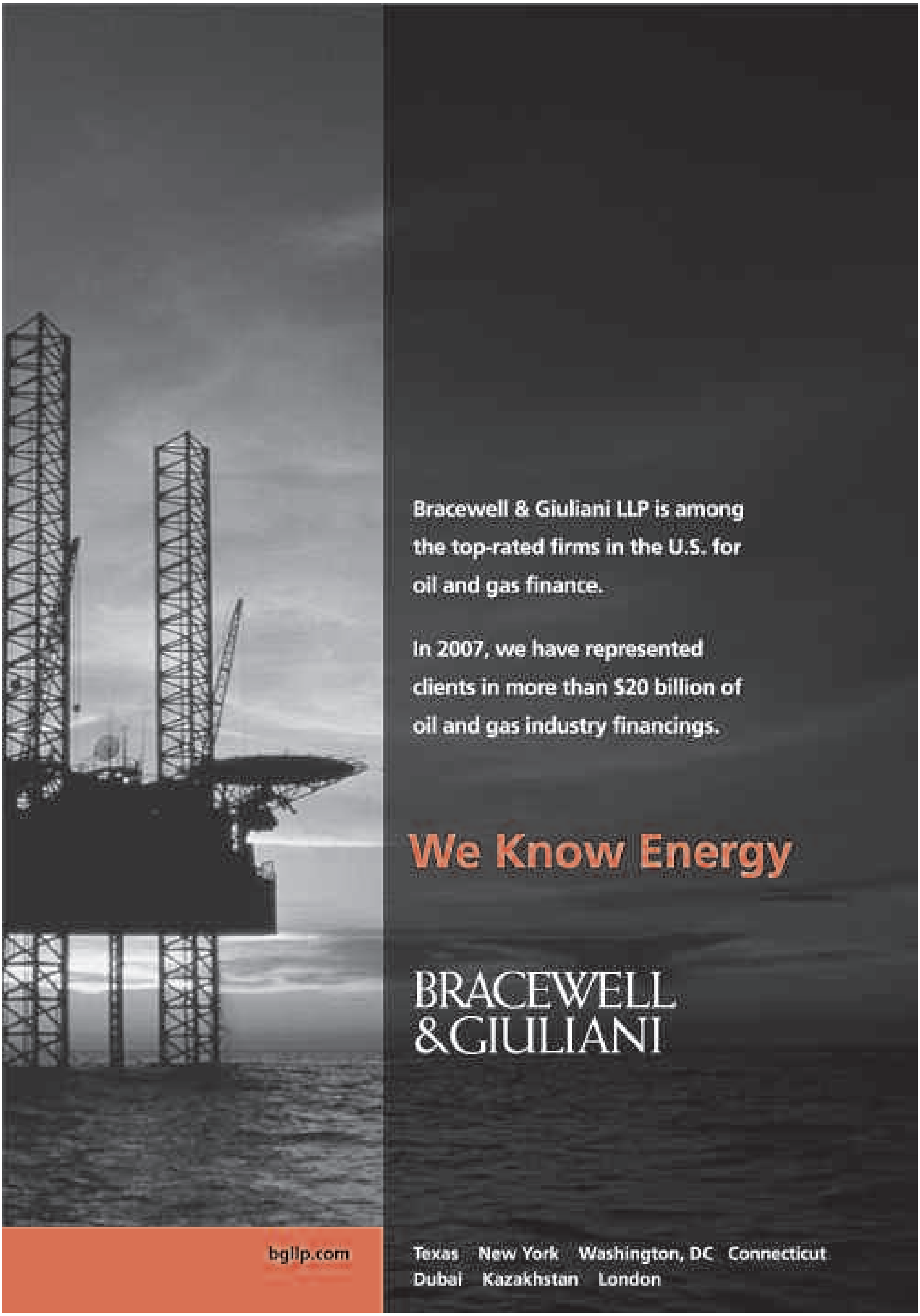
2007 ENERGY DEAL SHOWCASE

FINANCIAL TRANSACTIONS CASE STUDIES

NOVEMBER 2007

A SUPPLEMENT TO

Oil and Gas Investor



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A supplement to

Oil and Gas Investor

2007 Energy Deal Showcase

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MARKET BUZZ

Despite some challenges this year, capital providers continue to be optimistic for the long term. Deal-makers in 2007 faced several unanticipated challenges such as the stock market's greater volatility as the Dow soared past 14,000, which created some large daily swings of more than 100 points, making public offerings more sensitive to timing and market sentiment. Then the sub-prime mortgage crisis slammed debt markets for a brief time during the late summer and early fall, closing that window.

Oil and gas price volatility also was a factor, particularly as natural gas spot and futures prices fell during the summer, only to rise above $7 in October.

Despite these and other geopolitical challenges, capital was raised from institutions looking to expand their portfolio in energy. Several E&P start-ups were funded and many asset acquisitions were made.

The savvy players in this space are undaunted. They still believe in the long-term positive trends that underlie oil and gas investing in North America, and they are repricing risk as necessary when structuring debt and sub-debt transactions.

We asked several of these capital providers what their outlook is for capital markets, public and private, and for M&A activity, in light of these cross-currents. Here are their comments.

–Oil and Gas Investor

More equity ahead?

"Despite recent turmoil in the credit markets, a good investment still remains a good investment. We expect capital resources to fund drilling programs will continue to be robust in 2008. However, as access to capital continues to be strong, it will probably require more equity in the year ahead."

–Jonathan Feldman, founder and chief executive officer, Patriot Exploration Co. Inc.

Credit crunch a non-issue

"We have found the credit crunch to be a non-issue so far in our business, as the publics and financial buyers continue to be well funded. In addition, we just completed another South Texas transaction, with DSX Energy for $100 million, that was 100% debt-financed."

–Scott Richardson, principal, Richardson Barr & Co.

Repricing of risk may be needed

"While clearly impacting the broader market, the sub-prime shock has also affected capital flows into the E&P segment. Access to second-lien debt and Term Loan B capital has been curtailed. This stems from the fact that many buyers of this paper also held CDO/CMO paper related to sub-prime. Until the full impact of sub-prime is understood and repriced, we may continue to see curtailed access to these junior classes of capital.

"Having said that, Jefferies continues to be active in the placement and distribution of high-yield securities. In recent months, Jefferies has successfully completed numerous high-yield transactions in the middle of the credit displacement, and we are actively placing several other deals.

"Recent transactions include Parallel Petroleum's $150-million senior notes offering and Baseline Oil & Gas's $165-million senior and subordinated notes offerings. While high-yield terms have tightened and pricing has increased, Jefferies' extremely broad distribution platform that is focused on mid-cap companies enables us to not only be open, but increasing our activity.

"Other alternative sources of funding like traditional mezzanine lenders are open and now seeing more activity as the repricing of risk has brought the market back to ranges where many mezzanine lenders can now achieve their required balance of risk and reward.

"Jefferies is actively working on a series of large-scale development E&P drilling deals with this group of lender/investors."

–George Hutchinson, managing director, Jefferies & Co. Inc.

Reserve type and location matter

"Overall, I haven't seen any effect from the sub-prime crisis in the energy sector. It hasn't had any affect on Macquarie nor our continued strong appetite for oil and gas lending and investing. Nevertheless, I think access to capital in the next 12 months will depend primarily on two criteria within the underlying reserve base being financed: 1) the location of the reserves, and 2) the type of reserves (i.e., make-up of reserve categories).

"As it relates to location, I think certain areas will command more attention and capital sources will remain more aggressive. The long-lived areas of the Permian Basin, the Midcontinent, California (oil) and Appalachia will continue to be hot and capital will continue to be aggressive with the backstop of aggressive MLP [master limited partnership] money in the market.

"Contrary to that, long-lived gas in the Rockies and Canada may struggle until gas evacuation issues are resolved. We actually see these areas as potentially good value opportunities during this period. Other hot areas for certain types of capital will be the international sector.

"We're seeing (and investing in) new or experienced management teams that are moving into countries with new concession sales and new 3-D-driven exploration in older fields. Although these are predominantly oil opportunities, we are seeing gas opportunities as well in areas with growing populations and new infrastructure.

"I think the type of reserves will also have an influence in the type and aggressiveness of capital. Once again, with the aggressive MLP money as a backstop, financiers will be happy to aggressively lend against long-lived PDP [proved developed producing] properties.

"Development properties will continue to be hot as well, especially in higher-margin resource plays. Development money for the lower-margin resource plays may see some capital pullback until there's better definition to future gas prices."

–Paul Beck, executive director,
Macquarie Bank

Solid companies won't be denied

"We have closed two large debt deals aggregating over $500 million since the credit markets became unsettled and generally have seen credit terms become a little tougher, but we do not see access to capital being denied for strong companies.

"We have also been in the market with several PIPE [private investment in public equity] transactions recently and generally have not seen much impact on the timing or terms on these transactions than what we would have normally expected.

"There are certain hedge funds that have been impacted more than others from the credit market correction and, of course, those funds are either on the sidelines or have been slower to respond. Other hedge funds that have not been as impacted by the credit market correction continue to be very receptive to making investments in solid companies.

"In regard to the private-equity market for private companies, that continues to be very strong. Overall, I would say that for the remainder of 2007 and into 2008, with some hedge funds still on the sidelines, I would expect high-quality PIPE and mezzanine debt deals to continue to be completed, with very little change in the timing of completing the transaction or transaction terms, but for the more challenging deals to be completed possibly at slightly weaker terms than prior to the credit market correction–and execution may be a little slower.

"I would expect the private-equity market to continue to be very strong for the remainder of 2007 and into 2008."

–Keith Behrens, managing director,
Energy Capital Solutions LP

Finding the right project and team

"The current capital environment overall is a conundrum. While ample new capital has entered the market, it remains a complex task for producers to find the capital provider that is the right match for them.

"BlueRock Energy Capital focuses on providing capital to smaller independents. Companies might need less capital in a high-commodity-price environment, but the small producers are anxious to grow and are combining our capital with their cash to grow faster. Our purpose is to invest as much capital as we can, as prudently as possible.

"Capital is not our hurdle; finding the right project and the right management team is. Once we find the team that is a match for us, we're off to the races."

– Cathy Sliva, president,
BlueRock Energy Capital Ltd.

Looser terms may tighten up now

"We sense a little tightening of the credit markets, and actually hope that there is a tightening of credit. With sub-prime credit issues permeating the market, it appears that some of the hedge funds and similar capital sources may be pulling back. The amount of capital available has created more competition that has led to lower loan pricing and looser credit terms.

"Our industry is better off with fewer capital providers and competition out there. Margins have gotten very thin for the banking industry."

–Mickey Coats, manager of energy banking,
BOK Financial

The price of poker

"With the continued strength in commodity prices, I think we will continue to see more and more capital available to the energy industry. Of course, an important point to remember is that the 'price of poker' has gone up. At $80 a barrel, it costs more to acquire and develop properties. You can't pay $5 a barrel to acquire properties; service cost are higher with the increased activity levels; and operating costs are higher as industry participants try to produce the last marginally profitable barrel.

"I guess what I'm trying to say is that although a lot of capital is available to the industry, a lot is needed just to keep production flat, much less keep up with demand.

"I expect to see even more M&A activity, and I believe the next wave of activity will be driven by companies' need for employees. The industry has done a poor job at recruiting people over the past 30 years. The volatility of the industry has chased young people away; today, kids want to write software or be investment bankers.

"It would not surprise me to see companies buying other companies solely for their employees."

–Chuck Yates, senior managing director,
Kayne Anderson Capital Advisors LP


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Given the outstanding reputation and track record Randy Foutch enjoys in starting and developing E&P companies, his latest venture, Laredo Petroleum, would have had no trouble finding willing financial institutions to provide initial support.

But, when the Tulsa-based company was formed in June 2007, then had to look for co-agents for a $300-million revolving credit facility with commercial banks, it was not surprising that Foutch turned to the Bank of Oklahoma as part of the team. The bank has been a capital provider in each of Foutch's three previous start-up companies based in Tulsa: Colt Resources (1991), Lariat Petroleum (1997) and Latigo Petroleum (2002), each of which were later sold to large public companies for more than $1 billion in aggregate.

Mickey Coats, now manager of energy banking for BOK Financial, says the bank's business relationship with Foutch dates back to 1991, when Foutch founded Colt. At that time, Coats remembers, Foutch came to the Bank of Oklahoma with more goals and ambition than equity. Now in his fourth start-up venture, Foutch could get funding from multiple sources, but because of the mutually beneficial relationship established years ago, BOK and Foutch continue their relationship, Coats says.

"We have really enjoyed working with Randy over the years," says Pam Schloeder, senior vice president, energy department, BOK. "He had just left his job at Dyco Petroleum as vice president of production in 1991 when he asked the bank to support his aspirations of forming an exploration and production company. He had not received very positive responses from any of the other banks in town.

"We decided to work with him and it has been a great ride for both companies. Randy has consistently performed and remains very faithful to BOK because we were with him from the beginning. BOK was the sole lender to his first company, Colt Resources, and was a participant in the lending relationships to Lariat and Latigo," she says.

An unusual twist to this deal was the aggressive advance rate BOK was willing to extend to Laredo, largely based on Randy Foutch's past performance.

— Pam Schloeder,
senior vice-president, BOK

In this latest venture, BOK is a co-agent of the $300-million revolving line of credit to Laredo, which has a $45-million borrowing base, and it holds 50% of the credit line.

"It is a five-year facility secured by production. The proceeds were used to acquire [$75 million of] producing oil and gas properties from an Austin-based energy firm. Interestingly, the company selling the properties was a customer of our Texas bank, Bank of Texas, and therefore, we were able to arrange for the seller, at the request of Laredo, to hedge the production at Bank of Texas prior to closing and then after closing, transferred the hedges to the Bank of Oklahoma, at no cost to Laredo," Schloeder says.

"We met with Laredo on April 9th to discuss the financing and closed the transaction June 4th, which was the longest period of time we have ever been given on one of Randy's deals. An unusual twist to this deal was the aggressive advance rate BOK was willing to extend to Laredo, largely based on Randy Foutch's past performance," Schloeder says.

For his part, Foutch says his team has always managed commodity price risk by the use of hedge transactions using futures contracts that its banks help provide.

