August 13-17, 2006

ONE ON ONE

Interviews from EnerCom, Inc.'s
The 11th Oil & Gas Conference™

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PetroQuest Energy, Inc.
67mm
Bank Credit Facilities
Syndication Agent
July 2006

North West Pipeline
175mm
Senior Unsecured Notes due 2016
Joint Book Runner
June 2006

Newfield Exploration Company
550mm
6.5% Senior Notes due 2016
Co-Manager
April 2006

Chesapeake Energy
500mm
6.5% Senior Notes due 2017
Co-Manager
February 2006

Chesapeake Energy
2,500mm
Bank Credit Facilities
Co-Documentation Agent
February 2006

AEP
125mm
Senior Notes
Joint Lead Arranger & Joint Book Runner
December 2005

Swift Energy Company
400mm
Bank Credit Facilities
Documentation Agent
December 2005

Noble Energy
2,100mm
Bank Credit Facilities
Co-Agent
December 2005

Rosetta Resources, Inc.
325mm
Bank Credit Facilities
Co-Agent
September 2005

Bronco Drilling
100mm
Equity Offering (IPO) Common Stock
Co-Manager
August 2005

Range Resources
114mm
Follow-on Equity Offering
Co-Manager
June 2005

Bois d'Arc Energy LLC
175mm
Equity Offering (IPO) Common Stock
Co-Manager
May 2005

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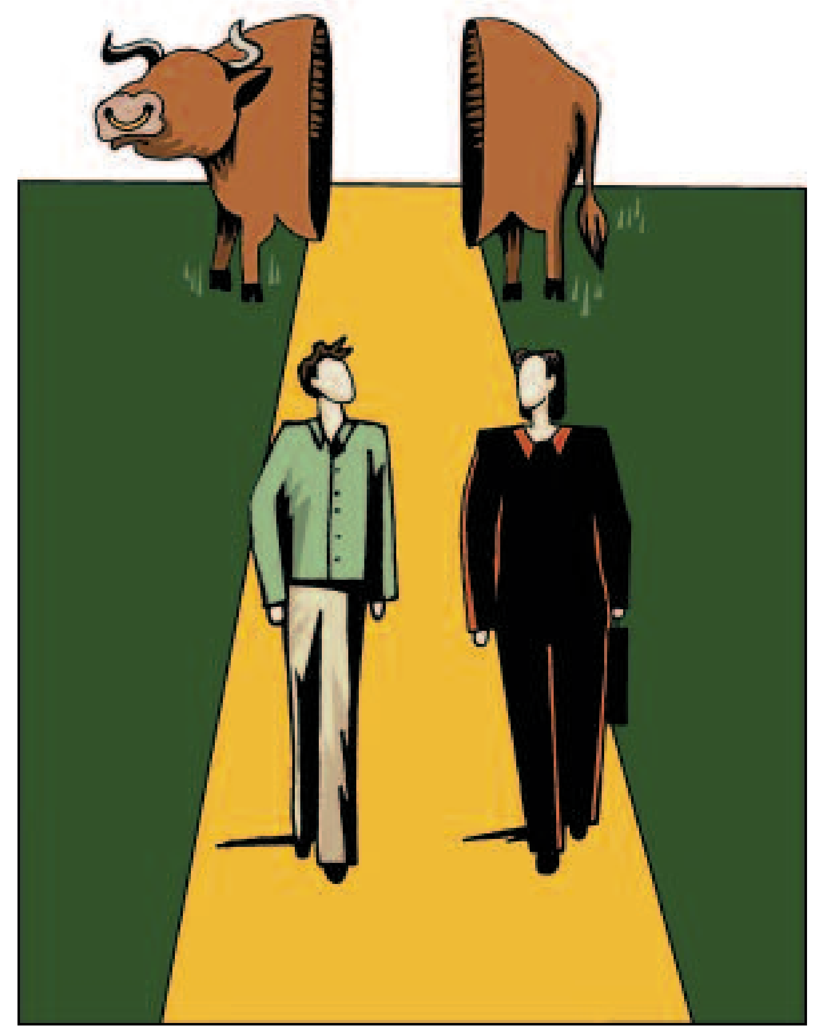

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Last year at this time, an investor could throw a dart at a list of energy companies and be pretty much assured of hitting a winning target. This year, the situation has changed somewhat, but the oil and gas sector still offers a lot of promise for a bull'seye.

