenga says. Leverage used will vary depending on the deal. Historically, 75% of Quintana's investments have been in North America.

The fund will deploy capital via growth equity and start-up investments, leveraged buy-outs, management buy-outs, buy-and-builds, joint venture or other arrangements.

Manning the helm at Quintana Energy Partners is an impressive team of energy professionals with 318 years of combined experience. Principals of the fund are Cullen's grandson, Corbin (Corby) Robertson Jr.; Warren Hawkins; Brock Morris; and other members of the Robertson family, including Corbin III and William Robertson. The fund's investment team is made up of 19 professionals, including seven with technical and operational skills, as well as in-house fund operations, legal, accounting and risk management expertise, and a pool of finance and analytical associates.

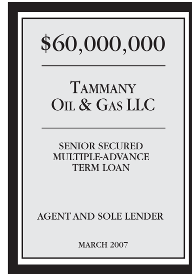
"The team's operational and technical expertise represents a skill-set and experience level that is unparalleled among energy private equity investors," Soetenga says. "There has been virtually no turnover, since the core of the team came together at Quintana, over 25 years."

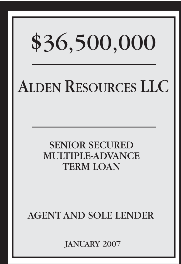
The fund has an extensive network of relationships with leading executives, entrepreneurs, consultants, investment bankers, private equity investors and government officials within the energy sector, Soetenga says.

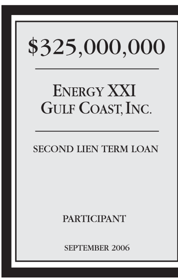
This has proven to be a valuable source of investment opportunities, frequently resulting in Quintana gaining access to an opportunity before other potential investors

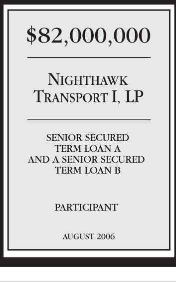
NGP CAPITAL RESOURCES COMPANY

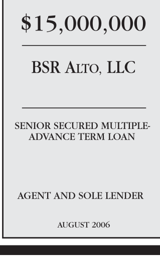
Providing Loans and Structured Capital to the Energy Industry

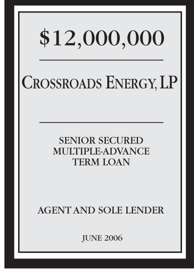


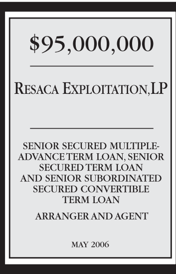


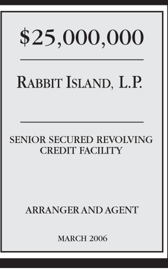


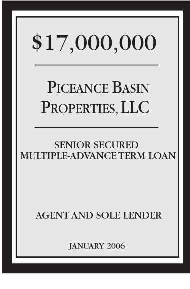


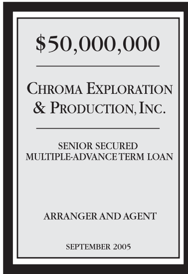


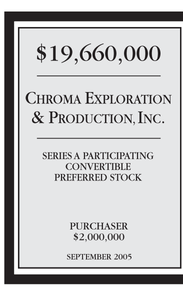


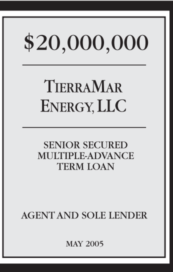


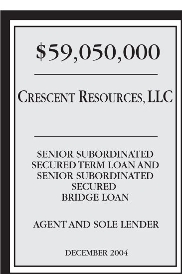












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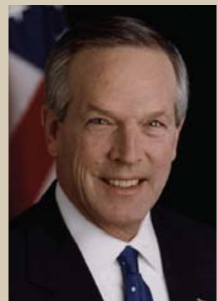
do. The Fund also benefits significantly from the strength of Quintana's organization, with the addition of Evans, in sourcing proprietary investment opportunities on a global basis.

Don Evans: Back In the Patch

A notable new face among Quintana Energy Partners LP fund principals is Donald L. Evans, former U.S. Secretary of Commerce under President George W. Bush.



Don Evans
Owner, Partner
Quintana Energy Partners

Evans is a veteran in the oil and gas industry. He began his career as a roughneck working on oil rigs for Midland, Texas-based Tom Brown Inc., a large independent with a drilling subsidiary at the time. Ten years later, he took the helm of the multi-billion-dollar E&P company as chief executive officer, continuing in that position until being tapped in 2000 by his long-time friend Bush to lead the finance arm of his national presidential campaign, and later, to be the U.S. Commerce Department secretary.

It was through Tom Brown that Evans knew Quintana. The two companies had done a few deals in West Texas in the 1980s, and thus was the beginning of a long-term relationship.

"To me, it all begins with integrity and trust," says Evans. "Corby Robertson Jr. has been a great friend in my life and a great business partner on occasion for over 40 years. And the name Quintana has represented the gold standard in this industry for over 70 years. That's why I made the decision to become a partner in this new fund."

For Evans, one of Quintana's appeals was that key members of the fund's operating team of engineers and geologists have worked together for 30 years and have a well-regarded track record.

Evans participated in raising the fund's initial $650 million, attending meetings with a number of potential investors or limited partners. As CEO of a large E&P company in the 1990s, he was familiar with the ways of Wall Street and other investment arenas. Then, too, he was an executive with a number of companies affiliated with Tom Brown Inc. including oil and gas tool company Oncor Inc. and TMBR/Sharp Drilling Co., a prominent drilling contractor active primarily in West Texas and the Rockies.

As an owner and general partner in Quintana Energy Partners, he is part of the decision-making process for investments through the new fund, which was designed with an open architecture to leverage the team's skills.

"I know I've got the expertise to evaluate a broad spectrum of energy investment opportunities. We all do. For example, Corby is the largest private owner of coal reserves in the nation after the federal government.

"I am impressed by the number of opportunities that are flowing through the door. The variety of experiences we've had exposes us to a lot of deals and is one of our strengths," says Evans, who divides his time between Houston and Midland. •

—Leslie Haines, Editor-in-chief

TUDOR PICKERING

Another group of energy professionals has come together to form an integrated energy investment and merchant-banking boutique. Tudor, Pickering & Co. LLC inked an agreement in February 2007 to merge Tudor Capital Partners LLC and Pickering Energy Partners Inc. Subject to National Association of Securities Dealers approval, the merger is expected to close in the second quarter. Both firms are privately held, and terms were not disclosed.

Tudor Pickering will relocate during fall 2007 from its Houston Galleria offices to new headquarters in Heritage Plaza downtown. The investment firm also has satellite offices in New Orleans and Denver.

The birth of Tudor Pickering happened as the main principals, Bobby Tudor and Dan Pickering, were considering business changes. Tudor had recently retired as a partner with Goldman Sachs, a tenure that included a five-year assignment in London.

Meanwhile, Pickering was looking to grow his energy research firm with a top-ranked investment banking function. A highly acclaimed E&P analyst, he was formerly head of research for the investment bank Simmons & Co. International before starting Pickering Energy Partners in 2004. He also served as an E&P analyst and sector fund manager with Fidelity Investments and worked for Arco Alaska.

While the two men knew of each other and had mutual clients and friends, they had never met. Once they did, however, they realized their business pursuits were a perfect complement. They decided to open up their doors as an investment boutique centered on the research, sales and trading business established by Pickering and his team during the past three years, Tudor says.

Tudor Pickering will provide research, sales, trading, underwriting and private placement capabilities as well as traditional investment banking services, including mergers and acquisitions, divestitures, fairness opinions and capital market surveys. The firm's research arm will focus on macro-commodity analysis as well as company-specific research.

GOT BIG PLANS?
GET A BOLD PARTNER.

LIME ROCK PARTNERS AND IDM GROUP: PARTNERS IN BOLD

In 2006, two land rig manufacturers, one in Houston and one in Ukraine, were seeking to expand their capacity and their global reach. Both chose Lime Rock Partners to be their investment partner, and IDM Group was born.

Over 16 years, IDM Equipment, based in Houston, had evolved from making control systems to manufacturing the leading-edge Quicksilver Drilling Systems for the North American market. With roots going back over 100 years, a Ukrainian rig manufacturer was seeking to unlock the capacity of its plant and produce larger rigs. They both chose Lime Rock Partners as their investment partner for its growth capital, global network of relationships, and operating and financial expertise.

Combined into the IDM Group, the company, now led by an international team of senior executives, is providing a full range of innovative, safe, and cost-competitive rigs and rig components to markets worldwide.

With $1.6 billion under management, Lime Rock Partners is a creative, value-adding, and long-term investor of growth capital in exploration and production, energy service, and oil service technology companies worldwide.

To discuss how Lime Rock Partners can partner with you, please contact Saad Bargach or Tom Bates at **713.292.9500** or visit **www.lrpartners.com**.

Growth Capital for the Energy Industry

The team will perform equity research on about 100 companies in the upstream, midstream and oilfield services sectors.

"Building an investment and merchant banking business around a securities business is a bit of a contrarian strategy," Tudor says, "but one Tudor Pickering believes will provide a strong foundation for growth and will prevail in the long run."

Down the road, the firm foresees adding merchant banking services, providing clients with access to capital and the full spectrum of offerings they need to get deals done. The boutique won't be constrained by deal size, but it believes that it can provide meaningful value for transactions in the range of $50 million and up, Tudor says.

Tudor Pickering has already begun a rapid growth plan. Since opening its doors for business with 25 employees, the investment firm has added five new investment bankers and two new equity research analysts. All have energy backgrounds, and they come from other leading securities firms, including Goldman Sachs, JP Morgan, Lehman Brothers, Credit Suisse, Merrill Lynch and Howard Weil.

"We are assembling a strong investment banking team to complement our industry-leading research capability," Tudor said.

Among new employees, Ed Guay will serve as managing director of investment banking. He currently runs a successful advisory practice in the energy master limited partnership sector and previously was a managing director with Goldman Sachs, Salomon Smith Barney and Schroders in their respective energy investment banking practices. Becca Followill, managing director, will be responsible for midstream equity research. She was previously a vice president of gas and power research at Howard Weil and covered gas distribution at Merrill Lynch.

BSI ENERGY PARTNERS

In another part of Texas, a relatively new energy investment group is growing its business–BSI Energy Partners LLC. The firm, with offices in Dallas as well as Ventura, California, had its first manifestation in the mid-1990s as BSI Natural Resources. The latter acquired and exploited E&P properties until divesting its core assets to Plains Exploration & Production in 2005, says Dustin Gaspari, a BSI principal in the Dallas office.

After a short break, the team reentered the business through the sponsorship and support of energy professionals who wanted to build growth-oriented energy companies. This resulted in the formation of three new companies in the E&P and energy services sector.

BSI Energy Partners LLC was the result of that investment strategy. The group has eight principals, including Gaspari, who was introduced to the rest of the team while working in Union Bank of California's oil and gas group where he provided financing to support BSI Natural Resources' growth.

"I was always impressed with the team's hands-on approach and ability to create value at the asset level," Gaspari says. "Their ability to identify, implement and manage multiple value-enhancing projects while keeping a long-term perspective really paid off."

Other principals include Cliff Simonson, who currently serves as an executive director for True Oil Enterprises LLC, a service provider to companies engaged in the domestic energy sector; petroleum engineer Petter Romming, who also serves as an executive director for True Oil Enterprises; Theodore Bentley, another executive director for True and a co-founder of Bentley-Simonson Inc.; and Dana Kearney, a certified financial accountant for Bentley-Simonson Inc.