"This activity has gained importance as the general level of prices has increased, and the volatility has become much more pronounced," he says. "The credit facility will provide capital for the acquisition of oil and gas properties and for working capital purposes to fund the company's drilling programs."

THE DEAL BOK co-agents a $300-million revolving credit agreement, structured as a five-year facility with initial borrowing base of $45 million

USE OF PROCEEDS Acquire oil and gas properties and working capital to fund drilling programs

THE PLAYERS Bank of Oklahoma's Mickey Coats, manager of energy banking, BOK Financial; Pam Schloeder, senior vice president, energy department, BOK; Laredo Petroleum CEO and president Randy Foutch (above), CFO Mark Womble

The revolving credit is a typical oil and gas facility that has a borrowing base, determined by a semi-annual review of the company's oil and gas properties in terms of remaining reserves and the current and projected cash flow from the production revenues, he explains.

Foutch is again teaming with senior management that has been with him through his various ventures. He is the founder, chairman, chief executive and president of Laredo. Other key managers are Mark Womble, chief financial officer; Pat Curth, vice president, exploration; and Oran Hall, vice president, planning and development. They all worked with Foutch at his previous companies. A new team member is Jerry Schuyler, Laredo's chief operating officer, who joined in May 2007. Schuyler was most recently with St. Mary Land & Exploration Co.'s Houston office and has more than 30 years of industry experience at various worldwide locations.

In addition to the bank debt, global private equity firm Warburg Pincus has provided an equity commitment of $300- to $500 million. This is the third venture of Foutch's that the New York firm has backed; Lariat and Latigo were previous portfolio companies of Warburg Pincus. ■

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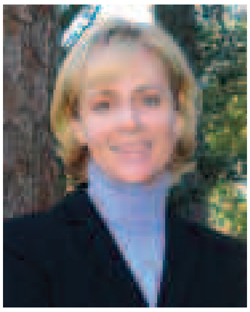
Since receiving an initial $450,000-advance in 2003 under a mezzanine structure, Tammany Oil & Gas LLC has successfully grown to own net assets in excess of $30 million. The initial credit facility that was provided by BlueRock Energy Capital Ltd. in Houston has since grown to more than $10 million, and BlueRock is now a 50% working interest partner in the Houston-based E&P company.

Tammany paid off Houston-based BlueRock (formerly named BlackRock Energy Capital) in March 2007.



Cathy Sliva, president BlueRock Energy Capital Ltd.

"We continue on our steep growth curve today under a new, much larger debt facility. This wouldn't have happened without BlueRock's confidence and support over the years," says Erich Kraus, Tammany president.

Tammany was founded in 2002, and initially acquired property from Unocal onshore and Kerr-McGee Corp. offshore. Its management team of Kraus, Randy Bradford, Ron Ness, along with investor Rob Mingo, had previously worked together at Matrix Oil & Gas Inc., an offshore acquisition and exploitation company started by Mingo in 1992. Matrix became Denbury Resources Inc.'s offshore division via merger in 2001. Kraus, Bradford and Mingo worked for Freeport-McMoRan Oil & Gas Inc. before that.

To start Tammany, this management team, along with Mike Morgan and John Jordan, first acquired properties with personal funds.

"A couple of the owners advanced a disproportionate amount of money for the transactions, so we desired to arrange longer-term financing that allowed us to pay down those loans," says Kraus. "Since we had significant concentration of assets in just a few wellbores, traditional financing was almost impossible to get.

"We had a good experience with financing transactions with the BlueRock management team while at Matrix so we were comfortable with them. BlueRock had developed a product, the term ORRI (overriding royalty interest) that would work well with our portfolio. It was expensive, but these types of transactions are all expensive. The issue was access to capital, not so much the cost of capital. But, there is a limit.

"This fit our needs for capital despite our concentration issues, and we were very comfortable about our relationship with BlueRock going forward. They were sophisticated lenders and investors, not just commodity-type bankers."

The terms were a cash advance at closing in exchange for a term override payable out of a specified percentage of net revenue from the wells underlying this deal. The ORRI percentage was set at a level such that Tammany would have enough cash flow to cover lease-operating expense. The ORRI reverted back to Tammany after BlueRock achieved a stated (high teens) rate of return. At the point where the temporary ORRI reverted back to Tammany, BlueRock received a much smaller permanent ORRI.

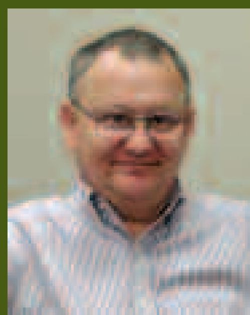
"An important, and unusual, factor was that the financing was non-recourse," Kraus says.

The deal took weeks, not months, to close.

"We used the first deal to repay investor loans. Subsequent deals were usually for acquisition financing or capital projects. In 2006, we received a significant advance for a distribution to shareholders," he says. "Later in the deal, our relationship evolved to the point where Tammany and BlueRock acquired an offshore field that required significant facilities modification and well work on a 50/50 basis, each supplying its own capital."

During the past 14 years, BlueRock and its predecessors have completed more than 300 transactions for more than $275 million. The team consists of Cathy Sliva, Dave Stevens, Allen Shook and Scott Abel. Sliva and Stevens created this niche finance business helping small companies grow while at Tenneco Ventures in 1993. The team has worked together financing transactions ever since; first at Tenneco, then Domain Energy, Range Resources, and finally BlueRock, which was formed in 2002.

THE DEAL Non-recourse mezzanine advance of $450,000 for a term override. Credit facility grew to more than $10 million. BlueRock now participates as a 50% working interest partner



USE OF PROCEEDS First deal repays investor loans. Subsequent deals for acquisitions or capital projects

THE PLAYERS Tammany Oil & Gas LLC president Erich Kraus (above) and BlueRock Energy Capital Ltd. president Cathy Sliva

Everyone on the BlueRock team is a petroleum engineer or geologist with substantial E&P experience prior to getting into the finance business, says Sliva, BlueRock president.

BlueRock provides growth capital in amounts up to $10 million to independent producers.

"Over time as BlueRock helps the producer grow, such as with Tammany, the facility may grow to an amount substantially exceeding $10 million," Sliva says. "Generally, the producer uses the capital either for an acquisition, production facility enhancement, development drilling, or workovers and recompletions. BlueRock's investment structure is a non-recourse financial production payment. This simple structure results in minimal documentation, closings generally in less than 30 days, and nominal closing costs."

"After the first funding, subsequent fundings with a producer can be completed in a matter of days. No third-party engineering report is required as all technical analysis is performed by the partners of BlueRock, who are seasoned E&P professionals and have been active in the oil and gas business for over 25 years," she says. ■

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Red Arrow
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$85,600,000
Line of Equity
EnCap Investments L.P.
and
COSCO Investments LP

July 2007
AUSAM
ENERGY CORPORATION
A Private Placement of
$25,000,000
Units of
Debentures and Warrants
To
The Huff Energy Fund, L.P.

December 2006
An Affiliate of
Sanchez
Oil & Gas Corporation
A Private Placement of
$50,000,000
Secured Notes
To
TCW

May 2007
An Affiliate of
JONES
A Private Placement of
$100,000,000
Senior Secured Notes
To
GUGGENHEIM

June 2007
KGL
INVESTMENT CO.
With Respect to Its Investment of
$30,000,000
Units of Convertible
Notes and Warrants
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For further detail on COSCO, its Services and Track Record, please visit www.coscocap.com

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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 and public 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 a $1 billion of primarily private equity and mezzanine debt, usually to energy focused closed-end funds (see ad for recent financings).

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 and are accepted in both worlds. Furthermore, 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 of their stock, if necessary. Reflecting its confidence in its selection and nurturing process, COSCO invests in every private equity mandate it sponsors and often continues post closing to assist its portfolio companies to execute their investment strategies.

Also unique among financial intermediaries, since its inception in January 1992, COSCO has assisted many of the established professional energy investors, themselves, to refine investment strategies or manage existing or pending energy investments and divestitures.

In January 2007, COSCO participated in the formation of Strategic Energy Research and Capital, LLC, which focuses on trading in, and financings for, *public* energy companies, thus significantly expanding the services it can offer its energy clients.

COSCO Personnel:

COSCO currently has six members and three employees in offices in New York, Hartford, Houston, Tulsa, Mesa AZ, and Calgary AB. In addition, it has Colleagues in New York and New Jersey, Tulsa and Oklahoma City, Houston and Dallas, Denver, Caracas VZ, London England, and Sydney AU. Please see ad for COSCO's main contact information.

From left to right: COSCO's Scott Kessey, Lane McKay, Bill Weidner, Cameron Smith, 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.

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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.

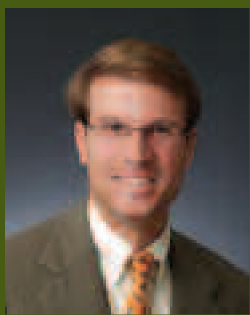
Principal Investing. COSCO currently participates in up to ten percent of each private placement equity financing it leads. It now has a portfolio of 19 such investments, having monetized seven investments to date, and realized greater than a 5:1 ROI and 30% IRR.

Sometimes, E&P companies that have been very successful in raising financing on their own, find it appropriate to adopt a new tactic and bring in a financial intermediary.

Such was the case in March 2007. COSCO, through its broker-dealer affiliate, Private Energy Securities Inc., was engaged by Llewellin Capital Partners IV LLC of Houston, a private E&P entity. The assignment was to assist Llewellin in reconsidering its investment strategy and raise significant new capital, in addition to what had already been pledged by its two founding investors. These were family offices that had supported Llewellin's management team for much of the previous two decades.

COSCO's first advice was to change Llewellin's name; its second was to abandon its plan to create a limited partnership fund structure and, instead, to pursue a traditional private placement of corporate securities.

THE DEAL $114 million of private equity



USE OF PROCEEDS Acquire and exploit existing properties and new-field resource projects in Texas and surrounding states, the Williston Basin and elsewhere

THE PLAYERS Red Arrow Energy LLC president Carter Overton (above); EnCap Investments LP, COSCO Investments LP, Banyan Investors, JMI Holdings, Morgan Creek and others, including Red Arrow management

Llewellin was thus renamed Red Arrow Energy LLC. Its management-chief executive Carter Overton, executive vice president Brock Hudson and chief financial officer Allen McGee-had worked together for years and compiled an extraordinary commercial track record, investing more than $200 million in 60 separate transactions in five different states. The team had generated exceptional returns through good cycles and bad, through acquisitions and greenfield development.

Management had access to a technical and operational team of unusual breadth and skill, available at far less than a normal burn rate because of an existing arrangement that allowed Red Arrow to use its services only as needed.

Red Arrow's management had already invested more than the usual third of its individual liquid net worth in setting up the new investment vehicle and capturing existing assets. Also, it was willing to invest more cash, thus demonstrating extraordinary commitment and willingness to align its interests with those of the incoming investors.

The firm's historical investors, meanwhile, were not only willing to support the team in another round of investment, but had committed more than half their pledged capital even before this new financing to capture a defined project-thus giving new investors a real example of management's selection process and investment acumen.

The only trouble with Red Arrow's initial project? It wasn't within management's previous operational experience, it was outside the company's defined core area of investment focus, and it required significant capital to test the new investment thesis. Red Arrow management made a strong case, however, that, operationally, the new project was comparable to one that had previously provided outstanding returns, and, in partnering with an experienced local operator with whom management had long ties, it had overcome the newcomer issue.

In June 2007, COSCO sent out private placement memoranda to some 30 professionally managed, private capital sources. The vast majority were closed-end equity funds. Meetings were scheduled with about 15 of these. There would have been more, but within the first few days, two offers were made by capital providers seeking to preempt the marketing process. Within a week, two more entered the fray. These early movers knew personally one or all of Red Arrow's management team and thus, required limited due diligence on their respective track records.

Normally, COSCO advises its clients not to entertain preemptive bids. The reason is only partially to promote competition and enhance terms. The primary rationale is that a full survey of capital providers is enlightening to most management teams.

Only through this exercise can they truly appreciate the breadth and variety of the personalities involved and make informed decisions about a prospective partner's relative perspective regarding risk tolerance and technical expertise, governance and capital appetite. COSCO also promotes interviewing the heads of capital sources' portfolio companies as a crucial exercise in reverse due diligence.

In this instance, however, Red Arrow's management was as familiar with the individuals running the equity funds as the latter were about them, so adding perspective was unnecessary.

What was important was certainty and speed. Here, even though both initial responders had proposed competitive terms, EnCap Investment's were demonstrably less restrictive. Convincing it to improve its offer just enough to clinch the deal proved relatively easy. Thirty days later, July 31, the financing was complete, just five months to the day from initiating the engagement.

"COSCO earned every bit of its fee," Overton said at closing. "We never would have made the shift to a corporate financing, and we would sure never have presented our business plan so clearly and consistently with our past record and our capabilities without its guidance."

Marty Phillips, managing director at EnCap, speaking for Encap and the rest of the new investors, thanked COSCO for doing a good job organizing Red Arrow's business strategy and track record.

"We always know, when we see a COSCO client, that they're going to be well prepared, the due diligence will be fully vetted, and the opportunity worth our while," Phillips says. "We think COSCO does a great job, and it is refreshing to have an intermediary invest alongside us." ■

On June 2006, privately held Sanchez Oil & Gas Corp. engaged COSCO Capital Management LLC, through its broker-dealer affiliate, Private Energy Securities Inc. The assignment was to advise on and arrange placement of a debt issue to fund a portion of the Houston company's extensive onshore Texas Gulf Coast drilling plans.

COSCO first advised Sanchez to obtain a credible third-party reserve report from a petroleum engineer with a strong reputation among professional energy investors to ensure maximum credibility. Next, COSCO assisted Sanchez in rationalizing its capital structure by dedicating equity to its higher-risk projects, while borrowing against the more predictable assets on its balance sheet, to obtain less expensive capital to fund its development activities.

Sanchez's superior management and experienced subsurface and operations staff provided immediate strength and credibility to the financing. Chief executive officer Tony Sanchez III, chief financial officer Frank Guerra and the extensive exploration and operations staff enjoy strong recognition and respect in the oil and gas financial and operational community, based on their intimate knowledge of the various onshore Texas Gulf Coast plays and their competence in drilling and wellhead operations.