Natural gas prices have given back some of their gains since December 2005 and thus, have changed their usual price relationship with crude oil: where once the two commodities tracked each other closely, and at a ratio of about 6-1 based on Btu content, now they are diverging. Oil is trading at all-time highs near $75 per barrel, yet gas is stuck around $6 per thousand cubic feet. This creates a new price ratio of 12- or 13- to-1 versus natural gas.

Then too, many of the E&P and service stocks have enjoyed such a spectacular run up in the past two years that they appear to be fully valued—for the moment.

For an investor making decisions in these very intriguing times, extremely savvy stock-picking is the order of the day. That's why we are pleased to bring you this report, which is a handy reference and adjunct to the stories you will hear presented this year at The 11th Oil and Gas Conference ™.

Leslie Haines

Some of the macro factors for this year that underpin these companies are the same as in last year, although international political tensions that affect crude oil prices have certainly heightened. Global crude demand has not slowed down much in the face of high oil prices, and U.S. GDP growth has remained surprisingly robust. Chinese oil demand continued to rise in the first half of this year, and indeed, at a rate faster than many experts had expected.

Together, these factors augur well for sustained high crude oil prices.

On the home front, the U.S. rig count has surpassed 1,700 for the first time in years and in Canada, a new high was reached when the count rose to 800 in June. What's more, the latest mid-year sending surveys indicate that E&P companies will spend more this year than they had predicted last December. (For more details, see our report on page 6.)

For the service and supply companies especially, these are good times.

Natural gas is the "wildcard" commodity that most people are watching. At press time, gas storage was at record highs for this time of year—yet triple-digit heat waves in California, throughout the West and Midwest, as well as in New York City, were pushing air conditioning demand for gas up, to offset the storage overhang. While gas prices will no doubt be volatile until fall weather settles in, analysts foresee them staying within a range of $5 to $7.

Your best bet? Listen to the CEOs and read their remarks here, which will give you a better idea of how they perceive these market conditions and where their companies fit into the big picture.

—Leslie Haines, Editor-in-Chief,

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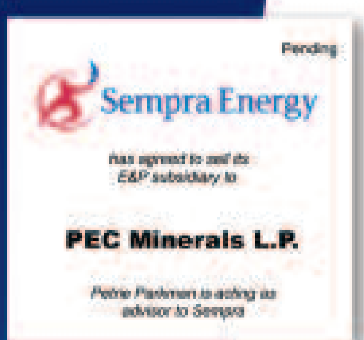

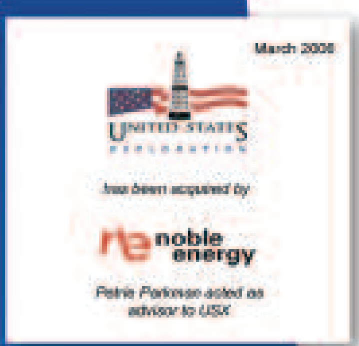

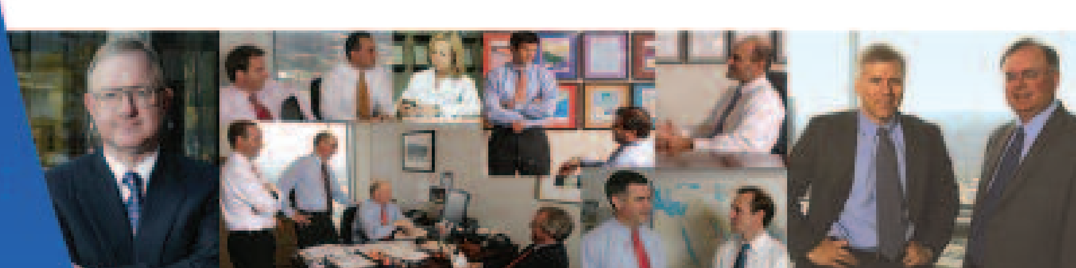

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2006 Capex Outlook

Higher service and equipment costs have forced companies to overspend their original plans, with worldwide expenditures expected to increase 22% this year, according to "The E&P Spending Survey: 2006 Midyear Update" by Citigroup. The forecasted figure is the strongest increase in spending in the E&P industry since 2001.