BSI Energy Partners targets companies needing $1- to $10 million. Gaspari says the firm's clients tend to fall into two groups: small operators and entrepreneurs needing modest amounts of capital to move their project to the next level, and independents looking for a partner on a particular project for which they are trying to raise capital or diversify their risks.

"We believe that there are substantial opportunities for smaller teams and independents to exploit assets that larger companies for several reasons cannot," Gaspari says. "Our existing and prospective partners tend to be nimble and creative, extracting hidden value from assets that the market is generally unaware of, or which represent opportunities that do not fit within a particular development strategy or acquisition model. The predecessor to BSI was founded largely on the principle of exploiting value from assets that others left behind or lacked the motivation to understand and pursue."

BSI thinks the most interesting deals are those with multiple avenues for potential growth.

BSI thinks the most interesting deals are those with multiple avenues for potential growth, ranging from lower-risk facilities improvements, wellbore optimization and bypassed pay opportunities to development drilling, exploration and lease expansion.

"The best projects often have an element of each, so if one is not working, you have other ways to create value," Gaspari says. "We believe that building value in oil and gas is often an incremental process." •

Drive

Structured Oil and Gas Finance at RBS

We understand that to win you have to drive further and more accurately than the competition. As a global leader in Structured Oil and Gas Finance, we have a proven track record of delivering innovative and thoughtful financing solutions such as Production Payments, Mezzanine Financing and Development Financing. Like Jack, our reputation is built on getting things done, which is why we've quietly grown to become one of the biggest banks in the world.

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Make it happen

More Than Plenty

The surge in all kinds of capital provides many choices for small-cap companies, but size, management and asset-focused projects still matter.

By Gary Clouser, Contributing Editor

The rise in commodity prices since 2000 has caused a surge of interest on the part of energy-focused institutional investors and a larger energy weighting by the general investment funds. The good news is that, as a result, there is a much deeper and broader pool of capital for small-cap E&P companies. From commercial and investment banks to private equity funds, the array of capital choices and dollars available is at an all-time high.

"There has not been a better time during the last five years to finance a small-cap E&P company," says Mark Green, president of Houston-based Wells Fargo Energy Capital.

Mark Green
President
Wells Fargo Energy Capital

Small-cap producers tend to fund themselves with bank loans, mezzanine facilities and/or private equity. Many of the smaller firms also use industry partners through promoted transactions. In addition, the larger public companies use bank debt, but their capital structures can include a significant portion of public debt as well.

Public funding is readily available for energy these days, but many small-caps opt to remain private because of the significantly increased regulatory and compliance costs as well as the higher levels of disclosure associated with being public.

"Bank financing is usually the preferred source of capital for the smaller E&P companies, since it is the cheapest," Green says. "However, bank debt has the most limitations, and it focuses primarily on proved producing reserves. For those companies that do not have significant amounts of production, mezzanine financing and private equity are the most appropriate choices."

PUBLIC ISSUES

"Small-cap issuers tend to be more asset-focused and very management-oriented," says Alex Montano, managing director of C.K. Cooper & Co., headquartered in Irvine, California. The investment banking firm's sweet spot for funding is in the $5- to $45-million range, he says.

"We believe that the higher end of that range, say $20 million plus, is of sufficient size to really create strong investor attention, which benefits the issuer in the aftermarket. At each dollar range, you find a different group of investors," he says.

The key questions a potential capital provider will ask are: Is the management credible with a proven track record? Will institutional investors accept the management? And if the management is acceptable, what are the uses of proceeds?

"In most cases, smaller issuers are focused on a particular basin, field or geological play, which requires very detailed modeling on the use of proceeds and financial impact than is the case for larger issuers where the use of proceeds may be broader," Montano says.

Generally speaking, as companies grow in size, their weighted cost of capital declines. "There are times when a small company may have such a compelling story that they can achieve very attractive costs of capital," he says. "But normally, given the options available and the related costs, small issuers pay more for their capital. However, that spread has narrowed over the past several years.

"Small-cap managers, for the most part, view the acquisition markets as being simply too expensive to be an aggressive purchaser of assets. Furthermore, in a strong sellers' market, the value assigned to lower-category reserves makes competitive deals less financially rewarding for them. As a result, we think most small issuers are using their innovation and nimbleness to grow through the drillbit, potentially positioning themselves to take advantage of the acquisition markets themselves."

This approach requires more financial modeling at a field and asset level basis, Montano explains. As a result, small issuers do a higher number of smaller-dollar transactions. "This logic makes sense," he says. "If an issuer can take $20 million and prove its concept or remove geologic/engineering risk from a key asset, then it should be able to raise an additional $40 million for full development at a much more attractive cost of capital. Because of their smaller nature, the market tends to reward success on asset development more significantly, which can positively impact the cost of capital in the future."

PRIVATE EQUITY

Although it cooled a bit in the first half of 2007, the sheer volume of available private capital for the energy industry has been phenomenal. According to the COSCO Private Capital Energy Index Report published earlier this year, there was $17.3 billon in private capital at the end of December 2006 for energy deals. That's more than double what it was in the first half of 2005.

This has created pressure from institutional investors to put the capital to work, says William Weidner, managing director of COSCO Capital Management, which is headquartered in New York, with offices throughout the U.S. and in Calgary.

Private equity funds have traditionally been used for acquisitions and field development, but an increasing amount is also being used for exploration, says William Moyer, vice president of business development of capital markets and membership for the Independent Petroleum Association of America.

The competition resulting from the abundance of capital sources has led some providers to be more creative and aggressive—perhaps taking on more risks, sometimes, without the corresponding increase in the rate of return or addition of warrants and overrides, Moyer adds.

Most small-cap companies, particularly start-ups, are probably going to have to look to the private equity or mezzanine market first. Then, as the company and projects develop, they may be able to ultimately arrange senior bank debt. Banks, generally, are limited to financing between 50% and 65% of the value of proved, producing or behind-pipe reserves. Mezzanine funds are more likely to be willing to fund proved undeveloped projects, Moyer says.

Although any guideline is skewed by the specifics of the deal, private equity remains the most expensive type of capital as investors will be looking for returns of about 20% to

The Players

BlueRock Energy Capital Ltd. was founded in 2002. The partners originated and managed the producer finance business at Tenneco Ventures in 1993, which subsequently became Domain Energy and later Range Energy Finance Corp. During the past 14 years, BlueRock and its predecessors have completed more than 300 transactions for upwards of $275 million.

COSCO Capital Management LLC is a leading expert in private capital and venture capital financing for the energy business. It advises professionally managed capital providers on current or prospective investments and assists energy companies regarding investment opportunities and capital needs. Since its founding in January 1992, COSCO has worked with more than 50 capital sources, constituting the majority of the U.S. and Canadian-based sources of capital dedicated to the energy business. During the past five years, COSCO has assisted investors to purchase or sell $400 million of portfolio companies and has worked with energy companies to access more than $750 million of private capital.

In addition to its primary business function of sourcing capital, COSCO also co-invests in each of its private equity placements through COSCO Investments LP.

Energy Spectrum Capital, founded in 1996, targets direct investments in companies that own, operate and develop energy assets in North America. Since inception, the Dallas-based firm has raised in excess of $1 billion of private equity capital and sponsored more than 30 portfolio companies. There are three specific companies under the Energy Spectrum umbrella: Energy Spectrum Capital, Energy Trust Partners and Energy Spectrum Advisors, an upstream investment banking firm. Energy Spectrum is the general partner for a series of private equity funds that focus on the midstream and is a co-general partner of Energy Trust Partners, which provides private equity funds for the E&P sector.

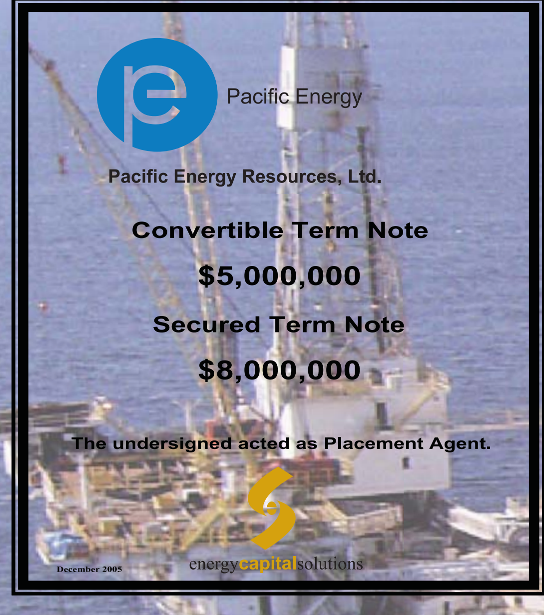
Rivington Capital Advisors LLC, founded in 2002, assists in all aspects of deal structuring and marketing. This includes developing marketing materials and investor presentations; negotiating deal terms and documentation; and overall management of the transaction process.

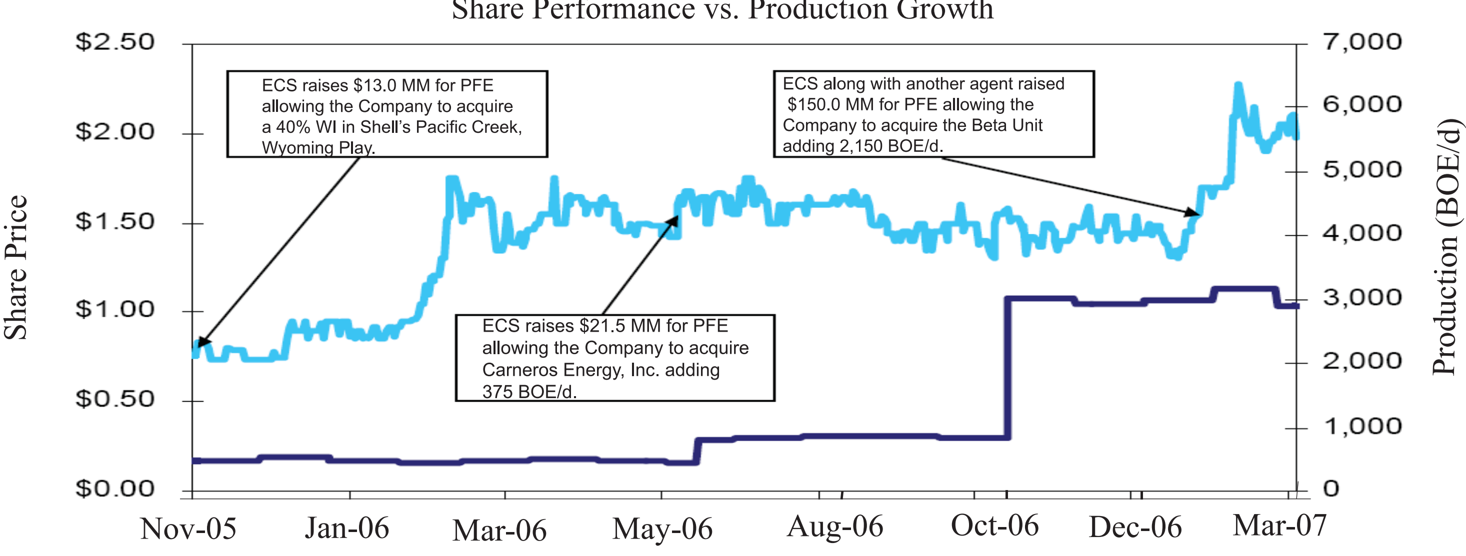
The firm's advisory services include arrangement and execution of private debt and equity placements; merger, acquisition, divestiture and financial due diligence; derivative and hedging; and reorganization, recapitalization and corporate valuation work.