Through the legacy of Tony Sanchez Jr. and the strong presence of the Sanchez family in South Texas, the company had gained access to numerous large tracts of underexploited land on which it had parlayed a substantial carried interest in 10 proprietary 3-D seismic surveys. These were being funded and explored with proceeds from a $260-million exploration joint venture.

The company sought a mezzanine loan as an intermediate slice in the overall capital structure required to operate its extensive growth plan.

Tony Sanchez III, chief executive officer (left) and Tony Sanchez Jr., chairman

Achieving a highly leveraged financing hinged on Sanchez's ability to anchor initial draws with proven reserves. This would be augmented during time through follow-up to successful exploration.

Because of the extensive operating cost structure associated with such a large effort by a relatively small company experiencing rapid growth, the greatest challenge to the financing lay in structuring a sufficiently large debt issue against credit strength, to hold the cost of capital at mezzanine-type levels, while leaving the company positioned for even further growth in credit capacity a year or two later.

This was achieved first by working closely with the company to form a month-by-month development plan. This would ensure the highest-impact capital expenditures could occur early in the term of the credit facility, while postponing riskier or costlier capital outlays toward the end of the development plan. This was an iterative process that occurred in concert with the independent engineering study and culminated in a logical financing plan.

THE DEAL $50-million private placement of senior secured notes

USE OF PROCEEDS Refinance commercial bank debt and drill proved and probable locations onshore Texas Gulf Coast

THE PLAYERS Sanchez Oil & Gas Corp. CEO Tony Sanchez III, Cosco Investments' managing director William E. Weidner (above) and TCW Asset Management Co.'s Curt Taylor

The next challenge was to convince potential investors to assume some measure of drilling and reserve risk, recognizing the underlying credit strength of Sanchez Oil & Gas. While interest in the financing was strong, there was an instinctive reaction among potential investors to ignore underlying credit strength and focus only on the engineered proved producing assets, which was precisely the kind of analysis the company was trying to transcend.

COSCO initiated a marketing process in October 2006 by delivering private placement memoranda to a number of experienced oil and gas debt providers, consisting of banks, money management firms and hedge funds. Meetings were scheduled with six of them during a two-week period in October.

Interest in funding Sanchez was strong and immediate. COSCO assisted four of the six investors to structure a proposal that would best fit the company, and, ultimately, three of the four presented written proposals, any one of which would have been satisfactory to the company.

COSCO advises its clients it is critical to select a compatible partner. In this instance, Sanchez knew immediately and instinctively that TCW Asset Management fit this bill. When presenting its proposal, Curt Taylor of TCW said, "We always wanted to make an investment like this in this area, and Sanchez is exactly the kind of company we wanted to do it with."

At closing, Tony Sanchez Jr. said, "We are very pleased with the assistance COSCO provided. They showed us how to get so much more leverage out of our existing assets, and now we are free to pursue our larger exploration and development plans with our internally generated cash flow." ■

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August 2007	August 2007	August 2007	August 2007
PACIFIC ENERGY	PACIFIC ENERGY	IPR	IPR
Has Acquired the Alaskan Operations of Forest Oil Corporation	Tranche A Senior Secured Credit Facility **$120,000,000** Tranche B Senior Secured Credit Facility	Has Acquired the US Operations of Santos USA Corp.	Senior Secured Credit Facility
$464,300,000	**$305,000,000**	**$69,000,000**	**$54,000,000**
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Energy Capital Solutions welcomes the following new members to the ECS team:

Jonathan Shepko - Vice President, formerly with EnCap Investments

Josh Wolf - Vice President, formerly with ABN AMRO

Joseph Allio - Analyst, formerly with KeyBanc Capital Markets

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Keith Behrens *Managing Director*	**Russell Weinberg** *Managing Director*	**Ron Montalbano** *Managing Director*	**Brad Nelson** *Managing Director*
Scott Trulock *Vice President*	**Chris Czuppon** *Vice President*	**Jonathan Shepko** *Vice President*	**Josh Wolf** *Vice President*
Brandon Neff *Senior Associate*	**Michael Chiste** *Associate*	**Benjamin Baldwin** *Associate*	**Joseph Allio** *Analyst*

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Energy Capital Solutions LP | Pacific Energy Resources Ltd.

Small-cap independent producer Pacific Energy Resources Ltd. displayed a huge appetite this year when it gobbled up the Alaskan assets of Forest Oil Corp. The acquisition nearly doubled the enterprise size of the Long Beach, California, E&P company. The deal was valued at about $490.8 million.

Pacific paid $400 million in cash and Denver-based Forest also received 10 million shares of Pacific common stock, and a $30-million senior subordinated note from Pacific due in 2014. At the closing, Pacific's stock price on the Toronto Stock Exchange was $2.55 per share.

Energy Capital Solutions LP, with offices in Dallas and Houston, was Pacific's financial advisor related to the acquisition and placement agent for arranging the financing. Because the two companies had an ongoing business relationship, this resulted in the fifth and sixth transactions closed between them.

The parties were able to meet several challenges in the process. The size of the deal relative to the size of the buyer, tightening credit markets, the fact that the acquisition was nearly all debt-financed and the need for a quick turnaround complicated the deal, says Keith Behrens, a managing director of ECS in Dallas.

Because of the need for quick capital, a bridge loan was necessary, Behrens says. Pacific and Forest announced the acquisition May 29, 2007, but the terms of the transaction were negotiated and remained fluid. The parties said they expected a June 30 closing, but an amendment was announced August 1, with closing August 29.

Pacific Energy acquired 100% interests in Forest Alaska Operating LLC, which owned the Alaskan properties, including interest in the Cook Inlet Pipe Line Co.

Russell Weinberg, left, and Keith Behrens, managing directors of Energy Capital Solutions LP

The assets acquired include nine fields in the Cook Inlet area, producing about 5,000 barrels of oil equivalent per day. Also included were nearly 1 million net acres covering multiple exploration prospects and a 50% equity interest in the pipeline company.

Estimates of the acquired reserves were 26.1 million barrels equivalent of net proved reserves; plus an estimated 27.8 million BOE of net probable reserves and 6.7 million BOE of possible reserves, for a total of 60.59 million BOE of proved, probable and possible reserves.

"This represents a tremendous opportunity to build a new position that fits well within our business strategy and expertise," says Darren Katic, president of Pacific Energy. "These large legacy assets have exactly the kind of characteristics we look for when pursuing acquisition opportunities. The established production, with long-life reserves, generates strong predictable cash flow. The multiple infill drilling opportunities provide a low-risk means to grow production through redevelopment. Significant undeveloped acreage with multiple high-quality exploration targets include Corsair (an offshore field), which alone has 200-million-barrel potential. The deal provides large exploration upside."

THE DEAL $490.8 million: composed of $400 million cash; 10 million shares of stock and a $60.7-million zero-coupon seller senior note

USE OF PROCEEDS Acquire nine fields in Alaska, interest in Cook Inlet Pipeline Co. and nearly 1 million net undeveloped acres

THE PLAYERS Pacific Energy Resources Ltd. president Darren Katic; Forest Oil Corp. CEO Craig Clark; Energy Capital Solutions LP managing directors Keith Behrens, Russell Weinberg, Ronald Montalbano and Brad Nelson; Goldman Sachs, Silver Point Capital and Scotia Waterous

Pacific Energy's team is excited about the possibility of expanding its operations into a new area "where we have the potential to add value as well as complement the existing asset base and expertise of the company," he adds. "We also feel comfortable with the integration of these assets into our organization and the fact that half the assets are non-operated should aid in this transaction."

This transaction marks a key strategic event for Forest, which has been re-aligning its asset mix.

"The producing assets of the company are now entirely onshore North America and focused primarily on repeatable plays in tight-gas sands and long-lived oil. Additionally, with the sale of these assets, Forest has reduced the leverage on its balance sheet," says Craig Clark, president and CEO of Forest.

Forest was eager to improve its cash position after its $1.5-billion acquisition of Houston Exploration Co. closed in June.

"Our equity ownership of Pacific indicates our confidence in their plan for further developing these assets based on their work in similar fields in the U.S." Clark says.

Energy Capital Solutions, which focuses on raising private capital and providing merger and acquisition advisory services, now has participated in 16 M&A transactions and 69 private placements. It began operating in late 2001 and has closed 86 transactions. Since inception, it has advised on M&A transactions with an aggregate value of about $1.9 billion and raised more than $2 billion of private capital for its clients.

All four managing directors—Behrens, Russell Weinberg, Ronald Montalbano and Brad Nelson—are involved in the execution of every transaction, regardless of size. ■

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Guggenheim Partners, LLC is a global diversified financial services firm with wealth management, capital markets, investment management and proprietary investing businesses. Clients are an elite mix of individuals and institutions that together have entrusted Guggenheim with supervision of more than $125 billion of assets. Guggenheim Partners traces its heritage to the Guggenheim family, a major contributor to the development of business and philanthropy in the United States since the late1800s. Today, the firm employs more than 525 dedicated professionals through a global network of offices.

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Greystone Production LP

$100,000,000

Senior Secured Credit Facility

Arranger and Investor

June 2007

IPR USA CORP.

$100,000,000

Senior Secured Credit Facility

Arranger and Investor

August 2007

ESCAMBIA ASSET CO. LLC

$180,000,000

Senior/Sub Debt Equity

Arranger and Investor

June 2006

TARPON Offshore Ventures, LP

$75,000,000

Senior Secured Development Facility

Arranger and Investor

April 2006

Mammoth Creek I Investments, LLC

an affiliate of

JONES ENERGY

$100,000,000

Senior Secured Credit Facility

Arranger and Investor

May 2007

RAM ENERGY, INC.

$500,000,000

Senior Secured Credit Facility

Arranger and Investor

April 2006 & November 2007

Guggenheim Partners LLC | IPR USA Corp.

The IPR Group is a Dallas-based group of specialized oil and gas operating companies that conducts E&P, reservoir management and field development, oilfield services and consulting services around the world. In August 2007, IPR USA Corp. and IPR Lay Creek LLC, jointly owned by IPR and its Qatar-based equity partner, Gulf Petroleum Ltd., acquired the Houston-based subsidiary of Australia-based Santos Ltd. for $70 million in cash and a 17.5% net profits interest in three shallow-water, deep shelf prospects in the Gulf of Mexico that target natural gas.

This transaction brought to IPR USA interests in onshore and offshore Gulf Coast region assets, the aforementioned offshore drilling prospects, and some 158 wells on 180,000 gross acres in Colorado that involve coalbed methane and shale resource plays. In 2005 the acquired Santos assets in total produced 2.1 million barrels of oil equivalent.

Sam Dabbous, IPR chief operating officer, says the company believes Santos' onshore Gulf Coast producing properties have a meaningful upside potential that can be realized once the assets receive improved access to technical staff and capital resources.

"We see a solid set of opportunities that can be realized through the addition of new reserves and extending reserve life through a combination of IPR's and the former Santos' technical professionals' expertise," says Dabbous.

IPR brought in Guggenheim to finance the transaction. Guggenheim is a New York-based diversified financial services firm with more than $125 billion of assets under supervision.

"The decision to proceed with Guggenheim was based on their attractive financial terms, their responsiveness to a tight timeline and their Houston-based team with its in-house technical resources," says Dabbous. "We inherited three promoted prospects that were high-risk, high-reward opportunities. We viewed them with cautious optimism. We maintain the belief that either of the deep-shelf prospects in Texas waters could be highly prospective, a fact demonstrated by nearby discoveries made by other operators."

Guggenheim says through IPR USA's approximately 50% working interest in each of the deep-shelf prospects, each with an estimated 500- to 700 billion cubic feet equivalent of reserves, the company is exposed to world-class reserve potential.

"Although each of these three prospects is high risk, they collectively expose IPR USA to significant equity upside potential while exposing a very modest portion of the company's capital base," says Jeff Bartlett, Guggenheim Partners vice president. "To gain access to world-class reserve potential in such an efficient producing market, Santos' deep-shelf Gulf of Mexico drilling partners agreed to attractive promoted terms of participation that improve IPR USA's risk-reward characteristics for the high-risk drilling venture."

Guggenheim was willing to provide more than 65% of the capital required to fund the acquisition, based primarily on its confidence in the borrower's proved onshore reserves, its optimism with respect to significant non-proved assets and its comfort in the combined technical abilities of Santos USA and IPR's technical staff.

"Further, we were excited by Santos' attractive Gulf of Mexico leasehold and seismic database that should lead to attractive future drilling opportunities," says Bartlett. "We feel we have traditional reserve-based loan coverage even in the downside scenario where all deep-shelf GOM wells turn out to be unsuccessful. So the deep-shelf wells provide attractive equity-type upside without exposing Guggenheim to excessive risk."

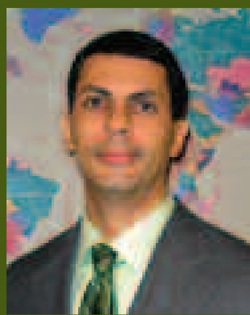
The assets also include coalbed-methane and shale projects in northwest Colorado. IPR USA acquired a 25% working interest in an early-stage resource play operated there by Pioneer Natural Resources of Dallas.

"It's in a pilot phase," Dabbous says. "We are encouraged by the current rate of gas production, which is demonstrating the ability of the coal beds to produce. We believe that with additional advances to completion techniques, Lay Creek will be a solid asset in our portfolio."

IPR needed to close the deal quickly.

"Within days of being contacted by Energy Capital Solutions [a Dallas-based, energy-focused investment banking firm], Guggenheim agreed to meet in person with IPR management and to immediately devote our internal technical resources to evaluate the merits of an investment," Bartlett says.

THE DEAL $70-million cash, comprised of a $45-million term loan and an unfunded $46-million revolver from Guggenheim Partners LLC, and equity funded by the IPR Group of Cos. and Gulf Petroleum Ltd.



USE OF PROCEEDS IPR USA Corp. acquires the U.S. subsidiary of Santos Ltd., an Australian public E&P company

THE PLAYERS Guggenheim managing director Tim Murray and vice presidents Jeff Bartlett and Craig Fox; IPR USA COO Sam Dabbous (above)

The total deal timeline was between five and six weeks. The initial contact with Guggenheim was made in mid-June 2007 and the deal closed into escrow in mid-August. The timeline includes several weeks of downtime while Santos, the seller, considered alternative divestment strategies.

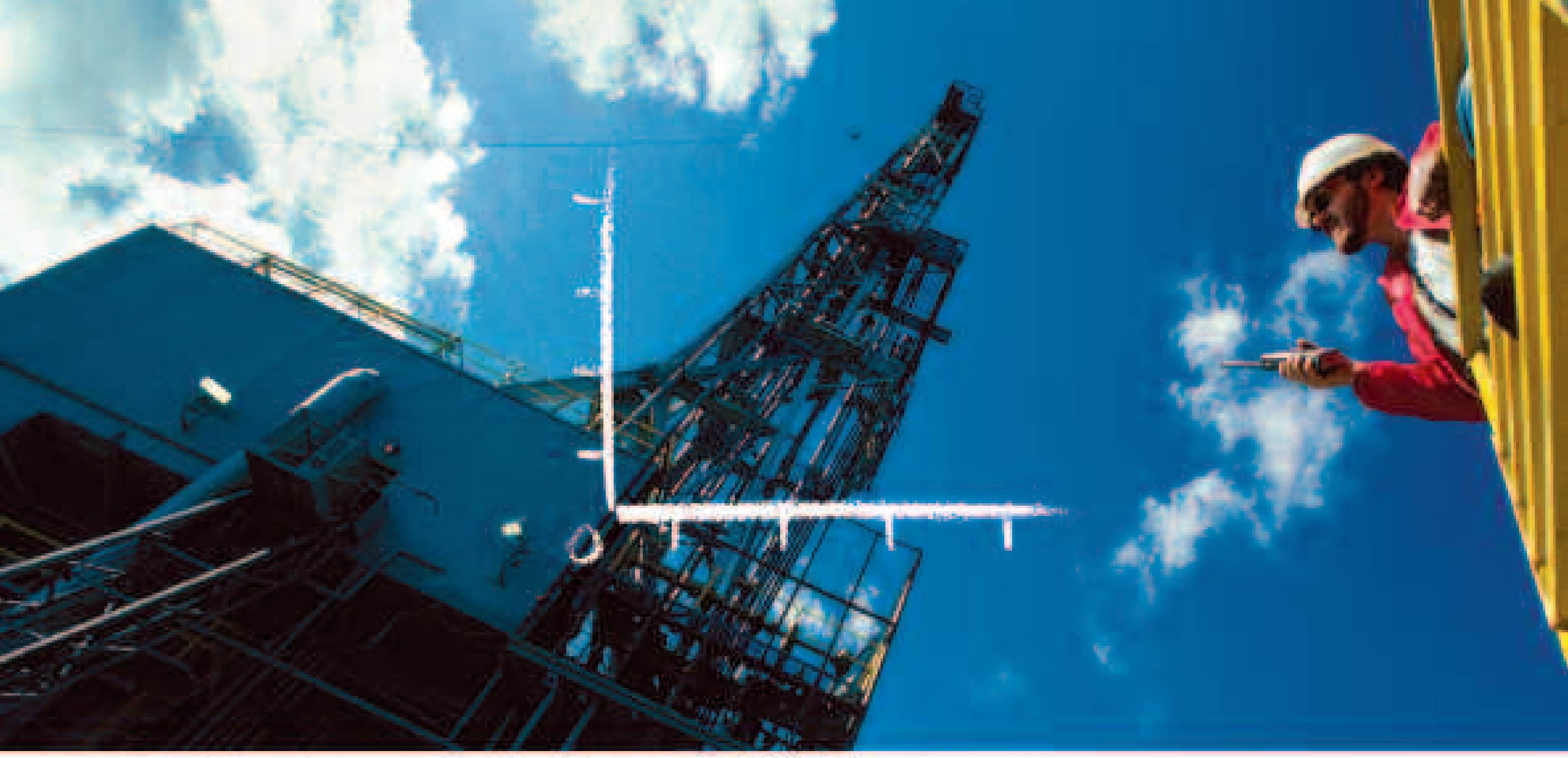
IPR's Dabbous says the company had always wanted a U.S. presence but had not yet found a logical entry point.

"We thought this [Santos] acquisition offered such a platform for us given that it included both offshore and onshore Gulf Coast assets and a diversified joint venture partnership within an emerging resource play.

"The deal encompassed what we had been after historically," he says.

Dabbous says the Guggenheim team brought significant experience to the deal, which facilitated an ability to meet a tight timeline set by the seller, a large international oil company.

"Guggenheim was responsive to our needs. They had a transaction team that was pleasant to work with and were experienced in such financing transactions," he says. ■



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August 2007
LINN Energy
has acquired
Mid-Continent oil and gas properties
from
Dominion
$2,050,000,000
Financial Advisor to the Buyer

August 2007
NEWFIELD
Gulf of Mexico Assets
have been acquired by
McMoRan
$1,100,000,000
Financial Advisor to the Seller

July 2007
PARALLEL PETROLEUM CORPORATION
$150,000,000
Senior Notes Offering
Joint Bookrunner

July 2007
XTO ENERGY
$1,250,000,000
Senior Notes Offering
Co-Manager

June 2007
energy XXI
$750,000,000
Senior Unsecured Notes Offering
Joint Bookrunner

May 2007
DUNE ENERGY
has acquired
Goldking
$320,500,000
Financial Advisor to the Buyer

May 2007
DUNE ENERGY
Senior Secured Notes Offering
$300,000,000
Senior Convertible Preferred Stock
$300,000,000
Sole Bookrunner

March 2007
MADAGASCAR OIL
$85,000,000
Development Capital Facility
Financial Advisor to the Company

February 2007
Anadarko Petroleum Corporation
Genghis Khan Field has been acquired by
bhpbilliton
HESS
Repsol YPF
$1,325,635,000
Financial Advisor to the Seller

February 2007
LINN Energy
has acquired a private oil and gas company in the Texas Panhandle
$415,000,000
Financial Advisor to the Buyer

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In May 2007, Dune Energy, the small-cap Houston independent, acquired privately held Goldking Energy Corp., also of Houston, for $320.5 million. The properties are onshore the Louisiana and Texas Gulf Coast, and consist of interests in 23 fields and 136 producing wells.

The Goldking acquisition was financed with $300 million in 10.5% senior secured notes due 2010 and $216 million of 10% senior redeemable convertible preferred stock.

The deal was beneficial to Dune because it dramatically increased the company's asset profile. The reserve base increased from 29.4 billion cubic feet equivalent (Bcfe) to 141.8 Bcfe (up 382.3%). The PV-10 value rose from $35.2 million to $398.1 million (up 1,031.0%) and production jumped from 5.3 million cubic feet equivalent per day to 29.5 million (up 456.6%).

This transaction was completed because Jefferies Inc. was willing to fund the down payment of $15 million, restructure about $60 million of existing debt and orchestrate the effort to raise $185 million in preferred stock and $285 million of notes. The transaction was upsized, however, to a total of $216 million of preferred stock and $300 million of debt, says Dune chief executive officer James A. Watt, in Houston.

The challenging factor about this deal was that Dune was taking over an entity between three and 10 times its size, depending on the metric used.

The transaction, which has completely transformed Dune in terms of acreage, potential well locations, reserves and production, came together fairly quickly, as the initial contact was made March 1, the agreement for the deal was signed April 17, and the deal itself closed May 15.

Watt says he became involved in the deal as he was attempting to find a merger partner for Maverick Oil and Gas Inc. (where he was CEO at the time), and he then met Alan Gaines, chairman and founder of Dune.

Dune required an investment bank with the capability to place more than $500 million of securities within an aggressive timeline.

— George Hutchinson, managing director, Jefferies & Co. Inc.

"One thing led to another in the discussions, and suddenly I was being asked to head a new company if everything could be arranged," Watt says. "I resigned my position with Maverick and spent the next month working on due diligence, but with no employment contract in place, or pay. It made for an interesting time for me as I was part of the team, but was really not. Some of the meetings were very interesting in that the people involved had to believe I would come on board, but there was no guarantee until the PSA [purchase-and-sale agreement] was signed."

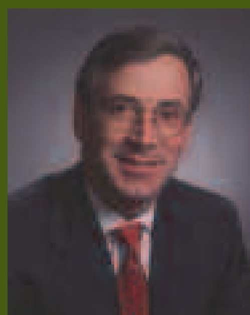
Jefferies managing director George Hutchinson says Dune needed financing for the acquisition of Goldking, a Gulf Coast oil and gas producer sponsored by Natural Gas Partners, to repay existing debt and fund the company's development drilling program.

However, Dune was constrained by borrowing-base limitations from its existing lender and had little float on the American Stock Exchange, Hutchinson says. As a small public company, Dune needed to bolster its management team to take on the additional operational and financial functions of the mid-sized E&P company it was to become after the deal closed.

In yet another challenging twist, by initiating this deal, Dune interrupted the start of an IPO process under way for Goldking, and it faced a tight window of exclusivity to secure necessary financing to close the deal.

THE DEAL Raise $300 million in senior secured notes, $216 million in senior redeemable convertible preferred stock, $65-million bridge loan

USE OF PROCEEDS Dune acquires Goldking Energy Corp., repays existing debt and funds development drilling



THE PLAYERS Jefferies & Co. senior managing director George Hutchinson; Dune Energy CEO James A. Watt (above)

The PSA required a $15-million cash deposit due at signing (about 13% of Dune's prevailing market cap), which was not available from the company's existing lender, which had already extended about $35 million of debt to Dune.

Hutchinson says Dune required an investment bank with the capability to place more than $500 million of securities within an aggressive timeline.

"Jefferies' high-yield and convertible distribution capabilities were a perfect match," he says. "The acquisition required an intimate knowledge of Gulf Coast geology and engineering, where Jefferies Randall & Dewey consistently ranks high in advisory and capital markets expertise. As a growing mid-cap company with a strong growth story and experienced management team, Dune is an ideal client for Jefferies, which focuses exclusively on the middle market."

The market readily accepted the possibilities inherent in this deal. Hutchinson says Dune experienced an overwhelming demand for both offerings—both tranches were upsized from an original offering total of $445 million to $516 million.

Dune's operations are now focused along the Louisiana and Texas Gulf Coast and the Barnett shale in the Fort Worth Basin. Dune operates more than 90% of its production and typically maintains a 100% working interest. ■

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Kayne Anderson

Capital Advisors, L.P.

$1,850,000,000
Kayne Anderson Energy Funds

Recent Transactions

Augustus Energy Partners, LLC $73,500,000 Class A Preferred Units with Common Units September 2006	Vada Group, LP $35,000,000 Senior Preferred Units with Common Units December 2006	Camcor Oil Sands Opportunities Fund, LP C$50,000,000 Class A Units April 2007	Grenadier Energy Partners, LLC $38,600,000 Common Units April 2007
Cross Creek Energy, LLC $39,000,000 Common Units May 2007	Clipper Energy, LLC $35,000,000 Common Units June 2007	Adventure Exploration Partners, LLC $27,000,000 Common Units June 2007	Great Plains Operating, LLC $49,000,000 Common Units September 2007

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Kayne Anderson Capital Advisors LP | Stallion Energy LLC

A couple of nights before Hurricane Rita was scheduled to make landfall in Houston in September 2005, Chuck Yates, a senior managing director in Kayne Anderson Capital Advisors' energy group, was scrambling to pack up his downtown Houston office. After safely storing valuable documents and moving boxes away from the windows, Yates, his wife and son headed to Burleson, Texas.

"My wife was seven months pregnant at the time. She said that if we were stuck in Houston during the hurricane and the air conditioning went out, divorce would be the nicest thing that would happen to me," recalls Yates.

After an exhausting 16-hour drive that normally would take no more than five hours, Yates and his family reached the Comfort Suites Inn in Burleson at 1 a.m. A reserve report from Stallion Energy LLC of Houston was waiting for Yates on the hotel's fax machine.

"Given the craziness of evacuating, I asked Stallion Energy's CEO, George SanFilippo, to fax the report to the hotel," says Yates.

SanFilippo needed to know how quickly Kayne Anderson could move to help provide financing to close an acquisition of assets in the Texas Panhandle from a private E&P company.

Stallion Energy, a private Houston-based oil and gas exploration company, was under the gun because three other private equity firms had not come to terms in the remaining 10-day timeframe needed to close its contemplated purchase of those Panhandle assets.

After his wife and son went to bed, Yates sat hunched over his calculator and crunched numbers while the impending hurricane moved closer to landfall on the Texas Gulf Coast.

"The funny thing was that the only reason I stayed up late that night to study the reserve report was because I received a speeding ticket 10 minutes outside of Burleson. I was so angry at the police officer that I couldn't sleep.

"Then I really couldn't sleep—because the numbers on the deal looked so appealing," Yates says.

Convinced that something had to be overstated in the reserve report, the next morning Yates called his partner, Mike Heinz, also a senior managing director of Kayne Anderson, to start looking at the engineering aspects behind the reserve report.

A meeting was quickly scheduled for the following Monday in Dallas at the law offices of Akin Gump, Kayne Anderson's legal counsel. SanFilippo and Jeff Trambaugh, Stallion's chief financial officer, flew in from Houston, as did James Broach from Kayne Anderson. Heinz drove in from Kansas, where he had evacuated his family. Stallion's vice president of operations, Paul King, flew in from Tulsa, Oklahoma.

As most of the evacuees were trying to figure out how to return to Houston, Kayne Anderson's Broach was one of a handful of people booking an outbound flight.

"Having reviewed Trambaugh's financial model the day before the hurricane hit land, I was also convinced that the transaction was too compelling to wait until later in the week, so I was willing to put other projects on the backburner in order to help our team get this deal done," Broach says.

THE DEAL Kayne Anderson provides private equity to Stallion Energy

USE OF PROCEEDS Acquire 900 Texas Panhandle oil and gas wells

THE PLAYERS Kayne Anderson's Chuck Yates, Mike Heinz and James Broach, and Stallion Energy's George SanFilippo, Paul King and Jeff Trambaugh

Sitting in the corner of the Akin Gump conference room with King, Heinz, who is a reservoir engineer, was able to discuss and review the decline curves, project cost reductions, forecast upside in the report and become comfortable with Stallion's internal reserve report.