It has closed about 40 transactions having a total transaction value exceeding $2.4 billion. Target clients include small- and mid-cap energy companies; start-ups or established; family-owned or private-equity sponsored. An affiliated entity, Rivington Financial Services LLC, provides a full suite of outsourced accounting functions to small- and mid-cap growth oriented upstream companies.

Wells Fargo Energy Capital provides a complete range of products including senior debt, syndications, mezzanine finance, acquisitions and divestments advisory as well as risk management. It currently has more than $6 billion in commitments to the industry. •

energy capital solutions





Maintaining close relationships from the early stages and through your company's growth.

November 2005 - ECS was engaged by Pacific Energy to raise $13 million.
The Company's share price was $0.83/share.

December 2005 - ECS raised $13 million of capital to fund Pacific Energy's working interest acquisition in Shell's Pacific Creek, Wyoming project.
The Company's share price was $0.94/share.

January 2006 - ECS was re-engaged to raise $85 million of common equity and advise Pacific Energy on obtaining a $100 million Senior Credit Facility to fund the acquisition of AERA's (50/50 joint venture between ExxonMobil & Shell) Beta Unit.
The Company's share price was $0.86/share.

June 2006 - ECS raised $21.5 million of capital to fund the acquisition of Carneros Energy, Inc. adding 375 barrels of daily production.
The Company's share price was $1.65/share.

February 2007 - ECS along with another agent completed the equity financing raising $85 million and acted as sole agent in raising $65 million of debt financing from Goldman Sachs and Silver Point Capital providing a total funding of $150 million.
The Company's share price was $1.45/share.

March 2007 - Pacific Energy closed on the acquisition of the Beta Unit adding 2,150 barrels of daily production.
The Company's current share price is $2.10/share.

ECS facilitated the nomination of James Watt, former CEO of Remington Oil and Gas and Grant Henderson, former CEO of Belco Oil and Gas, to Pacific Energy's Board of Directors.

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Managing Director

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Vice President

Brandon Neff
Senior Associate

Mike Chiste
Analyst

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25% or higher, whereas mezzanine funds typically seek between 15% and 20% return, and banks charge up to 10% for senior bank debt, Moyer says.

Some mezzanine providers are also funding development packages that have little or no underlying production and/or consist of low-risk probable reserves. "These facilities carry a higher risk level and will bump the returns to the 20%-to-25% range," Green says. Private equity funds are willing to finance early-stage companies where there is a significant amount of exploration risk, he adds.

Weidner says oil and gas companies seeking financing should find out exactly how their investors' capital has been organized in the first place and how that organization may impact their business plan. Likewise, investors seeking illiquid investments will surely be making periodic checks of their own funds' organization to assure approximate matching with the assets.

"Don't finance long-term assets with short-term financing," Weidner advises.

Scott Kessey, principal with COSCO, adds: "If a project is exploration focused, don't fund with debt. Nearly all private equity financings reflect some planned level of bank debt usage."

Jim Benson, managing partner of Energy Spectrum in Dallas, says there will always be a need for small-cap financing in the future. As larger packages of assets consolidate, there will be smaller, non-strategic packages that will be carved out that may be strategic or operationally beneficial to a smaller entity.

"Many of these companies will need capital to acquire and develop these assets, which will provide for financing opportunities. Companies that are willing to contribute a meaningful amount of equity will be successful. All companies should expect to have some skin in the game," he says.

Alex Montano
Managing Director
C.K. Cooper & Co.

START-UP NEEDS

The continued reorganization of the upstream industry through mergers and acquisitions is "liberating many new, competent teams which are legitimate candidates for private capital," says COSCO's Weidner. "The commodity prices and advances in drilling and completion technologies have unlocked unconventional and bypassed resources, whose risk profiles some financial investors find compatible."

In a relatively new trend in the fund business, investors want to develop a relationship with an E&P management team on the front-end of a deal, and sometimes when that team does not yet have any material assets.

"Historically, private equity was interested in being 'just in time' equity, which typically supported an acquisition," Energy Spectrum's Benson says. "Currently, our equity funds are willing to support a management team with a small asset base or a strategic game-plan around which we can develop the relationship. In all cases, the sponsor management team must provide an equity contribution. But, the first decision in all cases is based on the team, not an asset.

Both of Energy Spectrum's current private equity funds are looking for experienced management teams that have been successful in specific geographical areas and who are looking for an equity partner to expand their strategy with additional development or exploration and acquisitions.

The investment-banking arm, Energy Spectrum Advisors, facilitates mergers, acquisitions and divestitures and raises capital from institutional investors for small to mid-sized E&P companies. ESA typically closes about 10 to 15 deals a year with deal-size averaging about $60 million, Benson says. It will look at deals as small as $10 million and its largest transaction to date was $1.6 billion.

Wells Fargo Energy Capital, a non-bank subsidiary of Wells Fargo and part of the Wells Fargo Energy Group, closed 23 debt and equity transactions totaling more than $200 million in 2006. Since its inception in 1998, WFEC has committed more than $1 billion in debt and equity capital.

A good example of its one-stop shop concept is BlackSand Energy, a small Denver-based producer, where the bank's local office spent 1.5 years advising management on a major recapitalization. In 2005, the company engaged Wells Fargo to arrange senior debt and second-lien facilities and restructure its commodity-hedging portfolio. WFEC also participated with Kayne Anderson Capital Advisors LP in a $50-million preferred equity commitment, Green says. BlackSand was later sold to Linn Energy LLC of Houston in August 2006 for more than $290 million.

WEFC is currently documenting a small mezzanine facility for an unnamed Dallas, Texas-based producer to fund its share of the development costs in a Cotton Valley play in East Texas. The company had historically funded itself with industry partners but decided it was giving up too much equity in its projects as a result, Green says. After a significant amount of technical due diligence, WEFC agreed to provide mezzanine financing even though the reserves were classified as probable.

CASE STUDIES

PRB Energy Inc. of Denver and Panther Bayou Exploration & Production of Houston are recent examples of C.K. Cooper deals. It

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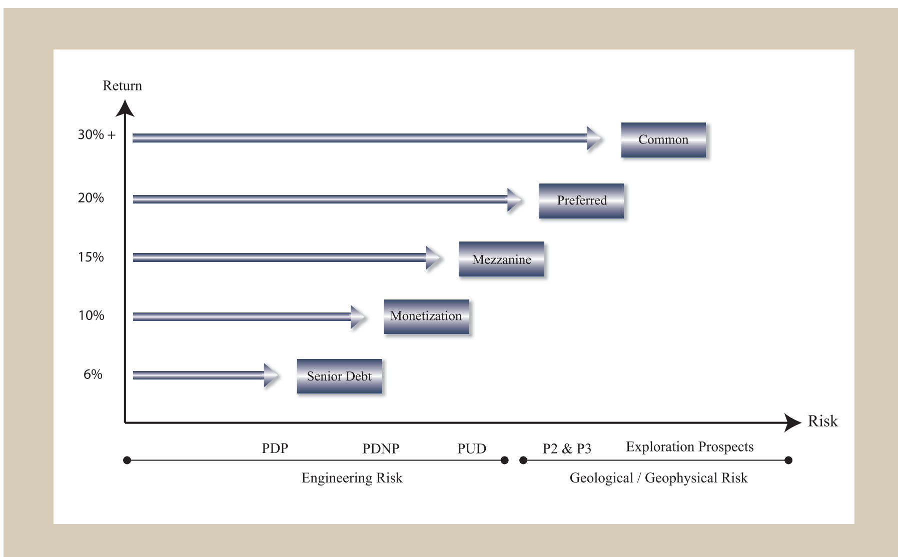

As risk goes up, so does the return that capital providers expect. (Source: Rivington Capital Advisers)

was the first firm to initiate research coverage on PRB, a Rocky Mountain-focused E&P company and pipeline operator. In December 2006, C.K. Cooper was approached to assist PRB in financing an acquisition of a property from Anadarko Petroleum Corp., with the key criterion being the need to close the acquisition in about three weeks.

"We quickly assessed the situation with management and placed a senior secured debt piece with two investors within that timeline. We believe that the acquisition of these assets dramatically alters the risk profile of PRB and could very well serve as a catalyst for future growth," Montano says.

The funding allowed for acquisitions of a conventional gas play to complement PRB's coal-bed acreage.

Regarding Panther Bayou, Montano says: "Historically, C.K. Cooper has not been active with private issuers. In October 2005, however, we were approached by the management team and simply knew it was an extraordinary opportunity. As a result, we took on the project and introduced the opportunity to several private equity funds. Again, we closed the transaction within a relatively short time period by the end of February 2007, with a $30-million total commitment over the life of the project."

Year-to-date for 2007, C.K. Cooper's transaction volume has reached more than $80 million. In 2006, it was $378 million. During the past three years, transaction volumes were $650 million, and they totaled $827 million for the past five years. The company was founded in 1981 and has had the oil and gas industry as a key focus since 1996.

Some small caps with in-house financing expertise and management with a positive reputation in the investment community, based on their track record, often at other firms, can sometimes tap directly into the capital markets. Companies without these qualities may need to go through an advisory firm or intermediary to get the attention of a potential capital source. Of course, the middleman expects some compensation—generally about 6%. Many small companies like the second opinion, filtration and credibility an advisory firm can bring to capital sourcing.

Two E&P companies recently added to the COSCO portfolio include Calgary-based Action Energy Inc. and Lafayette, Louisiana-based Orbit Energy Partners LLC.

COSCO first arranged an equity financing for Action's predecessor in the late 1990s, which facilitated a successful exploration and development buildup and sale in less than two years. Flush with cash, management reformed in 2002 to pursue western Canada shallow gas opportunities, similar to its earlier success.

COSCO participated as a common equity investor in Action's first round of financing, then later participated in a 2005 convertible note issue and finally arranged and participated in a 2006 third-round C$35-million equity issue. Within a half year of closing, Action announced a reverse merger agreement with publicly traded Calgary-based High Plains Energy Inc., adding a balance of conventional heavy oil potential to Action's existing shallow gas and conventional oil asset base.

The Orbit project involved $25 million in common equity to fund exploration and development drilling in southwest Louisiana.

Among other recent projects, COSCO secured for Sanchez Oil & Gas of Houston $50 million in secured notes from Trust Co. of the West for exploration and development onshore south Texas. Also during first-half 2006, COSCO Investments joined Warburg Pincus in monetizing their respective ownership positions in Carneros Energy Inc., a Bakersfield, California-based E&P company funded during 2001-2004.

Rivington Capital Advisors LLC, headquartered in Denver, has found a niche in serving as an intermediary between small- and mid-sized companies and institutional capital providers. The firm operates on the premise that the issuer and investor benefit from the assistance of an intermediary who understands the needs and goals of the other party.

"Our corporate finance and capital advisory activity has flourished

over the last five years as commodity prices and capital availability have driven M&A activity," says Chris Wagner, one of Rivington Capital's founders. "We expect to see this level of activity continue to remain strong as more participants and additional capital alternatives enter the energy space."

Rivington served as the exclusive financial advisors to Black Diamond Minerals LLC of Denver, a start-up privately owned E&P company. Rivington assisted the company in receiving an equity commitment, announced in March, of $40 million from Natural Gas Partners, of Irving, Texas. The funds will be used to acquire producing assets in the southwestern corner of Wyoming in the Green River Basin. Proceeds from the equity commitment will also be used for repayment of debt, development of existing assets, pursuit of acquisitions and general corporate purposes. Black Diamond says its focus will be on adding value through strategic acquisition and developing assets primarily in the Rocky Mountain region and on shore California.

"Small" is in the eye of the beholder, but BlueRock Energy Capital Ltd. (formerly known as BlackRock Energy Capital Ltd.), a Houston-based independent oil and gas finance company, has a clear idea of what it means. Its focus is exclusively on financing deals of $1- to $10 million. Funding is to independent producers for U.S. reserve-based acquisitions and monetizations with associated production enhancement and/or development, says Cathy Sliva, founding partner of BlueRock.

"BlueRock's investment structure is a non-recourse financial production payment via a limited term overriding royalty. This simple structure results in minimal documentation, closings generally in less than 30 days, and nominal closing costs. No third-party engineering report is required as all technical analysis is performed by the partners of BlueRock," says Dave Stevens, also a founding partner.

The ideal customer will have an established track record, regional expertise, operational excellence and a definitive development plan. BlueRock is looking to create long-term relationships with a growing producing company, Sliva says. Several of its customers have been growing with them through multiple transactions during many years, she adds. •

The Ins and Outs of Mezzanine

The key to a successful mezzanine experience is to strike a balance between financial and operating leverage.

By Timothy H. Murray, Guggenheim Partners

Oil and gas companies have enjoyed golden times since the industry down cycle in the late 1990s as commodity prices have been on a sustained march to historically high levels. Drilling activity is at a pace not seen in 20 years, despite high oilfield service costs and some pundits' opinions of degrading drilling prospect quality.

Technological advances have improved exploration success, reduced drilling time and enhanced production rates with new frac treatments.

Adding to these good times is the fact that capital has never been more plentiful. It is so readily available it is sometimes used to rationalize a marginal prospect with high finding and development costs. Understanding what type of capital to employ and how to access it is a critical determinant in any company's success.

The oil and gas industry is in favor again with the capital markets. For firms with sufficient reserve size, management experience and stomach for the rigors of Sarbanes-Oxley, raising public capital can be an attractive alternative.

But there is also a historically high number of private equity firms devoted to the industry. The mezzanine universe has thus expanded since the meltdown of a few years ago—the mezzanine ranks have swelled to 19 providers from just three or four in 2001.

Commercial banks are becoming more aggressive in their lending standards to maintain and grow their portfolios in the face of new entrants competing for loans. Institutions are issuing term "B" loans and second-lien loans, displacing a significant amount of senior bank debt. With all the capital choices available, a strong case can be made for mezzanine capital to finance growth of small-cap public and middle-market private companies.

Mezzanine debt has many forms, but usually is defined by a more aggressive advance rate against proved reserves than senior bank debt. It often includes some form of equity participation (kicker) to balance the risk-reward equation. Mezzanine debt historically has been used to finance acquisitions and development, but it also finances super dividends and bridges to an asset sale or public offering.

Compared with senior bank debt, mezzanine debt can help accelerate development projects since the traditional bank-borrowing base constraints don't apply. This is a significant advantage in times of tight rig supply, to enable a development to proceed without the potential interruption of a borrowing base redetermination at the bank's discretion. Compared with private equity, mezzanine debt is less expensive from the standpoint that management retains a larger equity share in its company.

A mezzanine debt structure is often fairly restrictive while outstanding, but once repaid or re-margined, it does not involve management control as a private equity fund would command.

KEYS TO SUCCESS

During the past few years, billions of dollars of second lien loans have been issued in the oil and gas industry. This is remarkable growth for this type of financing, which was rarely employed before 2000. Few second lien loans have defaulted in this robust industry environment, so time will tell whether second lien structures ultimately prove to be the panacea the industry views them today.

With the growth in second lien loans, a vigorous syndication market has developed that enhances liquidity and pricing of these loans. Typically, a second lien loan must approach $100 million or more to attract the lower pricing spreads and lighter covenant packages afforded by institutional investors.

For smaller mezzanine or second lien loans, syndication may be more challenging because of the unique nature of the funding mechanism and highly negotiated inter-creditor issues with the senior lenders.

The key to a successful mezzanine experience is to strike a balance between financial and operating leverage. High financial leverage should be matched with low operating leverage.

Low operating leverage might include these characteristics: a high proved developed producing (PDP)

Navigate the maze.

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component, well-defined drilling targets, long and predictable decline rates, low operating cost, operator control of the pace of development and diverse wellbore value.

Characteristics that may be inappropriate in a mezzanine loan relationship include concentrated wellbore value, long lead-time developments (waterfloods, enhanced oil recovery projects and offshore) and exploratory plays. Because of the high interest coupon of a mezzanine loan, it is generally not desirable to use such financing in any situation where the return of capital is achieved during an extended period of time.

With high reserves/production profiles, the predictability of returns is overwhelmed by interest compounding—resulting in unattractive internal rates of returns (IRRs) for the mezzanine lender.

High advance rates relative to banks are advantageous in financing acquisitions. It is imperative to close any mezzanine acquisition financing with some working capital or free cash flow available to enhance reserve value. A successful strategy should be to improve the post-acquisition reserve value so the relatively expensive mezzanine debt can be refinanced with less expensive bank debt or the gain in value can be captured in a subsequent asset sale.

MARKET OUTLOOK

Industry M&A activity has been running overtime and is expected to continue. Development economics have never been more attractive, and drilling activity is constrained only by rig and manpower availability. The industry consolidation during the past few years has provided a steady supply of experienced management teams looking to start new companies. Technology has empowered these new teams to compete effectively with the drillbit.

Availability of capital has fueled these teams in acquiring prospects and producing assets. In most cases, these start-ups, or re-starts, have been capitalized with private equity. However, well-proven management teams with a deal in hand have often been bootstrapped with mezzanine capital.

Mezzanine lenders have proliferated since the meltdown in 2001-2002. Institutions are drawn to the mezzanine space because it offers private equity-type returns on capital secured with collateral and governed by debt covenants. For larger loans, the liquidity of the syndicated second lien loan market is another favorable factor attracting institutions.

Expectations are that mezzanine firms will continue to compete aggressively against both ends of the capital spectrum: private equity and bank debt. Mezzanine firms will attempt to seduce private equity prospects with comparable capital amounts, lower equity dilution and less management control. Bank prospects will be pitched the promise of more capital, fewer covenants and more responsive deal structures.

The lessons from the mezzanine meltdown in 2001–2002 are fresh, and we may relive some of them.

Merchant energy firms' (Enron,

Choosing A Mezzanine Lender

The ideal mezzanine lender should have these characteristics to offer clients:

- *Industry expertise and sophisticated financial capability*—With development drilling projects, industry expertise is invaluable to understanding and appreciating the challenges of building reserves through the drillbit.
- *An efficient approval process*—This is paramount in development financings, where results may vary from the expected, and decisions must be made quickly to react to the new data.
- *Substantial financial-structuring experience*—This shows the institution is comfortable with a high degree of leverage. Lender creativity is important, considering every development is fairly unique.
- *Enough capital*—The lender needs sufficient capital to carry the development program to maturity without requiring a syndication of the exposure.
- *The proverbial one-stop shop*—A mezzanine lender who can deliver the senior and mezzanine/second-lien credit facility in one package is more desirable than trying to marry two separate lenders in one transaction. With one institution controlling the entire financing, the inter-creditor and governance issues are simplified and decisions can be expedited. In cases where a mezzanine firm elects to syndicate the more secure, less expensive first lien portion of the financing package, the firm may seek to control the senior borrowing base or at least have an option to refinance the senior lender in the event of default.

This arrangement assures the mezzanine lender some degree of control, while building in flexibility for seamless refinancing once the senior borrowing base increases to the point the mezzanine debt can be comfortably refinanced. In this senior/sub or first/second arrangement, the mezzanine debt is viewed as transitional capital that ultimately should be refinanced with less expensive debt. •

Funding Choices

MEZZANINE DEBT	COMMERCIAL BANK DEBT
High advance rates against PDP, often all proved undeveloped reserves (PUDs)	Conservative advance rates against mostly PDP, some proved developed non-producing & PUDs (20%-30%)
Advances against authorization for expenditures during development, borrowing base control also	Borrowing base controls advances
First or second lien on development, nonrecourse to company	First lien on collateral, recourse to company
Asset coverage/production tail test but few or no financial covenants	Covenants such as interest coverage, maximum debt/earnings before interest, tax, depreciation and amortization ratio
Fees upfront and prepayment fees, plus an equity kicker (override or net profit interests)	Minimal fees
Fixed interest spread, 100 to 300 bp over bank debt (liquidity discount for large deals)	Pricing grid based on usage
Advancing term loans	Revolver and term loan
Monthly cash flow sweep to amortize loan	
Hedging required	Hedging optional

Source: ***Guggenheim Partners***

Duke, Mirant, Aquila) capital was constrained for reasons unrelated to the energy capital business. Amaranth is the best example of a successful energy capital practice derailed because of capital destruction within its trading portfolio. Are other hedge funds susceptible to a similar fate?

Mezzanine finance was not a core business to E&P industry players that created, then disbanded, their mezzanine units (Shell, J.M. Huber, Williams, Koch, Range Resources). Non-financial institutions historically have struggled with the capital allocation decisions between their core business and finance subsidiaries. GE Capital may be considered an exception, although the argument could be made it is a financial institution. Many companies discover the finance world is competitive, and returns can be unattractive, especially if any loan losses are sustained.

Permanent mezzanine capital is a myth. Mezzanine capital is expensive and stretches the prudent lending envelope. Mezzanine loans should build value that provides a refinancing or sale opportunity. Mezzanine firms that measure success by the size of their portfolios, rather than their IRRs, are doomed to repeat this mistake.

Basic lending mistakes were made: projects were financed instead of people; documentation was poorly structured; concentration risk was ignored; inadequate technical due diligence was performed; and aggressive advance rates were committed with no equity at risk.

These mistakes are still being made today: witness the significant second-lien term loan underwritten on 3P reserves for a company with a two-year history of 1P reserve write-downs. Engineering reports are accepted by some institutions at face value. Entrepreneurs with no appreciable industry experience are garnering highly leveraged capital commitments with no equity at risk.

Capital availability has always lagged the cycles in the E&P sector. What has changed during the past 10 years has been the maturation of the commodity hedging market. Price volatility now can almost completely be factored out of the risk equation. Prior to this, lenders suffered large losses through the commodity cycles, which discouraged new entrants and moderated the aggressive stance of existing lenders. With hedging protection afforded all lenders, perhaps this boom-bust cycle won't repeat. Competition will focus on other differentiating factors such as price, advance rates or covenant structures.

The current high commodity price environment is analogous to the "rising tide that lifts all boats." It is important to keep in mind, however, that "it is only when the tide goes out, that you discover who has been swimming naked," as famed investor Warren Buffett has said. The moral of the story is this: insure against price volatility with commodity hedges, and you'll be around to ride the next wave. •

Tim Murray is managing director at Guggenheim Partners in Houston, which provides senior and subordinated debt, mezzanine debt, equity and project finance, and hedging services. He may be reached at (713) 300-1330.