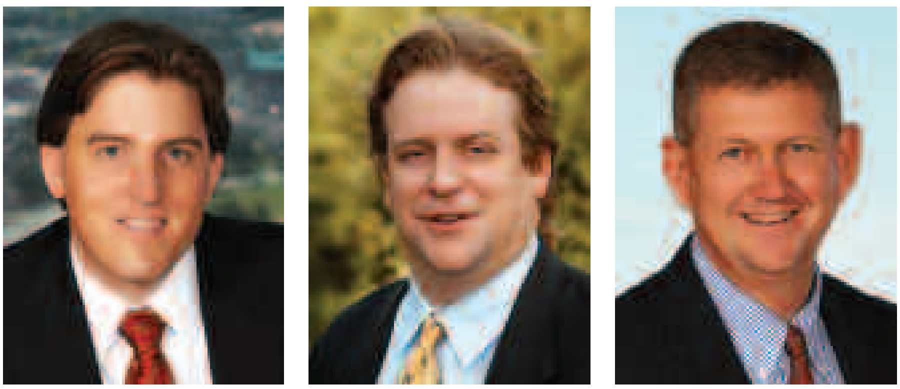
"Our in-house engineering capability is unique in the private equity space," Heinz says. "It allows us to move quickly and make decisions. We don't need to hire consultants to review deals."

The dress code for the meeting was decidedly mixed. The players who braved the hurricane at home—SanFilippo, Trambaugh and Broach—had access to business attire in their closets. The evacuees—Heinz, King and Yates—had to make do with the clothes from their hastily packed suitcases. Noting that he "packed the kids' guinea pigs, not a suit," Heinz purchased a golf shirt from the gift shop of his hotel before the meeting.

After several hours of conducting due diligence, Kayne Anderson's Yates sketched out deal terms, which his investment committee had already approved, on the back of an Akin Gump napkin.

"We were able to structure a deal that aligned the interests of the parties and that could be put into place in the short amount of time available," he says.

The Stallion management team turned the napkin right side up, looked at the figures, conferred for a minute or two and



Left to right, Kayne Anderson Capital Advisors' James Broach, Chuck Yates and Mike Heinz

Post-closing, Stallion Energy identified more than 1,600 drilling and recompletion locations.

sealed the deal by shaking hands with Broach, Heinz and Yates. The remainder of the week was spent on "around the clock" legal work and documentation, with the funds being wired out the following Tuesday.

Kayne Anderson's team found Stallion Energy's proposed deal too compelling to wait. (Photos courtesy of Kayne Anderson)

This investment in Stallion represented one of Kayne Anderson's larger investments in the oil and gas industry to date. Coupled with an attractive bank facility from Bank of America, Stallion was able to close its acquisition of Panhandle assets, purchasing more than 900 wells with daily production of about 25 million cubic feet of gas equivalent, primarily of natural gas with a large component of natural gas liquids.

"Agreeing in principle and transacting on a handshake is what we have been about," SanFilippo says. "In all regards, this deal with Kayne and the seller was way out there in left field for an oil and gas deal." He adds as a side note: "Now don't tell Yates this: The deal on the napkin was good, but the Akin Gump monogram on the other side really sold us on Kayne. We thought that maybe one day we'll be able to afford fancy napkins, too."

"A large private university investor, in the purchased assets, had hampered the transaction," SanFilippo explains. "The university had hedged a majority of its commodities exposure, making it hard for the seller to move forward with the sale without the consent of this investor. Not only did the hedges have to be unwound and re-established upon closing, oil and gas prices were fluctuating wildly in the aftermath of hurricanes Katrina and Rita," he says.

"As prices were gyrating wildly each day, we needed some sense of stability in commodity prices during this period of time. We were going to complete the acquisition while simultaneously

By early 2006, Stallion Energy had revamped most of the infrastructure.

unwinding the hedge with the large investor. We then had to re-hedge the production for our own account," he says.

The time gap between hedge then unwind, versus unwind and re-hedge, presented market risk that the university was not willing to take, so the unwind had to come first. Bank of America was great working with the situation, but the university's stance put all the risk on Kayne and Stallion as the equity providers.

Stallion CEO SanFilippo commends Kayne Anderson for moving quickly and completing the deal.

The story has a happy ending. Stallion capitalized on the value it created through this acquisition and subsequent hard work by selling the assets to Linn Energy LLC, the Nasdaq-listed, Houston-based oil and gas company, for more than $400 million.

"They had the trust in us to get this thing done," he says. "To find institutional investors that are this flexible and able to move this fast through a minefield of issues is rare."

Post-closing, Stallion was later able to identify and quantify substantial upside once the team had the time to dig deeper into the property set. The company patch-worked a 300-mile gathering system that was operating and moving gas inefficiently. The outdated compressors frequently broke down, causing gas production to be shut in.

Stallion also found and documented more than 1,600 drilling and recompletion opportunities, including almost 300 proved undeveloped locations. By early 2006, Stallion had revamped a majority of the infrastructure, replaced more than 100 compressors and was actively executing its business plan of drilling and recompleting wells, optimizing lease operating costs, returning shut-in wells to production and acidizing low-rate wells.

The story has a happy ending. Stallion capitalized on the value it created through this acquisition and subsequent hard work by selling the assets to Linn Energy LLC, the Nasdaq-listed, Houston-based oil and gas company, for more than $400 million. The deal closed in February 2007.

"For Linn Energy, the acquisition helped the company increase its size by about one-third and appeared to be highly accretive," SanFilippo says. It was also the second acquisition of a Kayne Anderson-backed company by Linn, as the previous summer, it had acquired Blacksand Energy.

"I guess we three Stallion partners can now afford some fancy napkins, but our nature is to stick with paper towels for operational efficiency," SanFilippo jokes. "I guess we are simply too stubborn and old to change our ways."

Says Yates: "I think this story highlights the strengths of Kayne Anderson: our engineering capability allowed us to understand the assets and make a decision in a very short period of time, and our lean structure allowed us to maneuver through some complex issues. We put our best foot forward with the financial terms and worked efficiently to get the deal documented. In the end, we did better financially than we originally anticipated." ■

Stallion Energy purchased more than 900 wells, with funding based on a handshake with Kayne Anderson's team.

LIME ROCK PARTNERS AND DEER CREEK ENERGY: PARTNERS IN BOLD

In 1998, Deer Creek Energy saw opportunities in the Athabasca oil sands when others saw only risk. And Lime Rock Partners became its investment partner.

Lime Rock Partners made an initial investment of $1 million in December of that year. But it didn't stop there.

Over the next seven years, Deer Creek pioneered the application of SAGD technology to the Canadian oil sands and advanced its plans to produce 240,000 barrels per day. Lime Rock Partners invested in Deer Creek five more times and brought its financial and operating expertise to help the company negotiate its lease acquisition, strengthen its management team, and complete its IPO.

In September 2005, Total acquired Deer Creek for C$1.7 billion.

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 Jonathan Farber, Will Franklin, or J McLane at **203.293.2750** or visit **www.lrpartners.com**.

LIME ROCK PARTNERS

Growth Capital for the Energy Industry

Arena Exploration LLC (AEX) is a Houston-based, closely held private exploration company. It is a joint-venture between Arena Energy LLC, a Woodlands, Texas-based E&P company, and Lime Rock Partners, a Westport, Connecticut-based private equity firm focused on energy.

Arena Energy LLC needed a financial structure that would allow it to invest in drilling opportunities that did not fit its traditional model of lower-risk exploitation drilling in mature Gulf of Mexico fields, says chief financial officer Glenn Dillon.

"Historically, Arena had farmed out a significant portion of its working interest in higher-risk and/or higher-cost projects. The new AEX structure provides a vehicle to allow Arena to participate in these projects across the board, with a built-in partner and under a structure that preserves future potential upside," he says.

Mike Minarovic, president of Arena Exploration and principal of Arena Energy, and Jonathan Farber, managing director of Lime Rock Partners, had maintained a dialogue since the two firms were formed in 1999.

In the past, Arena had never accessed outside equity, instead funding drilling through mezzanine debt and cash flow. Minarovic says the company chose to work with Lime Rock, which now manages $2.1 billion, since it has a track record for "providing creative solutions to unique capital requirements, and has a tremendous wealth of knowledge and resources to draw upon to tailor a deal to an unusual opportunity."

CFO Dillon says the deal terms are confidential, but the essential complexity is due to the fact that Lime Rock Partners, didn't invest directly in the assets of Arena Energy. So far, AEX has drilled 10 successful wells out of 13 attempts.

Back row, left to right: Arena Exploration's Mike Grove and Chris Capsimalis, Lime Rock's J McLane, Arena CFO Glenn Dillon and Lime Rock's Jeff Scofield. Front row, Arena president Mike Minarovic and Lime Rock managing director Jonathan Farber

How does Arena Energy avoid a conflict of interest? "The potential for adverse selection was mitigated by Arena committing to contribute a significant portion of the cash equity on a heads-up basis," he says. "This alignment of the members' interest is evidenced by the participation in AEX equity by all professional employees at Arena."

J McLane, director of Lime Rock Partners says Arena Energy disproportionately participates in the upside value creation in the venture as compensation for managing the venture.

The agreements were signed in February 2006.

The proceeds are being used to fund exploration and development drilling in the Gulf of Mexico, ranging from field redevelopment projects to high-risk exploration drilling in deep water.

Dillon says although the original purpose was to drill higher-risk and higher-exposure exploration wells, a significant portion of the capital has been deployed alongside Arena in more traditional, lower-risk "Arena model" projects.

"This is largely due to the extensive inventory of drill-ready projects and higher drilling costs currently being experienced in the Gulf of Mexico," he says.

THE DEAL Lime Rock Partners commits private equity to Arena Exploration LLC

USE OF PROCEEDS Exploration and development in the Gulf of Mexico

THE PLAYERS Arena Exploration president Mike Minarovic, CFO Glenn Dillon; Lime Rock Partners managing director Jonathan Farber, director J McLane and vice president Jeff Scofield

Arena Exploration is run by the management of Arena Energy LLC. Its board is comprised of Lime Rock's Farber and McLane, and Arena Energy's Minarovic and Dillon.

"Lime Rock actually tried to invest in Arena Energy in those early days [1999], but Arena was able to secure a very attractive mezzanine deal instead, and has bootstrapped its way ever since," says McLane.

"Lime Rock takes a lot of pride in not having a cookie-cutter deal structure or term sheet that it gives to every portfolio company," he says. "Since we weren't making a direct investment into Arena Energy, that willingness to do different things in different ways was very beneficial."

Farber says Arena Energy has been extremely successful as it has grown into one of the top drillers on the Gulf shelf. In the past, Arena had encountered new opportunities that were larger in scale than it could normally pursue.

"The time and effort to secure industry partners was significant, and often resulted in a loss of operational control. What Arena needed was a committed financial partner with substantial capital and an understanding of the risks and opportunities in play. The result was the formation of Arena Exploration, with substantial capital commitments from both Arena and Lime Rock to pursue these ventures."

"It's been a topsy-turvy road even in the short time the investment has been active," McLane says. "The devastating hurricane season of 2005 combined with high oil and gas prices led to a large spike in offshore drilling day-rates and service costs. That peak seems to have passed. We are now experiencing a fairly significant correction with the Gulf of Mexico rig count falling steadily and numerous rigs leaving the Gulf. Moreover, a large set of announced but unconsummated property divestitures are sitting in backlog in the region as companies reposition their portfolios. It's a basin at a crossroads, but the Arena team has spent virtually their entire careers exploiting it, and we are happy to take advantage of the less-competitive environment." ■

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Macquarie provides debt and equity capital for the global oil and gas industry. We target opportunities starting at $10 million and invest at the corporate and project level including:

- oil and gas borrowing base revolvers
- structured and project finance
- corporate restructurings and recapitalizations
- mezzanine and subordinated debt
- convertible debt
- equity capital
- tailored commodity price risk management

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The timing of an influx in capital is sometimes as important to the growth of an E&P company as the amount of capital provided. Such was the case for PetroQuest Energy Inc., an E&P company based in Lafayette, Louisiana. It has enjoyed dramatic growth since 2003 when it was provided with a $20-million credit facility from Macquarie Bank in Houston.

That capital enabled PetroQuest to produce from proven reserves as well as doing some exploration drilling, turning a lot of potential into cash flow. Partially as a result of the drilling success funded from that capital raise, PetroQuest's reserves, production and cash flow grew dramatically, attracting investor attention. It has gone from a Nasdaq-traded company to a listing on the New York Stock Exchange. PetroQuest, appreciative of that much-needed capital influx provided four years ago, continues to include Macquarie in mutually beneficial business deals.

"That Macquarie Bank funding (in 2003) allowed us to access a source of capital linked to our undeveloped reserves value, which was simply not available through our senior commercial bank facility," Mike Aldridge, PetroQuest's CFO, remembers. "The use of that capital allowed us to achieve significant growth in reserves, production and cash flow to benefit our shareholders."

Although it has been nearly four years ago, PetroQuest still looks back at the capital provided by Macquarie as a milestone in the company's growth.

Today PetroQuest is engaged in the exploration, development, acquisition and production of oil and natural gas reserves in the Arkoma Basin, East Texas, South Louisiana and shallow waters of the Gulf of Mexico.

The Macquarie Bank funding allowed us to access a source of capital linked to our undeveloped reserves value, which was simply not available through our senior bank facility.

— Mike Aldridge, chief financial officer, PetroQuest Energy Inc.

"The original commitment was directed for both proven development drilling as well as exploratory drilling—not typical for bank funding. Up to that point in time, PetroQuest had been relying on a combination of cash flow, their senior bank loan and several small equity offerings to fund each year's drilling program," says Paul Beck, executive director of Macquarie.

"This made sense as long as the company felt it was getting fair value in these equity offerings. PetroQuest approached us when it felt its stock was trading too low to support raising new equity capital. Additionally, it had plenty of assets to easily support additional debt that were not necessarily being considered by the senior lender due to reserve classifications," he says.