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$175 Million
Initial Public Offering
Co-Manager
Filed

$50 Million
Follow-On Offering
Sole Bookrunner
December 2006

$40 Million
Private Placement "PIPE"
Lead Placement Agent
March 2006

$135 Million
Follow-On Offering
Sole Bookrunner
December 2006

$84 Million
Initial Public Offering
Sole Bookrunner
July 2005

$153 Million
Initial Public Offering
Co-Manager
December 2006

$83 Million
Follow-On Offering
Co-Manager
November 2006

$40 Million
Acquisition Bridge Loan
Sole Provider
October 2006

has divested Appalachian assets to
Sell-Side Advisor
September 2006

Buckeye GP Holdings LP

$179 Million
Initial Public Offering
Co-Manager
August 2006

$35 Million
Private Placement "PIPE"
Co-Placement Agent
July 2006

$380 Million
Initial Public Offering
Co-Manager
July 2006

$131 Million
Follow-On Offering
Lead Manager
June 2006

$150 Million
Senior Subordinated Note Offering
Co-Manager
May 2006

RANGE RESOURCES
$114 Million
Follow-On Offering
Co-Manager
June 2005

$150 Million
Senior Subordinated Notes
Co-Manager
March 2005

$697 Million
Initial Public Offering
Co-Manager
February 2006

$350 Million
Bridge Loan
Facility Participant
September 2005

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$262 Million
Initial Public Offering

Co-Manager
January 2006

$10 Million
Private Placement "PIPE"

Lead Placement Agent
December 2005

acquired
EBS Oil & Gas

Buy-Side Advisor
December 2005

$34 Million
Follow-On Offering
Bought Transaction

Sole Bookrunner
October 2005

$100 Million
Credit Facility

Lead Agent
March 2005

$600 Million
Follow-On Offering

Co-Manager
September 2005

$124 Million
Initial Public Offering

Joint Lead Manager & Financial Advisor
September 2005

$31 Million
Private Placement "PIPE"

Lead Placement Agent
September 2005

$250 Million
Senior Subordinated Notes

Co-Manager
September 2005

$288 Million
Follow-On Offering

Co-Manager
September 2005

$217 Million
Senior Subordinated Notes

Co-Manager
April 2005

$176 Million
Initial Public Offering

Co-Manager
May 2005

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MLPs: The Right Structure for the Right Time

There are several advantages to placing long-life reserves in a master limited partnership.

By Leslie Haines, Editor-in-Chief, *Oil and Gas Investor*

Since January 2006, half a dozen E&P firms have carved out mature producing assets and focused them to form a public investment vehicle through the master limited partnership (MLP) or limited liability company (LLC) format. More such companies have filed to go public or are preparing to do so later in 2007. There is talk that the first MLP made up solely of offshore assets might consider a debut this year.

What's the allure? For retail investors, and increasingly for institutional ones as well, these partnerships offer stability: they are underpinned by low-risk, long-life reserves that throw off cash via distributions for many years in a tax-deferred yield investment. For the oil and gas producer, they offer another way to monetize some proved developed producing (PDP) assets instead of selling them to a buyer, using a traditional C Corp initial public offering or pursuing a volumetric production payment.

"These public structures are a new way for PDPs to shine. It's a way to monetize lower-return PDPs and redeploy the capital into acquisitions for further growth," says Jay Chernosky, managing director of Wachovia Securities in Houston. The investment banking firm has led one and co-managed four of the six structures so far to have gone public.

He says the bank tells C Corp clients trying to grow that their PDPs could be considered dead weight unless they eventually can unlock additional value, that is, be sold to an MLP—or used to form one's own new MLP. In either case, the E&P company ends up having a much better profile for investors looking for a growth vehicle in the commodity space.

"PDPs are the result of your growth and success up to this point. We tell people to recycle that capital into higher-growth and higher return projects," he says.

This form of monetization allows a company to keep control of its assets and retain its employees, as opposed to an outright sale.

Why now?

"Our thesis for why there is a lot of demand for yield securities is due to the graying of our society. As people approach retirement, they want this type of investment," Chernosky says. "These are the right structures for the right times. An MLP gives you a tax-deferred yield and in addition, these newly public ones have appreciated nicely. So far, investors have earned consistent double-digit returns."

On average, the six MLPs that went public from January 2006 to January 2007 have appreciated 55%, with even the "worst" performer still rising a generous 22% after its IPO.

"With these kinds of returns, institutions want to see more of these get done. With each offering, we've seen new investors coming in," he says.

Chernosky says there is such a large pool of mature assets available in the Lower 48 that this should be a good business model that will work for the long term.

It's a model that's improved with age. The MLPs of old, once so popular in the 1980s until they failed for various reasons, were different from the new models. Today's offerings have much longer reserve-to-production ratios (R/P) and need a minimal amount of capital to replace production or keep their decline curves fairly flat, through low-risk development drilling. And finally, and this is one of the biggest factors, today's MLPs can hedge commodity price risk.

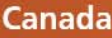
"Back then, many of the MLPs were really roll-ups of a number of old drilling partnerships, some that were failing or had shorter R/Ps, and they included a variety of assets, not just those with long R/Ps and low-risk drilling," Chernosky says.

Today's MLPs typically buy long-life oil and gas assets and can pay with a lower cost of capital than a traditional E&P company buyer. All have grown since their IPOs through additional acquisitions.

Experts say some 15% to 25% of total cash flow might be reinvested to maintain production, with the remainder paid to unitholders in quarterly distributions. Acquisitions remain the primary growth drivers. An MLP typically will issue debt to make a purchase, and then return to the equity markets to reload.

Houston-based Linn Energy LLCs, however, recently went back to institutions for a private equity placement

Canada



Canadian Natural
Advised on the purchase of Canadian Subsidiary

Anadarko Canada Corporation
for
C$4,075,000,000
Financial Advisor
Scotia Waterous
September 2006

Senior Credit Facilities
C$3,000,000,000
Joint Lead Arranger & Administrative Agent
Scotia Capital
October 2006

ENBRIDGE
Common Shares
C$523,125,000
Joint Bookrunner
Scotia Capital
January 2007

PRIMEWEST
Trust Units & Convertible Debentures
C$349,907,000
Joint Bookrunner
Scotia Capital
December 2006

ADDAX PETROLEUM
Acquisition of
PANOCEAN
The business of Pan-Ocean Energy Corporation Ltd. for:
C$1,635,000,000
Financial Advisor
Scotia Waterous
September 2006

Common Shares
C$401,937,500
Joint Bookrunner
Scotia Capital
August 2006

Crescent Point
Credit Facility
C$420,000,000
Lead Arranger & Administrative Agent
Scotia Capital
November 2006

DUVERNAY OIL CORP.
Credit Facility
C$375,000,000
Lead Arranger & Administrative Agent
Scotia Capital
October 2006

Canadian Natural
Acquisition Credit Facility
C$3,850,000,000
Joint Lead Arranger & Administrative Agent
Scotia Capital
October 2006

U.S.

MASTERS RESOURCES, LLC.
Advising on Gulf Coast & South Texas asset divestiture
16MMcfe/d
Financial Advisor
Scotia Waterous
Pending

Senior Credit Facilities
US$26,000,000
Lead Arranger & Administrative Agent
Scotia Capital
July 2006

DUNCAN ENERGY PARTNERS L.P.
Senior Credit Facility
US$300,000,000
Joint Lead Arranger & Joint Bookrunner
Scotia Capital
January 2007

elpaso
Senior Credit Facilities
US$500,000,000
Joint Lead Arranger
Scotia Capital
October 2005

Samson
Advised on the sale of Canadian Subsidiary to
canetic
Canetic Energy Trust & Undisclosed Party for
C$1,400,000,000
Financial Advisor
Scotia Waterous
August 2006

Senior Credit Facilities
US$500,000,000
Co-Lead Arranger
Scotia Capital
May 2006

eog resources
Senior Credit Facilities
US$600,000,000
Lead Arranger & Administrative Agent
Scotia Capital
October 2005

ENTERPRISE
Senior Credit Facilities
US$1,250,000,000
Documentation Agent
Scotia Capital
September 2005

BOIS d'ARC ENERGY
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US$175,000,000
Arranger & Administrative Agent
Scotia Capital
March 2005

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COSCO Capital Management LLC

Corporate Summary:

COSCO Capital Management LLC over the past fifteen years has become the leading financial advisor and placement agent for small and mid-cap private energy companies in the US and Canada. Through its affiliate, Private Energy Securities, Inc. (member NASD, SIPC), since 2000, alone, COSCO has arranged private placements of over $1 billion of primarily private equity and mezzanine debt, usually to energy focused closed-end funds (see below for recent representative private placements).

COSCO is far more than a placement agent, however. Because its personnel almost all 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 pedigree and having invested in several tens, and seen thousands, of business plans and proposals, COSCO often can understand even better than its clients what constitutes their particular strengths and competitive advantages. It can help clients refine investment strategies and improve presentations, effect mergers, acquisitions, or sales, and arrange secondary placements. Reflecting its confidence in its ability to select outstanding management teams, COSCO invests in every private equity mandate it sponsors and often continues post closing as an advisor or director to assist its portfolio companies to execute or amend their investment strategies.

Also as testimony to its unique position among financial intermediaries, since its inception in January 1992, COSCO has assisted many of the established professional energy investors, themselves, particularly in the East, to develop new investment strategies or manage existing or pending energy investments and divestitures. Since 2000, as an example, it has assisted buy-side clients to purchase or sell approximately $400MM of portfolio companies or assets.

COSCO managing directors Lane W. McKay, left, William E. Weidner, middle, and Cameron O. Smith, right.

In January 2007, COSCO significantly expanded the services it can offer its energy clients by participating in the formation of Strategic Energy Research and Capital, LLC, which focuses on trading in, and financings for, public energy companies, as well as providing research and targeted investor relations services.

$500+ Million in Energy Mandates Since January, 2005, Alone.

December 2006	June 2006	April 2006	February 2006	June-Nov. 2005
Sanchez Oil & Gas Corporation (Houston TX)	Orbit Energy, Inc. (Lafayette LA)	Undisclosed E&P Company (Calgary AB)	Action Energy Inc. (Calgary AB)	oneFOUR energy ltd. (Calgary AB)
$50,000,000 **Secured Notes**	**$25,000,000** **Line of Equity**	**$26,375,068 (C)** **Line of Equity**	**$35,278,873 (C)** **Line of Equity**	**$52,077,000 (C)** **Principally a Line of Equity**
TCW	Undisclosed	Jog Capital Inc, BlackRock, Inc., et al	Quantum Energy Partners, et al	The Huff Alternative Fund, L.P. & Others

October 2005	October 2005	June 2005	May 2005	May 2005
Sleeping Giant LLC (Traverse City MI)	Coronado Resources (Tulsa OK)	Tenrgys LLC (Jackson MS)	Genesis Gas & Oil LLC (Kansas City MO)	Energy 51 Inc. (Calgary AB)
$91,600,000 **Sale of Company**	**$80,800,000** **Line of Equity**	**$72,199,908** **Volumetric Production Payment**	**$70,700,000** **Line of Equity**	**$17,800,000 (C)** **Line of Equity**
Enerplus Resources Fund	Greenhill Capital Partners, LLC, & Lime Rock Partners	AIG Financial Products Corp.	Greenhill Capital Partners, LLC & Citigroup Investments Inc.	Greenhill Capital Partners, LLC

COSCO Personnel:

Unlike its peers, before joining it, most of COSCO's personnel first enjoyed careers within the energy business.

Prior to founding COSCO in 1992 and working with Odyssey Partners LP for its first four years, Cameron Smith, COSCO's Senior Managing Director, was employed as a geologist and then ran various E&P companies in the U.S. and Canada for over 15 years. Bill Weidner, another Managing Director, also worked as a geologist in the industry for four years, then for a commercial bank for a year, finally with RIMCO, a mezzanine lender, for eight years, before joining COSCO.

Lane McKay, COSCO's third managing director and President of COSCO Canada, worked in risk management for eight years, presiding over 30+ M&A transactions in a three-year period, on his way to building, taking public, and selling what is now the third largest property and casualty brokerage company in Canada.

In addition to its own members, COSCO has built a strong network of Colleagues, who are under contract to assist it to source and investigate new investment opportunities. COSCO's current Colleagues are based in Oklahoma City, Tulsa, Dallas, Houston, Denver, Calgary, London, Sydney, and Caracas.

From left to right: COSCO's Scott Kessey, Lane McKay, Bill Weidner, Cameron Smith, Warren Shimmerlik, and SERC's Mark Kellstrom.

COSCO Services:

Capital Formation. COSCO's strength is in discerning energy company managements worthy of equity financing, whether public or private, and projects suitable for mezzanine debt. This reflects the technical and industry training of its personnel. The COSCO Value Process™ begins with a frank assessment of a client's management and the company's competitive position and value in the marketplace. If a financing appears feasible, COSCO then assists 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. COSCO provides financial, investment/divestiture, and general business advice to both industry and investors, alike. For investors, services include consultation on investment strategies and execution, specific due diligence, and peer ranking. For private and public energy companies, COSCO provides sound business and financial advice designed to focus managements on their own competitive advantages, business opportunities, and financing potential. COSCO's advisory role often extends well into the execution stage, post financing.

Mergers & Acquisitions / Divestitures, Secondary Placements. Because its personnel and Colleagues are located in almost all of the principal energy centers around the world, COSCO is well positioned to match industry clients with acquisition, divestiture, or merger candidates. Also, because COSCO has close working relationships with a vast majority 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.

Principal Investing. COSCO currently participates in up to ten percent of each private placement equity financing it leads. It now has a portfolio of 19 such investments, having to date monetized seven, on which in aggregate it has realized greater than a 5:1 ROI and 30% IRR.

Education. From the outset, COSCO has worked diligently to educate the energy industry about Private Capital. In 1997, it founded the Private Capital for Energy Forum™, which it has hosted seventeen times in New York, Calgary, and Houston. Over seventy-five Private Capital Sources™ and another sixty Private Capital Beneficiaries™ have now made presentations at these Forums, some many times. In early 2005, COSCO also began publishing the *COSCO Private Capital Energy Index Report*™, which twice each year tracks the investing activities of the COSCO Private Energy Index™, a representative cross-section of the Private Capital community focused on Energy.

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T. Prescott Kessey *Principal*	Houston TX	713-654-8080	tpk@coscocap.com
Warren M. Shimmerlik *Principal*	New York NY	212-247-5200	wms@coscocap.com

For SERC Information, Please Contact:

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Mark W. Kellstrom www.StrategicEnergyResearch.com	Summit NJ	908-918-0900	kellstrom@StrategicEnergyResearch.com

of $360 million, as well as increasing its borrowing base, to fund two acquisitions. The public offerings of MLPs are usually about 70% aimed at retail investors.

CARVE-OUT OR VPP?

When should an E&P company that manages long-lived reserves consider creating an MLP, rather than selling forward a defined amount of reserves through a volumetric production payment, or just selling all the reserves outright? Either way it is monetizing the value of its assets.

It depends on the character of the reserves, Chernosky says.

In a VPP, the company sells a defined volume of reserves during a set period of time and retains all of the upside above the volume sold. It has the option of all the remaining upside.

If a C Corp. forms an MLP, it sells the reserves (primarily PDP and other proved reserves) in total. But it may still retain upside through an incentive distribution right. EV Energy Partners, for example, has created an IDR structure of up to 25%. As the MLP grows its distributions, the "parent" C Corp. gets a disproportionate share of the incremental cash distribution.

Long-life PDPs are generally not as attractive to a C Corp. as to an MLP.

"A C Corp. trades on a cash flow multiple of five to seven times while MLPs trade at a multiple of 10 to 12 times. It's a lot easier if you've trading at 10 times to buy something on an accretive basis. To buy an asset and be accretive, you've got to buy it at a multiple less than the multiple where you're trading," Chernosky explains. "The higher the multiple, the lower the cost of capital and the more competitive edge it has as a buyer."

Following are profiles of the two latest partnerships to go public as of press time.

LEGACY RESERVES LP

The most recent MLP to be listed was Legacy Resources LP in Midland, Texas, which debuted in February 2007 by raising $131 million through the sale of 7 million units. It was founded in October 2005 and in March 2006, completed a 144A offering of $85 million.

It is the only oil-weighted MLP focused on the Permian Basin—an area ripe for such a corporate structure since it has so many long-life reserves. Management thinks it is on the front end of a wave of consolidation to come in the Permian, its backyard, where most of management has spent its careers. Many of the assets in the basin are owned by families with no clear succession plans.

Legacy's assets as of the IPO—19 million barrels of oil equivalent proved—had been accumulated in this fashion by the principals of two family companies, the Browns and the McGraws, who contributed properties to the new firm. Cary Brown is chairman and CEO and Steve Pruett is president.

"About 36% of the basin is operated by the top five companies, but some 1,700 other operators handle the rest. That opens up tremendous opportunities," says Pruett.

Legacy has designs on other basins as well. It recently agreed to acquire 4 million BOE of oil and gas producing properties from Nielson & Associates Inc. for an aggregate purchase price of $45 million. That was to be paid $30 million in cash with the remainder by issuing 611,247 Legacy units at closing. The properties are in the East Binger (Marchand) Unit in Caddo County, Oklahoma.

"The East Binger Unit is an excellent fit with our existing asset portfolio and the experience and skill set of our management," Brown said in a written statement.

The company operates about 70% of the 2,000 wells in which it has an interest.

ATLAS ENERGY RESOURCES LLC

This Appalachian basin-focused firm went public in December 2006 at the top of its estimated range, or at $21 per unit. It was over-subscribed and raised $134 million.

Recent MLP Acquisition Activity

Date	Buyer	$ Paid	$/BOE	%PUD
03/2007	Constellation Energy Partners	115	14.09	NA
03/2007	EV Energy Partners	96	8.94	99
02/2007	Exco Resources Inc.*	860	2.15	72
01/2007	Encore Acquisition Co. *	410	17.17	81
01/2007	BreitBurn Energy Partners	29	14.50	NA
01/2007	Encore Acquisition Co.*	400	17.30	90
01/2007	EV Energy Partners	72	7.67	89
12/2006	Exco Resources Inc. *	1,600	20.58	96
12/2006	Linn Energy LLC	39	9.36	NA
12/2006	Linn Energy LLC	415	7.55	50
11/2006	EV Energy Partners	28	11.88	NA
07/2006	Linn Energy LLC	125	13.76	43
07/2006	Linn Energy LLC	291	9.30	88
Average		**$345**	**$13.49**	**79**

* E&P companies that have announced they intend to form an MLP. Source: *Tristone Capital and John S. Herold data*

Structural Comparisons

TRAIT	MLP	LLC	C CORP
Non-taxable	Yes	Yes	No
Tax shield on Distributions	Yes	Yes	No
General Partner	Yes	None	None
Incentive distribution Right	Yes	None	None
Voting rights	No	Yes	Yes
Percent of units Subordinated	40%-50%	None	None
Early Conversion Option	Yes	No	No

Source: *Legacy Reserves LP*

Investors liked its stated R/P ratio of 18 years, "but we have a portfolio of all types of wells, and we have some that will produce 30 to 50 years," says Rich Weber, president of the Pittsburgh-based LLC, which was carved out of and is still 80% owned by Atlas America Inc. "And unlike some other MLPs, we have the ability to grow organically as we are the most active driller in the Appalachian Basin—we'll drill close to 900 wells this year."

Indeed, the company has been one of the largest syndicators of retail oil and gas partnerships to fund drilling for 35 years. In 2005, it raised $150 million in this way; in 2006, it raised $218 million. It has established relationships with about 100 broker-dealers that sell tax-advantaged investments such as drilling programs to high-net-worth individuals.

Nearly a third of its income is derived from fees for managing those partnerships, with the rest from oil and gas production, which increased 18% last year. It operates about 6,600 wells in the basin.

With such a track record, why go public in an MLP?

"We chose this format because we produce strong cash flow. As a 'flow through' entity, we are able to provide our investors with a growing quarterly distribution that is tax deferred. We think yield-oriented investors appreciate this structure and, as a result, we get a better valuation in the market," says Weber.

The quality of its cash flow and margins are enhanced by recurring fees to manage the partnerships as well as to drill and operate the wells, regardless of what commodity prices do to the cash flow stream from actual production.

Atlas typically provides 28% of the capital in its drilling programs, investing alongside the other partners, and also receives a 7% carried interest, to complement its returns from oil and gas production. The partnerships also reimburse it for certain lease expenses.

Atlas has about 600,000 gross acres under lease and 325,000 undeveloped, the bulk in Pennsylvania, Ohio and New York, with some in Tennessee. Its most active drilling areas are in southwest Pennsylvania's Upper Devonian sands and in the northern part of the Keystone State, in the Clinton and Medina formations.

In western Pennsylvania and into Ohio, the company is pursuing an emerging shale, the Marcellus, where it is still aggressively leasing, says Weber.

"We're pleased with the results so far. We have completed three wells and plan to drill more. It's way too early to declare victory, but if this works, it has the potential to truly change this basin," he says.

Despite a traditionally heavy drilling schedule (at press time it had 27 rigs running), Atlas will, like its MLP peers, pursue acquisitions, creating arbitrage between what the market is paying for its public units and what it can pay for producing assets.

"When we see an opportunity to create value for our unit holders, we will be aggressive," Weber vows.

The IPO of the assets assembled to form the MLP gives it currency to make those deals happen.

"If we were to go back to the capital markets, it would likely be for an acquisition. But we don't need an acquisition to grow this entity—that's a marked contrast to the other MLPs," Weber concludes. •

Despite a traditionally heavy drilling schedule (at press time it had 27 rigs running), Atlas will, like its MLP peers, pursue acquisitions, creating arbitrage between what the market is paying for its public units and what it can pay for producing assets.

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Greystone Drilling, LP
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Term B Loans

During the past three years, energy companies have increasingly turned to the term B loan market as a more attractive alternative to raise capital. Institutional investors also like term Bs.

By Ellen Chang, Contributing Editor

One E&P company that has paved the way for entering the term B loan market is ATP Oil & Gas Corp., the Houston oil and natural gas producer with properties in the Gulf of Mexico and the North Sea.

Chief financial officer Al Reese Jr. says ATP was one of the first energy companies to take advantage of the more flexible structure and maturities of term B loans that conventional bank loans or mezzanine debt could not provide.

ATP began tapping into the term B loan market in March 2004 with a $150-million senior secured first-lien loan and a $35-million senior secured second-lien term loan, both arranged by Credit Suisse Securities USA LLC. The company was paying the London interbank offered rate (LIBOR) plus 8.5% on the first lien and LIBOR plus 10% on the second lien.

By September 2004, ATP had increased to $185 million its senior secured first-lien term loan along with its $35-million senior secured second-lien term loan from Credit Suisse.

Reese said $100 million of the proceeds were used to repay ATP's previous debt, and the remainder was used for development drilling.

"Term B loans typically provide terms unique to the borrower," Reese says. "The loans provide greater flexibility, which was critical for ATP. Most bank loans require stricter covenants on collateral and limitations on how much E&P companies can borrow against their undeveloped reserves. ATP's business model is to acquire undeveloped reserves and take those reserves to development and production. The term B market provided us the capital for our business model."