To solve this problem, Macquarie provided PetroQuest with a subordinated debt facility. "Their decision came down to the lowest cost of capital and a financial institution that had the technical ability to appreciate the extent of their assets as well as their drilling potential—both proven and exploratory," Beck says.

The size was $20 million with a 10% interest rate and a few at-market warrants.

"There was really nothing unusual about the structure other than Macquarie had to accept a deeply subordinated position with respect to its remedies relative to the senior lender," he says.

The results from PetroQuest's subsequent development and exploratory drilling were terrific, Beck recalls.

THE DEAL $20-million subordinated debt facility

USE OF PROCEEDS drilling of wells on proven reserves as well as exploratory drilling

THE PLAYERS Macquarie Bank executive director Paul Beck, PetroQuest Energy CEO Charles Goodson and CFO Mike Aldridge (above)

"I recall PQ's exploratory track record during the term of the subordinated debt (sub debt) as 19 out of 21 wells being successful. The stock price went through the roof, where PetroQuest believed it should have been all along.

"It should be noted that PetroQuest acquired three significant properties during this period through a combination of draws under both their ever-expanding senior loan and the Macquarie sub debt loan," Beck says.

The Macquarie sub debt and the senior loan were refinanced via a debenture in May 2005.

Not coincidentally, PetroQuest listed on the NYSE on November 30, 2005. Aldridge says the timing was fortunate for PetroQuest as prices for oil and natural gas have risen dramatically since 2003. In fact, he says, with the rising commodity prices, PetroQuest only had to draw $12 million of the $20-million facility. But the fact that additional funds were there, if need be, was critical to the strategy and timing of PetroQuest's growth, which caught the attention of stock traders, propelling PetroQuest to another tier of growth.

Macquarie now participates in PetroQuest's senior loan revolver agented by J.P. Morgan, a great example of the different types of capital available at Macquarie, Beck says.

"We target U.S. domestic and international opportunities and invest at the corporate and project level, including: oil and gas borrowing base revolvers, senior "B" loans, structured and project finance (mezzanine), subordinated debt, convertible debt and equity capital," Beck says. ■


Supporting Energy Clients with Exceptional Advice and Execution
August 2007
$635,000,000
dcp Midstream.
Acquisition of stock of Momentum Energy Group Inc.
Advisor to DCP Midstream LLC
August 2007
$1,100,000,000
McMoRan
Purchase of Gulf of Mexico assets from Newfield Exploration
Advisor to McMoRan Exploration
July 2007
$4,025,000,000
LOEWS
Purchase of Permian, Michigan and Alabama assets from Dominion Resources
Advisor to Loews
July 2007
$316,250,000
SemGroup Energy Partners
14,375,000 Common Units
$22.00 Per Unit
Joint Bookrunner
June 2007
$219,712,500
WHITING
5,425,000 Common Shares
$40.50 Per Share
Joint Bookrunner
June 2007
Cdn$2,200,000,000
North American Oil Sands Corporation
Sale of company to Statoil ASA
Advisor to North American Oil Sands
June 2007
$575,000,000
STONE ENERGY
Sale of Rocky Mountain assets to Newfield Exploration
Advisor to Stone Energy
May 2007
$442,500,000
CONTINENTAL RESOURCES INC
29,500,000 Common Shares
$15.00 Per Share
Joint Bookrunner
May 2007
$950,000,000
Sale of Piceance Basin assets to Plains Exploration & Production
Advisor to Laramie Energy
April 2007
$200,000,000
Callon Petroleum Company
Senior Secured Credit Facility to Fund Purchase of 80% Interest in Entrada
Sole Arranger and Bookrunner
March 2007
$287,500,000
ST. MARY LAND & EXPLORATION COMPANY
3.50% Senior Convertible Notes due 2027
Joint Bookrunner
January 2007
$600,000,000
$400,000,000
KINDER MORGAN
6.00% Senior Notes due 2017
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Loews Corp., the diversified holding company known for its hotel, tobacco, insurance, oilfield services and natural gas pipeline subsidiaries, made its first entry into upstream E&P in 2007. With the help of Merrill Lynch & Co., Loews went from owning no upstream assets to joining the ranks of the large independents, thanks to a $4.025-billion acquisition of predominantly natural gas assets in Texas, Michigan and Alabama from Dominion Resources Inc., which was exiting most regions of the E&P business.

Merrill Lynch provided strategic advice and an integrated platform of investment banking services, including commodity price hedging. It co-agented the bank lending syndicate to deliver the transaction over the finish line for Loews in late July.

"We have a long-standing relationship with Loews. They have been a majority owner of Diamond Offshore Drilling Inc. for years, and we helped them enter the natural gas pipeline business in 2003," says Rob Pacha, managing director, investment banking.

"When Dominion Resources announced late last year they intended to divest the majority of their E&P portfolio, our technical team of in-house petroleum engineers began extensive due diligence to value the assets being offered," he says.

Merrill Lynch saw tremendous opportunity for Loews in the Dominion package.

"While this was their first entrée into exploration and production, Loews's background in the broad energy markets, and their demonstrated financial prowess, allowed them to size up this opportunity quickly," says Christopher Mize, managing director and head of energy, Americas.

With both companies working at the senior management level and Merrill Lynch providing support, this significant transaction was inked June 1st and closed in two months.

"Our technical team worked closely with Loews management to detail the valuation and economics represented by the Dominion offering."

Mize and his team began working in earnest representing Loews on the buy-side in January 2007. After evaluating the entire onshore asset package closely, Loews decided it was only interested in the longer reserve-life assets, which included the Permian Basin Sonora Field, as well as those in the Antrim Shale in Michigan and the Black Warrior Basin in Alabama.

"We submitted our indication of interest for those portions of Dominion's upstream holdings that were predominantly natural gas and characterized by long reserve lives and high completion success rates," Mize says. "Unfortunately, at that time, the seller was interested in selling all the assets in a single package, so the transaction appeared to move sideways from March through April."

Fortunately, the seller returned to the table in May, and the transaction began to advance with Loews focusing on those three regions of specific interest. The result? With both companies working at the senior management level and Merrill Lynch providing support, this significant transaction was inked June 1st and closed in two months.

Mize said in addition to technical and strategic advice, Merrill Lynch initiated discussions to explore funding part of the acquisition through bank debt and served as a senior lender in a bank facility to cover a portion of the total purchase price.

THE DEAL Merrill Lynch advises, co-agents loan for Loews Corp. to enter E&P sector

USE OF PROCEEDS Loews pays $4 billion to buy 2.5 Tcfe of E&P assets

THE PLAYERS Merrill Lynch managing director Rob Pacha, managing director Christopher Mize (right)

In addition, Merrill Lynch worked with Loews's newly formed E&P subsidiary that would hold the assets, HighMount Exploration & Production LLC, to enter into natural gas and natural gas liquids hedges to help lock in Loews's acquisition economics.

"Companies are exposed to commodity price risks between the time they sign a purchase and sales agreement and when they close as well as after they close," notes Roy Piskadlo, managing director, debt capital markets. "As a result, our Merrill Lynch Commodities Inc. (MLCI) team helps M&A clients mitigate risk around their mark-to-market price exposure through hedging strategies prior to as well as after closing."

MLCI continues to work with HighMount to execute hedges for natural gas and NGLs.

The transaction closed July 31, 2007. It included estimated proved reserves of about 2.5 trillion cubic feet equivalent, resulting in sales metrics of $1.61 per thousand cubic feet for proved reserves.

"We're pleased to report that HighMount benefited not only from the acquisition of extremely attractive assets, but also by the addition of a number of high-level E&P staff previously with Dominion Resources," Mize says.

"At the end of the day, companies seeking larger-sized or complex M&A opportunities need an investment banker who offers not only deep industry knowledge and market insight, but can also offer an integrated tool kit of financial products and services to optimally identify, evaluate, negotiate, finance, hedge and close large and complex transactions," he says. ■

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Patriot Exploration Co. Inc. | The Calypso Group

Patriot Exploration Co. Inc. and The Calypso Group, two non-operator E&P companies, are teaming together to create a fund intended to help operating companies expedite their exploration drilling. The Patriot-Calypso acquisition investment fund will seek to acquire assets, and perhaps entire companies, from operator E&P companies that would continue as operators following the acquisition. The Patriot-Calypso venture hopes to invest between $250- and $500 million in the next 18 months, says Jonathan Feldman, founder and Patriot CEO.

"We're looking for successful operators who want access to scarce drilling capital, and who want to remain as operators," Feldman says.

This represents a blending of East Coast capital sources and Texas oilpatch know-how. Patriot has offices in Houston and Greenwich, Connecticut. Calypso has offices in Dallas and New York. A third entity, a well-known E&P operating company, will also join Patriot and Calypso in the acquisition investment fund, but its identity had not yet been announced at press time.

The primary sources of capital for the investment fund are high-net-worth family offices seeking exposure to direct oil and gas ownership, as well as institutional investors.

"This is not a traditional fund with large institutional funding," says Philip Epstein, co-founder and managing director of Calypso. "Patriot and Calypso are both entrepreneurial companies leveraging technical expertise and drilling capital. Drilling capital is often a scarce resource and clearly the driver for value creation for smaller E&P companies."

For many small to mid-sized E&P firms, the missing component is capital needed to develop and bring fields onto production. Providing additional drilling capital can help these companies expedite the usual long lag time from project acquisition to cash flow, Epstein says.

This is not a traditional fund with large institutional funding. Patriot and Calypso are both entrepreneurial companies leveraging technical experience and drilling capital.

— Philip Epstein, co-founder and managing director, The Calypso Group

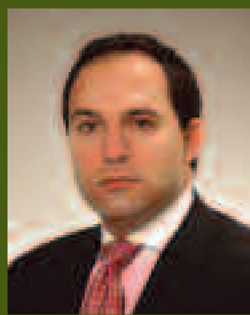
By participating with equity at the drillbit and assisting in arranging leveraged financing, Patriot and Calypso can accelerate the project and grow the asset base, allowing the project developer to take advantage of high commodity prices and grow its enterprise value to the next level, Epstein says.

The M&A market is highly competitive with today's robust commodity prices. The supply of good oil and gas assets is not expanding even though the demand for them has significantly increased, Epstein says. However, he believes there is an attractive niche in the small-to mid-sized operator market, as this group traditionally has more difficulty accessing capital. In addition, larger operators are often looking to re-align their asset mix and divest properties that no longer fit their core areas of interest.

Feldman says Patriot and Calypso began serious discussions about forming a joint pool of funds about six months ago. They decided to team because they share some of the same investment philosophies and have sometimes found themselves holding 50-50 interests in the same projects. They also realized the advantage of economies of scale as each sought to increase its size to increase its potential pool of clients. Prior to announcing this new joint venture, Patriot and Calypso jointly acquired 40,000 acres in West Texas.

Before teaming with Calypso, Patriot, which was founded in 2001, had about $100 million invested in projects in the western and central U.S. as well as in the Gulf of Mexico. It has said that by 2009, it plans to invest an additional $150- to $200 million in growth-oriented, U.S.-based ventures. The venture with Calypso is a major endeavor toward that goal, Feldman says.

THE DEAL Creation of acquisition investment fund of $250- to $500 million



USE OF PROCEEDS Acquire assets, perhaps entire companies, during the next 18 months

THE PLAYERS Patriot Exploration CEO Jonathan Feldman (right); and The Calypso Group's, Philip Epstein, managing director

This deal will help Patriot expand its business model, he explains, by offering E&P companies a choice to access Patriot as a lender or an equity partner.

Previously, Patriot dealt mainly with small to mid-sized operators seeking $1- to $20 million in capital, with projects in the $5- to $10-million range as the sweet spot. Patriot, under the previous business model, was not interested in acquiring the assets, or the E&P companies themselves. That side of the business will continue, Feldman says, but the Calypso investment team project will offer operating E&P companies another alternative.

Epstein and Mark Patterson founded Calypso in 2000 after distinguished careers with multinational energy firms. Epstein, an attorney by training, has raised more than $500 million in capital for public and private companies. He was associated with a private investment where he structured private debt and equity transactions and helped with the founding and IPO of Belco Oil & Gas Corp., where he served as general counsel and financial advisor.

Patterson has more than 25 years of experience in the oil and gas industry as an exploration and development manager, including 13 years with Maxus Energy Corp, and its predecessor company, Diamond Shamrock. He also was the CEO of Compania General de Combustibles, one of Latin America's premier oil and gas companies. ■

QUANTUM ENERGY PARTNERS

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A group of high-profile private equity firms combined to commit $470 million to fund Vantage Energy LLC, an Englewood, Colorado, start-up E&P company led by two well-known, Denver-based industry veterans. The new company will target the acquisition and exploitation of select North American unconventional resource properties.

Vantage is headed by Roger Biemans, former president of EnCana Oil & Gas (USA) Inc., where he managed EnCana's U.S. E&P business (primarily focused on unconventional resource plays); and by Tom Tyree, who formerly served as chief financial officer for Bill Barrett Corp., an independent also focused on unconventional resources in the Rocky Mountain region. Biemans is chairman and chief executive of Vantage and Tyree is the company's president and CFO.

Alan Smith
Quantum Energy Partners

Their track record is sterling. Biemans led a team that in 2000 started what became EnCana Oil & Gas (USA) in Denver. The subsidiary has grown to become one of the largest producers in the U.S. Tyree had been with Bill Barrett for nearly four years, and prior to that, he was at Goldman, Sachs & Co. for 14 years, where he was a managing director in the energy group.

Alan Smith, managing director for Houston-based Quantum Energy Partners, which led the investor group, refers to Vantage's management as a "marquee team of oil and gas executives."

In addition to Quantum, the investor group included: Carlyle/Riverstone of New York City and Lime Rock Partners, of Westport, Connecticut. Founders, employees, friends and family contributions provided another $15 million, bringing the total equity raise to $485 million.

For a number of management teams, including ours, there is a greater interest in tapping private equity because we are afforded the luxury of focusing 100% of our efforts on the business.

— Tom Tyree, chief financial officer,
Vantage Energy LLC

Vantage, which was formed in October 2006, announced its equity commitment in December, about two months after initiating the financing discussions.

"For a number of management teams, including ours, there is a greater interest in tapping private equity because we are afforded the luxury of focusing 100% of our efforts on the business—avoiding much of the increased regulatory, compliance and investor relations requirements that make it so onerous to run a public company these days," Tyree says.

"Also, it is refreshing to have investors who take a long-term, multi-year view of the business, rather than living quarter-to-quarter and investor conference-to-investor conference. Our initial financing was equity, in large part because the high risk/high return orientation of a start-up is appropriately funded with equity dollars. Also, as a start-up with no assets, our access to debt capital at inception was limited," Tyree says.

Vantage selected its equity providers based on three important criteria: relationships and trust in the principals at each firm, their experience and ability to help add value in the E&P business, and the terms of the financing.

Tyree credits some advice provided by Quantum for getting the deal done so quickly. "We got everyone in one room and didn't break until we had the documents finalized. It worked much better than the typical, endless circulation of email drafts," he says.

THE DEAL $470 million from three private equity firms

USE OF PROCEEDS Start E&P company and make several acquisitions using debt financing as well as equity draws

THE PLAYERS Quantum Energy Partners managing director Alan Smith, Carlyle/Riverstone and Lime Rock Partners; Vantage Energy CEO and chairman Roger Biemans, president and CFO Tom Tyree

With the start-up financing in place, Vantage has made several acquisitions using debt financing as well as equity draws. Tyree says ultimately about half of its properties will probably be in the Rockies, but it now has properties in Texas, Utah and Alabama. Production is approaching 10 million cubic feet equivalent per day.

"We think of ourselves as being opportunity-focused rather than geographically focused," he says.

Quantum's Smith says, "Vantage's team clearly had the attributes Quantum targets when evaluating management teams: successful entrepreneurs with a demonstrable track record, who have a clear vision and a competitive advantage within a specific industry niche—that niche for Vantage being unconventional resource plays."

Given the size of the initial funding sought by Vantage, all parties agreed a group of institutional investors rather than a single firm made the most sense, Smith says. Vantage wanted a team of investors for governance, sounding board access, and deal flow, he explains. Vantage's board of managers includes representation from each of the three private equity firms.

The Vantage transaction moved quickly, Smith says, because Vantage "knew what it was looking for and knew what it took to get the deal closed." ■

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Data Rooms in September
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is currently selling certain oil and gas properties
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Michigan

Data Rooms in October
Nadel & Gussman, LLC
is currently selling certain oil and gas properties
~ 10 MMCFEPD
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Target Transaction Size: $100 Million +

Barnett Shale

Closing
David H. Arrington
is currently selling certain oil and gas properties
~ 40 MMCFEPD

September 2006
Keystone Exploration Ltd.
has sold certain oil and gas properties to
XTO Energy

January 2006
David H. Arrington
has sold certain oil and gas properties to
Chesapeake Energy

East Texas

May 2007
Overton Field Group
has sold certain oil and gas properties to
Hunt

January 2007
Craton
has sold its common stock to
Chesapeake Energy

July 2005
Craton
has sold its common stock to
Dominion

Permian

February 2007
AOCO Operating
has sold certain oil and gas properties to
Undisclosed Buyer

December 2006
EnerVest
has sold certain oil and gas properties to
Energen

December 2004
Marald
has sold certain oil and gas properties to
Undisclosed Buyer

Mid-Continent

March 2007
Millbrae Energy
has sold certain oil and gas properties to
Constellation Energy

October 2006
has sold certain oil and gas properties to
Chesapeake and

June 2006
has sold its common stock to
Penn Virginia Corporation

Gulf Coast

Closing
DGX energy
is currently selling certain oil and gas properties
~ 10 MMCFEPD

August 2007
Methane Energy
has sold certain oil and gas properties to
Legend Natural Gas III, LP

August 2006
has sold certain oil and gas properties to
Comstock Resources

Scott Richardson, Principal
srichardson@richardsonbarr.com

Steve Barr, Principal
sbarr@richardsonbarr.com

Craig Lande, Vice President
clande@richardsonbarr.com

Metano Energy LP, San Antonio, Texas, is a private-equity-backed partnership formed in 2003 to drill for natural gas, primarily onshore the Texas Gulf Coast.

But in April 2007, Metano decided to sell its South Texas assets and it retained M&A advisory firm Richardson Barr & Co., based in Houston, as its exclusive advisor. Metano president Bob Oliver says this divestiture occurred because Metano did not have the manpower or capital to develop the assets as aggressively as needed.

"By the second quarter of 2007, we had built our net production at Metano to just under 12 million cubic feet equivalent per day," he says. "We had a large inventory of proved undeveloped and probable locations. So, we approached Richardson Barr to investigate what the market would be like for our producing assets. I had known Scott Richardson since the mid-1990s when he was in the divestiture group of an investment bank...More recently, we had followed his successes in advising clients in South Texas."

Richardson Barr ran the data room in May. Metano signed a purchase-and-sale agreement in June and closed the $135-million sale to Legend Natural Gas III LP in August.

"The process moved along smoothly and at a steady clip," says Oliver. "While we like to tell Richardson Barr the strong response was due to the quality of our assets, we have to admit they did a good job of combing the market for interested parties, giving us a cross-section of the industry—private and public entities, new companies and established players, entities with a strong South Texas presence and those looking for a vehicle to enter the area."

More than two-dozen companies participated in the process.

"Both the large response in the data room and the number of bids we received serve as evidence of how well they communicated our story and the potential of our properties," Oliver says.

The wonderful thing about running a broad process is that after receiving a number of bids, the process serves as a natural fairness opinion.

— Scott Richardson, managing director, Richardson Barr & Co.

The assets included 55,000 acres in the shallow Olmos tight-gas trend with significant development potential, a 14,000-foot Yegua field with prolific gas condensate and shallow decline rates, and a 6,000-acre Queen City discovery with 1,000 feet of gas column. More than 125 undrilled proved and probable reserve locations were identified as well.

"Richardson Barr felt that the three principal producing fields complemented each other with a good balance of varying development costs and risks," Oliver says.

The properties included three distinct plays, the Olmos, Queen City and Madison, which were offered individually to maximize participation, says Richardson.

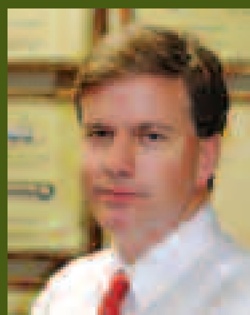
"We worked closely with the seller on the technical review of the properties, in particular, completing a reserve report that conformed to Society of Petroleum Engineers' definitions," he says. "The ultimate buyer acquired all three packages, but we received a significant amount of additional interest because of the packaging. We also recommended that our client drill a key well in the largest field, to reduce uncertainty in a large portion of the structure in the West La Grulla Field. Fortunately the risk paid off with a successful well, resulting in a number of new proved and probable reserves."

The buyer, Houston-based Legend, has a long history in the onshore Gulf Coast and says it plans to develop the properties quickly.

THE DEAL Richardson Barr & Co. facilitates $135-million asset sale

USE OF PROCEEDS Rebuild Metano Energy LP in South Texas

THE PLAYERS Metano president Bob Oliver, Richardson Barr & Co. managing director Scott Richardson (right)



"They were looking for an acquisition to start their third limited partnership," Oliver says. "They saw the value in the complementary nature of our assets and were attracted to the inventory of development opportunities. Legend definitely has the staff and resources to take our properties to the next level."

Richardson says there was a lack of competing deals for sale in the marketplace at the time, resulting in a lot of buyer interest during the sale process. A number of aggressive private-equity companies stepped up as the public E&Ps focused on rationalizing their portfolios and reducing F&D costs.

Declining natural gas prices did not affect the negotiations or sales process.

"Successful buyers focus on the futures price a lot more than the spot market because of hedging. While spot prices were soft during our process, the strip remained close to $8 per MMBtu the entire time," Richardson says.

Valuation of the assets was not an issue with either the buyer or seller.

"The wonderful thing about running a broad process is that after receiving a number of bids, the process serves as a natural fairness opinion," Richardson says.

With the proceeds, Metano plans to rebuild its asset base.

"In fact, we plan to drill four of the South Texas prospects we retained in our inventory before the end of 2007," Oliver says. "In this incarnation, we may even broaden our focus by expanding out of South Texas as the opportunities arise." ■

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Energy XXI, a Bermuda-based company with its principal operations in Houston, is an independent oil and natural gas exploration and production company. In June 2007, Energy XXI closed on its $415-million acquisition of Gulf of Mexico shelf assets from Pogo Producing Co., the listed Houston-based E&P company, while refinancing its balance sheet. Energy XXI chief financial officer West Griffin says this deal was financed by a $750-million high-yield bond and $700-million senior revolving credit facility, with an initial borrowing base of $425 million also used to pay down existing debt. The latter consisted of a second-lien loan of $325 million and a first-lien loan of $245 million.

Closing both deals simultaneously was unusual and a challenge, he says. The Houston energy office of the Royal Bank of Scotland (RBS) played a critical role, ensuring the debt issuance and acquisition closed on time, eliminating the need for Energy XXI to obtain a bridge loan, he says.

The acquired Pogo assets are largely shallow-water properties offshore Louisiana, which are complementary to the company's existing assets, Griffin says. Energy XXI sought to acquire legacy assets that have long production histories with a good deal of potential upside of finding more reserves.

Energy XXI's core properties offshore are legacy oil fields where activity focuses on exploitation.

RBS not only served as Energy XXI's commercial banker, the firm also led the bank financing and was the co-lead book-runner on the high-yield deal, along with BNP Paribas and Jefferies Inc.

The Pogo deal was announced in April and closed 46 days later. Griffin says Energy XXI has a unique history of closing transactions fairly quickly. Its first deal was completed in just 43 days, including a shareholder vote. The deal closed in April 2006. Its second deal was completed in 53 days, closing in July 2006.

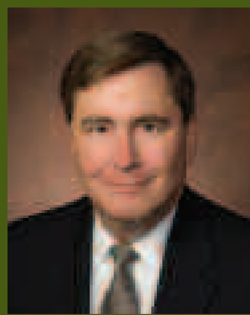
"We take a lot of pride in making sure we live up to our commitments," he says. "When we make an offer, it's an offer you can take to the bank. There are not a lot of contingencies. The sellers of properties get their money quickly. That reputation serves us well in being competitive."

Griffin says the Pogo acquisition and the high-yield financing served as catalysts for many new investors to invest in both Energy XXI's stock, which had just listed on the Nasdaq, as well as the notes.

"We were very pleased about the general outcome," he says. "We feel fortunate to have closed when we did, just days prior to the sub-prime mortgage meltdown."

On the other side of the table, at Royal Bank of Scotland, managing director and co-head of the structured oil and gas finance group Phil Ballard says this deal was the third financing RBS had conducted with Energy XXI since the company's IPO in October 2005. The initial facility occurred in April 2006 and was a $300-million senior revolving credit facility for the first acquisition.

THE DEAL Royal Bank raises $750-million high-yield bond, $700-million senior revolving credit facility



USE OF PROCEEDS Energy XXI acquires Pogo assets, repays existing debt

THE PLAYERS Royal Bank of Scotland managing director and co-head of structured oil and gas finance Phil Ballard; Energy XXI CFO West Griffin (above)

Ballard says one challenge in this deal process was managing a large group of 10 banks to close the transaction contemporaneously with the Pogo acquisition.

"It put a lot pressure to get the transaction closed timely," he says. "However, working closely with the company, and a great group of banks that are active in the oil and gas lending space, helped close the deal."

Energy XXI's core properties are offshore and along the Louisiana Gulf Coast. The company's offshore properties are primarily large, legacy oil fields where activity focuses on exploitation, while onshore properties are primarily natural gas focused, with a large exploration component. Proved reserves and production are weighted toward oil, at 55%.

Prior to this transaction, in February 2006, Energy XXI agreed to acquire privately held Marlin Energy for $421 million. In June 2006, Energy XXI agreed to acquire Louisiana Gulf Coast properties from another private firm, Castex Energy, for $312 million. Also, the company entered into an exclusive 50-50 exploration agreement with Castex covering an area of mutual interest in south Louisiana and a joint development agreement for the Lake Salvador Project, which covers some 1,680 square miles with about 1,250 square miles of 3-D seismic data. The $415-million Pogo acquisition was announced in April 2007. ■

Wells Fargo Energy Group | Erskine Energy LLC

The reputations of the management team of Houston-based Erskine Energy LLC and Wells Fargo Energy Group made it easy for Yorktown Partners, a large New York-based private equity provider, to bring the two parties together in the refinancing of the E&P company headed by Rod Erskine.

Wells Fargo did not need any introduction to the members of the Erskine management team, as they were already well known in financing and E&P communities. Prior to forming Erskine Energy in 2004, Rod Erskine was president of El Paso Production Co., a subsidiary of El Paso Corp., which was the fourth-largest gas producer in the U.S. in 2002. Erskine had earlier joined El Paso via its acquisition of The Coastal Corp. where he had been president of Coastal Oil & Gas Corp. for many years. Randy Bartley, now chief operating officer of Erskine, had served as COO for El Paso Production and Coastal Oil & Gas.

Gregg Hutson, Erskine's president, was co-founder and president of Denali Oil & Gas, and previously a former senior vice president of El Paso Production and Coastal Oil & Gas.

Likewise, Erskine Energy needed no introduction to Wells Fargo, known throughout the oil patch as a leading E&P capital provider. Within four months of Yorktown bringing Wells Fargo into discussions, the deal was completed September 28, 2007.

Mark Green
Wells Fargo

Yorktown Partners, which provided Houston-based E&P company Erskine Energy a portion of its initial startup capital, turned to Houston-based Wells Fargo Energy Group when Yorktown sought a capital provider partner to help fund the $125-million refinancing of Erskine Energy's senior loan facility. Yorktown and Wells Fargo had worked together on several financings of Yorktown's other portfolio companies. Yorktown Energy Partners VII L.P. is in the seventh energy dedicated private-equity partnership. Beginning in 1983, Yorktown has made more than 60 investments in energy companies and has in excess of $2 billion under management.

Erskine Energy, a private company focused on the U.S. Gulf Coast gas basins, sought the capital to refinance existing debt and fund a portion of its ongoing drilling program in south Texas, says Hutson. The timing of the transaction with Wells Fargo was a key element in allowing Erskine to move forward with its planned drilling program.