Prior to 2004, Reese said energy companies often were limited in their borrowing options. Small and mid-cap energy companies could obtain bank debt, dilute their common stock through an equity issuance or partake in the mezzanine debt market.

"It just didn't work, we were constantly in need of capital," he says.

Term B loans are attractive to ATP, Reese says, because they are a good financing option for companies "looking for secured lending with better terms. It's a great market. It's a market that truly came about because of a need."

Since ATP's financial plan focuses on bringing proved undeveloped reserves (PUDs) to production, traditional bank loans did not give the firm credit for its undeveloped reserves, Reese explains. The company reported a 98% success rate of converting undeveloped reserves to developed and producing reserves. These loans embraced ATP's business plan and asset base.

"Term B loans offered us the ability to tap into the market differently," Reese says. "The loans had very few covenants on the undeveloped component. That's what made it so attractive to us. Every term loan will have a feature that is unique to the borrower."

ATP has continued to take advantage of the flexibility of term B loans. In 2005, the company obtained a $350-million senior secured first-lien term loan, repaid all of its previously outstanding term B loans and added a $175-million, non-convertible perpetual preferred stock offering.

Last March, the energy firm added a $150-million non-convertible perpetual preferred stock offering to its existing preferred issue and in June obtained a $525-million senior secured first-lien term loan. In November, ATP obtained a $900-million senior secured first-lien term loan and a $175-million senior secured second-lien term loan with Credit Suisse, and redeemed all of its outstanding preferred shares and term B loans. As the term B loan market has matured, the market also has become more favorable to borrowers. ATP obtained the $900-million first-lien loan at LIBOR plus 3.5%.

Just three years ago, obtaining a $1.075-billion loan for ATP would have been "unthinkable," Reese says. The company would have been capped at receiving a $185-million term loan and think the amount was a "great deal," or be faced with only obtaining $110 million from a more traditional bank loan, he says.

In March 2007, ATP paid down its $175-million second lien obtained in 2006.

Reese says the term B loan market has grown immensely.

"As time has grown, the market has become more sophisticated," he says. "I don't see an upper limit to it."

Reese says another advantage of term B loans is they

Phase II development is in progress at ATP's Mississippi Canyon 711. (Photo courtesy of ATP Oil & Gas Corp.)

are not rated by agencies such as Standard and Poor's or Moody's. The loans also are not registered and are only traded on the private market, unlike high-yield debt instruments that are registered and traded.

EXPONENTIAL GROWTH

Tim Perry, a Houston-based managing director and head of E&P efforts in North America for Credit Suisse, says the growth in companies using term B loans has been exponential.

These loans "really transformed" ATP because they gave the oil and gas company leverage to expand its production, Perry says.

The loans are attractive to the borrower because they are callable immediately at par or only a slight premium to par. On the other side of the coin, lenders like the loans because they are secured and typically have maintenance financial covenants.

Energy companies tend to like these loans because they give the companies the ability to acquire assets, increase capital for drilling and not be saddled with a huge call premium if the company desires to refinance the debt, says Jim Finch, managing director and co-head of U.S. syndicated loans with Credit Suisse.

"The loans are more flexible for managing a company's capital structure," he says.

ATP has been one of the largest issuers of these loans since 2004 because they allowed the company to raise more than $1 billion for development drilling programs and increased the company's equity value by nearly six-fold.

By using syndicated loans and perpetual preferred structures, the company has also seen minimal dilution in equity, Finch says. During the three-year time span, Credit Suisse said it also has progressively lowered rates and loosened covenants on ATP's loans because it "consistently" delivered on its development plans, Finch adds.

Credit Suisse also lowered its first-lien LIBOR spread by 600 basis points and lowered the second-lien LIBOR spread by 525 basis points, thus allowing ATP to gain an increase in covenant flexibility.

Perry says term Bs are very attractive for E&P companies that have low proved developed producing reserves but contain a large amount of PUDs or probable reserves such as those of ATP. With a low amount of proved developed reserves, commercial banks only give borrowers a small loan. Other alternatives, such as convertible debt, dilute a company's equity. High-yield bonds are also not attractive because they can lock a company into higher interest rates for a longer period.

Term Bs can also be refinanced or amended as a company's development or production occurs and its credit improves, Perry says. ATP has done this eight times since March 2004, each time increasing the loan amount and decreasing its interest rate as its credit position has steadily improved.

"ATP has used the loans very effectively," Perry says.

PUBLIC OR PRIVATE

Term loans can be used as a vehicle to improve the credit quality of public and private companies. Venoco Inc., the NYSE-listed Colorado oil and gas E&P company, used a $350-million loan in 2006 to improve its credit. Last year, Venoco acquired TexCal Energy (LP) LLC, an independent E&P firm with assets in California and Texas. The loans were attractive because they are private debt instruments that do not require a filing with the Securities and Exchange Commission, Perry says.

Private companies have used these loans because they are term financing that allows the companies to remain as private entities.

The loans have become popular with investors because the loans are a high-yielding instrument that produces a higher return than bonds, are secured and are a defensive investment. The returns for the risk are "very good," Finch says.

Perry says the interest from institutional lenders and E&P companies has "mushroomed." In 2004, Credit Suisse arranged three term loans. In 2005, the number of loans increased to five while in 2006, it rose to 14. So far this year, Credit Suisse has arranged four term B loans, Perry says. The loans are also appealing to non-investment grade companies.

"A year ago, hardly anyone had heard of them, but now everyone is

looking at them as an option," Perry says. "People are now thinking of the loans as part of the menu. Term B loans tend not to be cookie-cutter financing. They are highly tailored instruments for the borrowing company's goals. They are cheaper financing and less dilutive to the company and shareholders."

One of the drawbacks of the loans is the covenant, but even those have seen a decrease in restrictions, Finch says. Term loans can also carry a floating interest rate, but those can be hedged with interest rate swaps, he says.

Commercial banks have also become adept at issuing term B loans. Don Warmington, a managing director at TD Securities, says the bank issued a $300-million loan in 2006 for W&T Offshore Inc., an NYSE-listed Houston oil and gas company. TD also issued a $100-million second lien for New Orleans-based McMoRan Exploration Co., which used the loan for its wholly owned subsidiary, McMoRan Oil & Gas LLC. The proceeds of the five-year term loan will be used to repay borrowings under MOXY's existing revolving credit facility, for future drilling activities and other corporate purposes.

Warmington says the loans are appealing because they do not have to be rated and garner more flexibility because they can be issued faster than other debt, such as high-yield bonds. Banks are proponents of the loans because they have maturities of four to seven years. Typically, banks do not like maturities past five years.

Warmington says he has seen plenty of investor appetite because the loans are good investments. The life of the loans also tends to match the term of an energy company's assets, he says.

Dan Steele, a senior vice president and manager of the energy-lending group at Houston's Sterling Bank, says the bank has participated in four term B loan transactions in 2006, compared with zero in 2005. He declined to name the energy companies.

Steele does say that banks can also benefit from the loans as energy companies use the proceeds to drill and obtain additional reserves. He says a bank's collateral also can be enhanced as more reserves are produced, adding that the loans are typically being issued at LIBOR plus 175 basis points up to LIBOR plus 350 basis points.

The loans are a good option for companies seeking other sources of capital, selling assets within a short period of time or raising public equity. •

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Jim Hamilton
210-930-2926

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Ready To Roll

Private equity firms have billions to deploy for start-ups and existing clients, and their investors still have an appetite for energy.

From *Oil and Gas Investor This Week*
and Leslie Haines, Editor-in-Chief, *Oil and Gas Investor*

The *Oil and Gas Investor This Week* scorecard shows an impressive list of private-equity entities that raised new funds for energy in 2006 and early 2007. Funds raised by 22 entities in 2006 jumped to $13.6 billion—118% more than the 2005 level, according to data in the COSCO Capital Management Private Equity Index.

Heightened E&P and oilfield-service activity in 2006 encouraged many capital providers to get creative with their financing terms and find niches that helped them stand out.

Since many E&P executives last year were on the hunt for prospects and acquisitions, not funding, capital providers were working harder to place their capital. They are considering more exploration, alternative energy and international opportunities.

Thomas Glanville, managing director of Houston-based private-equity firm **Eschelon Energy Partners**, says hedge funds stepped up in 2006 among the biggest new players in debt and equity.

G. Allen Brooks, a managing partner with Houston-based oilfield-services investment banker **Parks Paton Hoepfl & Brown**, says 2006 proved an investment adage: "A market experiencing rising prices, activity and profits will attract all the capital anyone could efficiently use, and possibly more."

In 2006, the new dynamic was the growing role of private equity, he adds.

"More than $14 billion in new private-equity funds targeting oilfield-service investments was raised last year. These investors tend to have a longer investment horizon than the majority of stock market investors.

"The private-equity players are interested in creating value through building companies, and given the long-term fundamental outlook for energy, this has been a propitious time to invest," he says.

Looking ahead, Glanville expects competition between capital providers, including competition between lending niches, to grow.

"Competition for quality deals is very strong, so some capital providers are taking more risk with the business plans and unproven teams," he says.

Capital providers expect to place more investment dollars this year in unconventional reservoirs, whether they are coal and shales, or bitumen and stranded gas.

The deal pace hardly seems to be slowing despite the record-setting level of 2006, during which time, EnCap Investments LP raised $1.5 billion. It has already committed the entire fund to some 25 management teams, which will deploy the money during a five-year period.

What's more, it has begun raising its next fund. The first closing will be this summer and the new fund likely will be "north of $2 billion by year-end," says Robert Zorich, one of four co-founders and partners of the Houston firm.

It is backing about 45 companies at the moment.

"We committed our last fund in what I'd call record time," says Zorich. "A number of our existing companies wanted to re-up and continue in business after their last company sold—that's about half our deal flow.

"The other half is a lot of new teams spawned by the big mergers we've seen in the past couple of years—we have our fair share of that market."

A case in point: ex-Kerr-McGee Corp. executive Grant Henderson, who just formed Talon Oil & Gas LLC in Dallas with a $100-million commitment from EnCap and another $60 million from Talon principals and Citigroup Private Equity.

Talon will pursue deals up to $500 million in Texas, Louisiana and the Mid-continent region.

A second example is Oasis Petroleum LLC, helmed by Tommy Nusz and Taylor Reid of Burlington Resources. Backed by a commitment of $100 million from EnCap, they will pursue U.S. and international ideas.

Zorich says most of the investors he deals with understand market and energy fundamentals, and they believe energy is an important sector in which to invest.

PRIVATE EQUITY RAISES

Following is a list of new entrants to the capital-formation space, new funds raised by existing players and other capital-provider news from 2006 and early 2007.

—**First Reserve Corp.**, Greenwich, Conn., closed its private-equity fund **First Reserve Fund XI LP**, with total commitments of $7.8 billion.

—Boston-based **ArcLight Capital Partners** closed **ArcLight Energy Partners Fund III LP** with commitments of more than $2 billion from some 90 limited partners. ArcLight will make investments throughout

ENERGY FINANCE

A Consistent Commitment to the U.S. Energy Market

March 2007

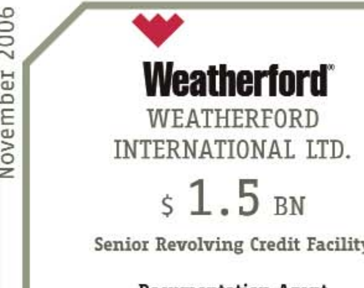
ENCORE AQUISITION COMPANY

$ 1.25 BN

Senior Revolving Credit Facility

Documentation Agent

November 2006



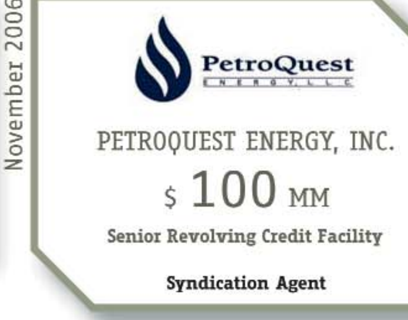
WEATHERFORD INTERNATIONAL LTD.