Erskine has grown the company from no production in its late 2004 beginning to a current production rate of about 30 million cubic feet per day. The company hopes to double this rate by the end of 2008 through drilling with funds from its cash flow and the financing provided by Wells Fargo.

"Erskine is now focusing its efforts on deep tight-gas sands in its three major fields in the Texas Gulf Coast," says Hutson. "It has drilled eight wells thus far this year and plans to spud an additional two to three by year-end. Erskine will continue its focus in south Texas into 2008. With an extensive workover, drilling, and leasing program in and near its major fields. Current plans are to drill 14 to 18 wells during the upcoming year."

Rod Erskine, chairman and CEO of Erskine, commented, "We are eagerly looking forward to a long relationship with Wells Fargo and the other members of the syndicate. The individuals at Wells Fargo have followed through on their promises in getting a deal done quickly so that we can proceed with our drilling program as soon as possible. Gregg had worked with Wells Fargo previously and felt that Wells Fargo could perform as promised. Of course, Wells Fargo is well known among E&P companies, and we thought that they would be a good financial partner for us."

THE DEAL $125 million of senior debt comprised of an $85-million first-lien credit and a $40-million second-lien credit

USE OF PROCEEDS Refinancing of existing debt and financing of ongoing drilling program in south Texas

THE PLAYERS Wells Fargo Energy Capital president Mark Green; Wells Fargo Bank vice president Chuck Randall; Erskine Energy LLC chairman and CEO Rod Erskine, president Gregg Hutson; and COO Randy Bartley

Chuck Randall, vice president in Wells Fargo's Energy Capital Group, says that during the due diligence process, Wells Fargo learned the Erskine management team had further enhanced its track record by the impressive rate of growth and high-quality asset base of Erskine Energy, which it had grown from a grassroots company.

"The two-part financing deal included a four-year $85-million first-lien facility from Wells Fargo Bank and a $40-million second-lien facility provided by Wells Fargo Energy Capital," says Randall. "The second-lien loan matures six months after the first-lien facility."

Randall says there was little change in the original senior debt deal, other than extending the maturity date and adding some enhancements, but the addition of the second-lien facility provides the company greater flexibility to meet its capital budget for the remainder of 2007 and 2008.

"The second-lien component, with no amortization prior to maturity, enables the company to use its cash flow for drilling instead of debt repayment, thereby adding incremental value to its shareholders. Since Wells Fargo Bank works seamlessly with Wells Fargo Energy Capital to complete these kinds of financings, structuring an inter-creditor agreement suitable to both

Erskine Energy's management team, from left to right: Gregg Hutson, president; Rod Erskine, chairman and CEO; and Randy Bartley, COO

parties was completed with relative ease," says Randall.

Wells Fargo builds relationships by providing a range of products including senior debt, syndications, mezzanine finance, acquisitions and divestment advisory, and risk management services, says Mark Green, president of Wells Fargo Energy Capital. The one-stop shopping aspect makes Wells Fargo attractive to borrowers, he adds.

"In the case of Erskine, our technical review of the company's reserves gave us significant comfort in establishing a second-lien facility, which relies on the conversion of proved undeveloped reserves to the proved producing category. The first- and second-lien facilities combined with active commodity and interest rate hedging should allow Wells Fargo to grow with Erskine indefinitely. This ability to provide an integrated solution for clients makes Wells Fargo somewhat unique in the market," Green says.

Wells Fargo is an energy finance leader with more than 30 years of experience providing integrated financial solutions to the E&P, midstream and refining sectors. The company has more than $8.5 billion in commitments to the industry.

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 and more than $183 million with 26 transactions through the first nine months of 2007, says Green. Wells Fargo Energy Capital has committed more than $1 billon in debt and equity capital to the energy industry since its inception. ■

FINANCING STYLES

Outlined here are the most common styles of financing available to energy entrepreneurs. Each is more or less suitable to one or more of the stages in a company's growth, based on risks and costs, but the first step is to come to a realistic appreciation of where one stands on the "stairway to harvest."

Bootstrapping—Many oilmen have started a business with minimal capital. Some continue to rely on bootstrapping beyond the start-up stage because, by preserving 100% ownership, they think they're pursuing the highest risk/highest return financing option. However, bootstrapping severely limits growth by constantly shifting time and energy to cash crises and away from that special something that a business might repeat over and over to generate real value in less time.

Friends and family—Friends and family already know the issuer's track record and—often despite this—agree to help management avoid the perils of bootstrapping. However, tapping friends and family can introduce fledgling companies to crippling, often irrational emotional dynamics. Do business with friends and family if you wish, but be warned.

Industry joint venture—Joint-venture financing is actually expensive, non-recourse structured debt, where two companies agree to participate disproportionately in costs and revenues before and after payout. Joint-venture financing may be appropriate to advance a project; it is rarely the best option for a company, unless to mitigate risk.

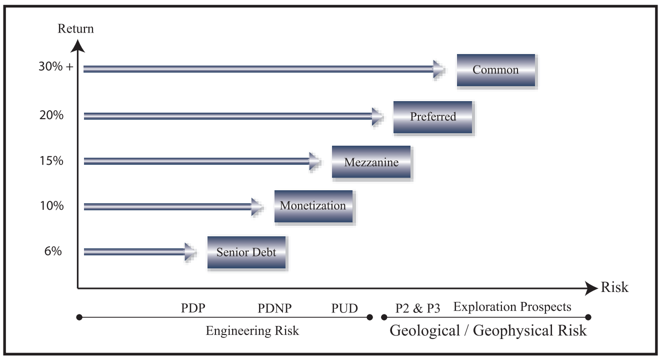
Too often, however, companies sell to a joint-venture partner a relatively low-risk project that took years of sweat equity to develop. This is expensive money, particularly if, as indicated in the table, there is opportunity to tap any of the overlapping financing styles.

Bank debt—Banks generally advance 50% to 65% of the present value, minus 10% (PV 10%) of predictable cash flow streams from proven properties. Since bank debt costs the least among conventional sources and becomes available as soon as, and as long as, a company has producing assets, a company's managers should resort to it wherever possible, reserving their equity capital to that special something that entails greater risk, but consistently builds value. This permits a company to realize a substantial compounding effect from repeated generation, leveraging and redeployment of field-level cash flows.

Mezzanine debt—Mezzanine debt is characterized by high advance rates, which are ideally suited for project financing, in exchange for strict repayment terms and restrictive covenants. Interest rates range from 350 to 1,000 basis points over comparable term U.S. Treasury issues, and often are accompanied with equity participation rights.

Notwithstanding, compared with joint ventures, mezzanine debt almost always costs less, a fact too often lost on independent producers stuck in traditional financing styles. Used with discipline, mezzanine debt is a great means to jump-start from start-up, or even the early stage, to acceleration.

Private equity—Private equity allows management teams to harvest a smaller piece of a much bigger pie within a three- to seven-year time-frame. Four keys to attracting private equity? First, emphasis is on funding management teams, not their assets. Second, the interests of all parties must be aligned, usually by requiring management to co-invest and delaying their "promote" to back-ins upon success. Third, board participation, if not control, is usually required. And finally, since private-equity investors require an exit, business plans must begin with an exit in mind. Private equity can be arranged at start-up, if management has an outstanding track record from prior experiences, but is most often available once a company has reached the early stage, established its own track record, and requires significant growth capital.



As risk goes up, so does the return that capital providers expect.

(Source: Rivington Capital Advisers)

Public equity—Once a company has demonstrated consistent capacity to grow, assuming it has achieved a scale sufficient to attract institutional interest (now considered at least $300 million) then the public equity market is an option. In terms of financial cost, public equity is the least expensive style of equity, but it has its drawbacks in regulation, management of investors and analysts, and conflicting expectations of timing and success.

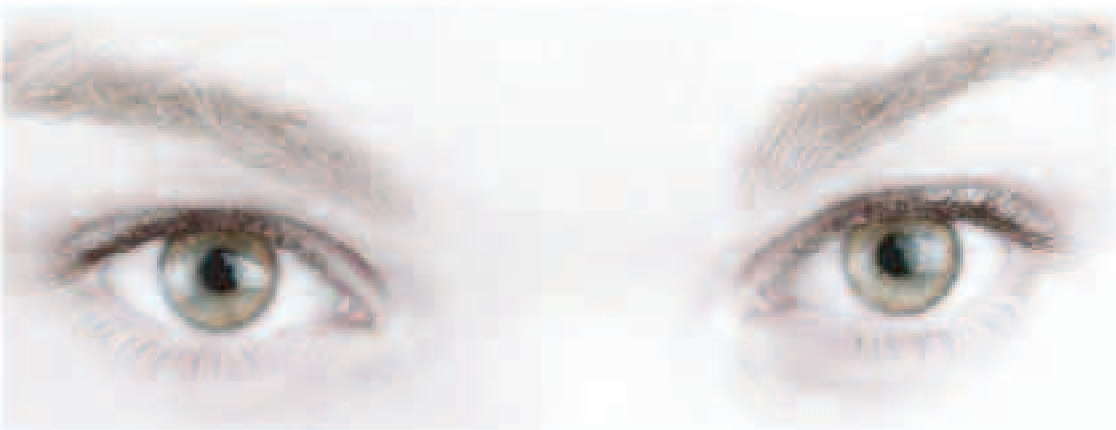
Also, public equity directly is not an exit, at least not initially.

Indirectly, however, the public market is the ideal exit, as a manager builds his private company to scale, times his exit to a period of public interest, and reaps the premium that public companies can pay because their own costs of capital are so low.

Public debt—Public debt, when the market is open, is the lowest cost of all capital styles. It can become a debilitating—even deadly—drug, however, as with its ease and size it mesmerizes its devotees, often hypnotizing away fear of covenants and repayment terms. Public debt can be a marvelous financial option, but like all debt, it requires immense discipline. Like public equity, it is not an exit in itself, but it indirectly fuels the ability of others to pay more for growth (and the purchase of the company). ■

—T. Prescott Kessey, COSCO Capital Management LLC

It would take a thousand pairs of these to see what we see every week.



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DEAL SHOWCASE INDEX

This is a list of capital providers/financial advisors and M&A advisory firms that participated in this special report, and the clients whose deal stories are told here. Contact information is included for the providers/advisors, which are listed in bold.

Robert Thomas
CHAIR – ENERGY PRACTICE

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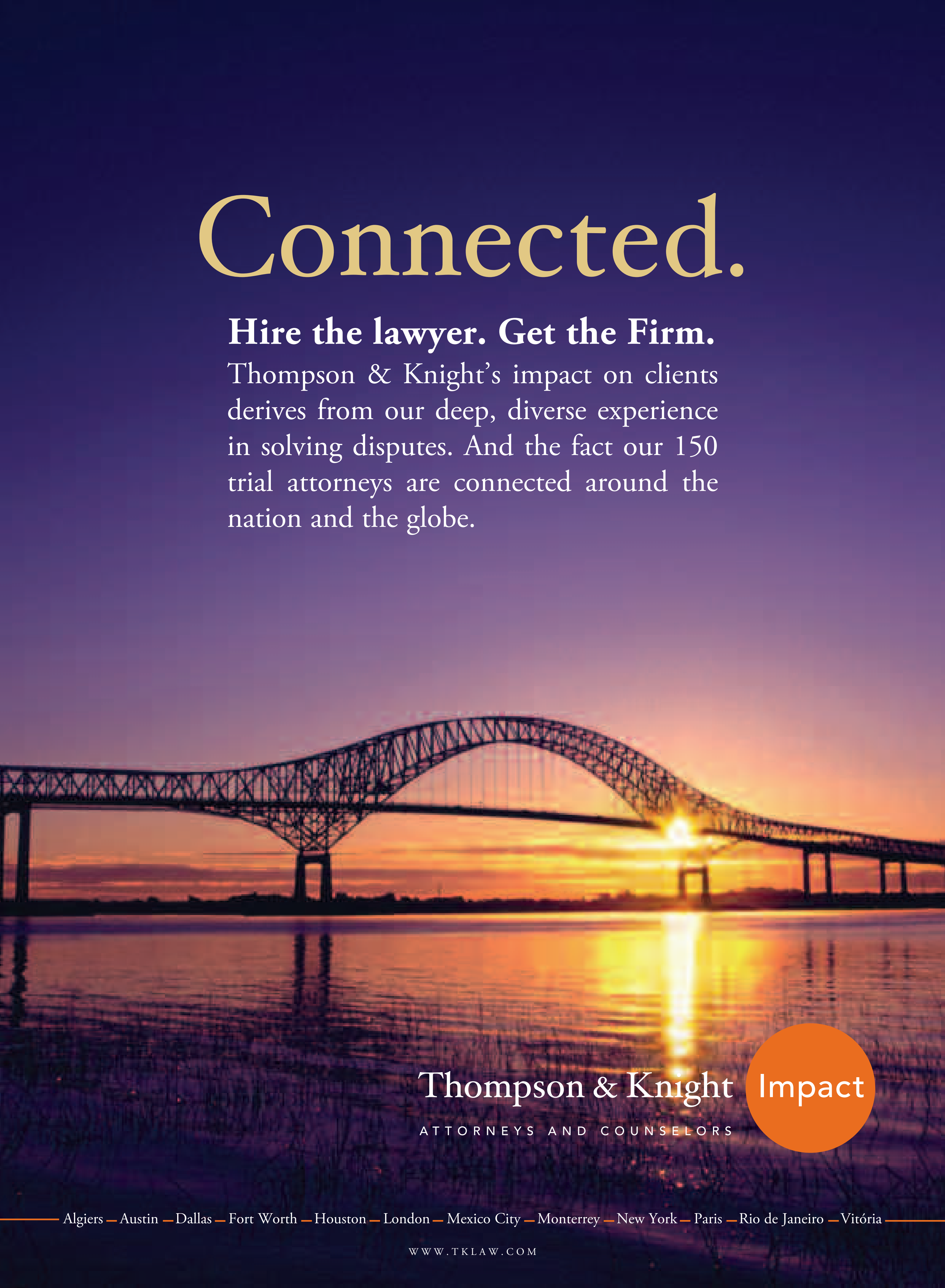
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