$ 1.5 BN

Senior Revolving Credit Facility

Documentation Agent

November 2006



PETROQUEST ENERGY, INC.

$ 100 MM

Senior Revolving Credit Facility

Syndication Agent

October 2006

BOIS D'ARC ENERGY INC.

$ 200 MM

Senior Revolving Credit Facility

Syndication Agent

October 2006

RANGE RESOURCES CORPORATION

$ 800 MM

Senior Revolving Credit Facility

Syndication Agent

October 2006

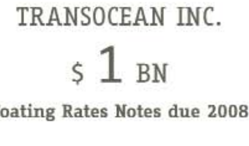
Wilbros USA

$ 100 MM

Letter of Credit Facility

Sole Lead Arranger
& Administrative Agent

September 2006



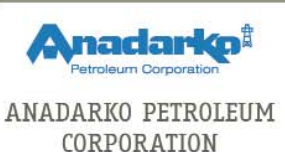
TRANSOCEAN INC.

$ 1 BN

Foating Rates Notes due 2008

Co-Manager

September 2006



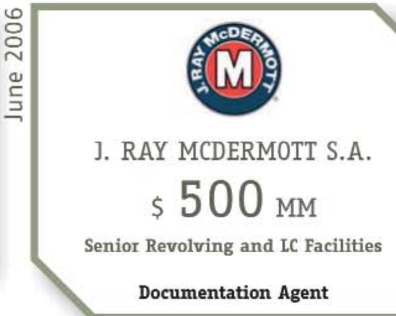
ANADARKO PETROLEUM CORPORATION

$ 5.5 BN

Senior Notes related to the Acquisition of Western Gas Resources and Kerr McGee

Co-Manager

June 2006



J. RAY MCDERMOTT S.A.

$ 500 MM

Senior Revolving and LC Facilities

Documentation Agent

June 2006

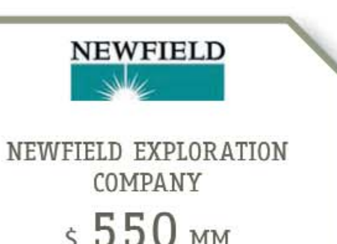
NORTHWEST PIPELINE CORPORATION

$ 175 MM

Senior Unsecured Notes due 2016

Joint Book Runner

April 2006



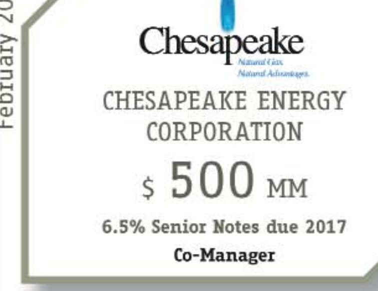
NEWFIELD EXPLORATION COMPANY

$ 550 MM

6.5% Senior Notes due 2016

Co-Manager

February 2006



CHESAPEAKE ENERGY CORPORATION

$ 500 MM

6.5% Senior Notes due 2017

Co-Manager

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the energy value chain including oil, gas and coal resources and infrastructure, power generation, and electric and gas transmission and distribution.

—**Quantum Energy Partners** raised $1.32 billion in its **Quantum Energy Partners IV LP**, the company's fourth private equity fund. It will invest in $25- to $125-million increments.

—**Sowood Capital Management LP**, Boston, closed **Sowood Commodity Partners Fund IV LP**, a private investment fund with $1.24 billion in commitments. The fund will make investments in energy, natural resources and other sectors.

—**Kayne Anderson Capital Advisors LP**, Houston, closed its fourth energy private-equity fund with total commitments of $950 million. The new fund will focus on early to midstage North American oil and gas companies with typical investments ranging from $10- to $100 million.

—Houston-based private-equity firm **Lime Rock Partners** closed **Lime Rock Partners IV LP** with $750 million in investor capital commitments to invest in growth-capital investments in companies in the global energy market.

—**Quintana Energy Partners LP** was formed with $650 million of capital to make control-oriented equity investments in oil, gas, oilfield services, coal and power. Principals include Corbin Robertson Jr. and Corbin III of Quintana Petroleum Corp., Houston, and former U.S. Commerce Secretary and Tom Brown Inc. CEO Donald L. Evans.

The fund may use capital via growth equity or start-up capital, leveraged buyouts, buy-and-builds or joint venture arrangements. Equity deals will range from $10- to $125 million.

—**Haddington Ventures LLC**, Houston, closed a new private-equity fund, **Haddington Energy Partners III LP**, with committed capital of $182 million to be used for investments in the North American midstream energy industry.

Fund III is seeking equity investment opportunities developed by experienced management teams in the $20- to $50-million range with total enterprise value of $100- to $200 million. The fund will also consider initial investments as low as $2- to $5 million, depending upon growth potential and follow-on investment opportunities.

Fund III will develop midstream assets and assume construction risk as needed and will acquire assets or companies with strong upside potential. The fund will also target smaller assets in need of operating improvements.

—Houston-based **Growth Capital Partners LP** closed **Southwest Mezzanine Investments II LP** at more than $65 million. Jim Forrester, Jim Rebello and Drew Sudduth manage the fund.

SM II targets $2- to $5-million subordinated debt investments in middle-market companies. The fund will consider companies with competitive advantages, enterprise values in excess of $10 million and a history of profitable operations.

—**Barclays Capital**, the investment-banking division of **Barclays Bank Plc**, London, acquired a 40% stake in private-equity firm **NGP Energy Capital Management**, Irving, Texas, for an undisclosed amount. Separately, the firm is in the midst of raising a $1.5-billion fund to invest in midstream infrastructure, mining and minerals, called **NGP Energy Infrastructure & Resources Partners LP**. John T. Raymond is CEO and John Calvert is managing director.

—**FirstMerit Bank**, Canton, Ohio, formed **FirstMerit Commercial Energy Group** to provide reserve-based and project financing to energy independents in the Appalachian, Illinois and Michigan basins. The group wants to do deals between $500,000 and $40 million.

Management includes James S. Bolinger, senior vice president of commercial banking and FirstMerit Commercial Energy group manager; Milton J. Haynes, vice president of commercial banking and energy relationship manager of FirstMerit Commercial Energy Group; and Gayland R. Stehle, vice president of commercial banking and petroleum engineer.

—Houston-based **Post Oak Energy Capital** was formed to pursue direct-equity and equity-related debt investments in companies and projects in all areas of the energy industry domestically and internationally.

Managing directors are Clint S. Wetmore and Frost W. Cochran. Also in management are Robert H. Walls and Philip A. Davidson. Wetmore was with Royal Dutch Shell's global M&A group; Cochran was chief executive of Appalachian E&P company Belden & Blake; Walls was Enron's post-bankruptcy general counsel; and Davidson was a managing director of Rice Capital.

—**Merrill Lynch**, New York, acquired **Petrie Parkman & Co.**, Denver and Houston, for an undisclosed price. The new entity is **Merrill Lynch Petrie Divestiture Advisors**. Founder Tom Petrie was named a vice chairman of Merrill.

—Tim Sullivant joined **Houston Energy Advisors LLC**, the manager of an energy special-situations fund. It will invest in niche situations and facilitate transactions with other investors in the energy area. Sullivant was with upstream asset-marketer Madison Energy Advisors.

—**ING Investments LLC**, Scottsdale, Ariz., launched the **ING Risk Managed Natural Resources Fund**, a non-diversified closed-end fund that invests in equity securities of companies in the energy and other natural resources industries. Management plans to invest at least 80% of its managed assets in natural resources companies. •

Finding Capital: A Directory

Although not exhaustive, the firms noted here are among known providers and/or arrangers of capital to the upstream energy industry. They include commercial banks, investment banks, capital intermediaries and advisors, and private-capital sources. Firms are listed once although they provide multiple types of capital. The codes that follow describe services each firm provides: *I = Investment Banking; C = Commercial Banking; M = Mezzanine; P = Private Equity/Debt; and A = Arranger/Advisor.*

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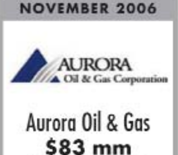
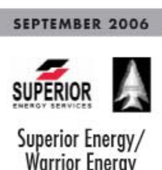
Since 2004, Johnson Rice has participated in over $10 billion worth of energy financing.

Lead Managed Transactions:

NOVEMBER 2006


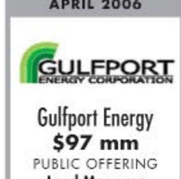
Aurora Oil & Gas
$83 mm
PUBLIC OFFERING
Lead Manager

SEPTEMBER 2006


Superior Energy/ Warrior Energy
M&A ADVISORY
Sole Advisor to Superior

JULY 2006

Carrizo Oil & Gas
$35 mm
PRIVATE PLACEMENT
Lead Placement Agent

APRIL 2006


Gulfport Energy
$97 mm
PUBLIC OFFERING
Lead Manager

MARCH 2006

Bronco Drilling
$78 mm
COMMON STOCK
Co-Lead Manager

JANUARY 2006

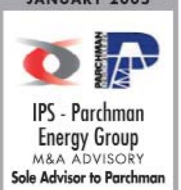
Gulf Island Fabrication
M&A ADVISORY
Sole Advisor

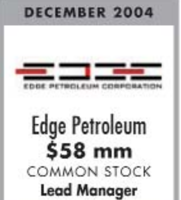
OCTOBER 2005

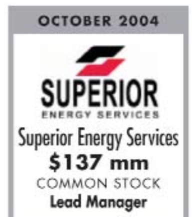
Bronco Drilling
$93 mm
COMMON STOCK
Lead Manager

AUGUST 2005

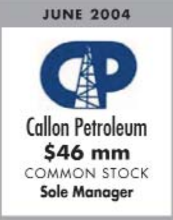
Bronco Drilling
$100 mm
INITIAL PUBLIC OFFERING
Lead Manager

JANUARY 2005

IPS - Parchman Energy Group
M&A ADVISORY
Sole Advisor to Parchman

DECEMBER 2004

Edge Petroleum
$58 mm
COMMON STOCK
Lead Manager

OCTOBER 2004


Superior Energy Services
$137 mm
COMMON STOCK
Lead Manager

JUNE 2004

Callon Petroleum
$46 mm
COMMON STOCK
Sole Manager

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$3,150,000
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May 2006
$10,200,000
Senior Debt, ORRI and NPI

TLOGH
November 2006
$15,500,000
Senior Debt

OILFIELD EQUIPMENT

September 2006
$12,400,000
Senior Debt and Equity

C&J Cladding
March 2007
$6,000,000
Senior Secured Debt and Warrants

OIL & GAS SERVICES

July 2005
$14,500,000
Senior Debt and Equity

February 2006
$5,300,000
Senior Debt and Equity

IRON HORSE COILED TUBING INC
April 2006
$9,250,000
Senior Debt and Equity

June 2006
$16,500,000
Senior Debt and Equity

Cypress Consulting
August 2006
$4,300,000
Senior Secured Debt and NPI

November 2006
$6,500,000
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April 2006
$5,500,000
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MIDSTREAM

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Subordinated Debt and Equity

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