Other trends in spending include increased sensitivity to gas prices and decreased sensitivity to oil prices; an expectation of a lengthened cycle and increases in spending by large and small operators.

"The results of our survey confirm our expectation that the pattern of overspending on initial plans continues and that growth has become more balanced across major regions," says Geoff Kieburtz, an oilfield-service analyst with Citigroup in New York. "Fears that a combination of rising costs and lower gas prices will dampen North American activity appear to be premature, but are not unwarranted if trends persist. We believe the E&P spending cycle is moving into the mid-stage with several more years of robust growth ahead and positive implications for oilfield-services and -equipment stocks."

The 2006 spending growth estimate of 22% is a revision of Citigroup's 2006 growth forecast of 14.1% that it made in December. The increased cost of services and equipment is the most common reason cited for higher expenditures, and the 211 companies surveyed plan combined worldwide capex of $253 billion.

Another trend revealed by the survey is the balancing of spending growth that has occurred since December. Companies with budgets of more than $2 billion each plan an increase of almost 20%, while smaller operators are planning a 29% increase in spending.

"This greater balance reflects a broadening of the investment-growth trend to include the larger integrated and national oil companies with a longer time horizon," Kieburtz says.

Though respondents are more sensitive to gas prices than oil prices, their forecasts for each continue to maintain a significant discount to the rising futures strip. The companies said gas prices would have to fall bellow $5.50 per thousand cubic feet to trigger a reduction in North American activity.

Higher service costs and limited availability of services was the most negative development during the first half of this year, according to almost half of the survey participants.

"The persistence of funding limitations is a reflection of the large number of small companies included in our survey," Kieburtz says. "What is more surprising is that personnel constraints appear to be even more severe outside North America than in the U.S., based on the mix of survey responses. We can only speculate that political instability in some major operating regions is beginning to exacerbate the tight labor market that exists throughout the industry."

Lehman Brothers' analysts James D. Crandell, Angeline M. Sedita and James C. West are also optimistic about global 2006 E&P capex. They anticipate 21.3% growth compared with 14.7% indicated in their year-end 2005 survey. This year, the 308 companies they surveyed plan worldwide capex of $261 billion.

Of the companies in Lehman's "The Original E&P Spending Survey," the 224 producers with U.S. investments are leading capex growth; they're budgeting a 27.7% increase this year.

"We believe that domestic expenditures are benefiting from continued high oil prices," the Lehman analysts report. "Independents, significant participants in the U.S. market, are more sensitive to commodity-price changes. Also, rig and service costs have been rising significantly as capacity tightens."

The strongest year-over-year increases in E&P capex for this group are for companies that spend between $100 million and $1 billion in the U.S. The group is planning an increase of about 30.6% in 2006—double the December 2005 forecast. Some of the names in the group include Southwestern Energy Co., up 71%; Marathon Oil Co., 45%; El Paso Corp., 41%; Pogo Producing Co., 67%; Denbury Resources Inc., 66%; Williams Production Cos., 27%; and Quicksilver Resources Inc., up more than two times, the analysts report.

Capex budgets for projects outside the U.S. are expected to grow 20.1% (up from 14.9%) for the 88 surveyed companies. Significant European companies, U.S. independents and integrateds as well as national oil companies in Latin America, China and Russia are propelling the increases, the analysts report.

As a whole, the Lehman survey group indicated that it would take $42 oil and $5 gas to spark pullbacks in spending plans. Even then, prices would have to stay at these levels for a sustained period to cause reductions.

Though most of the participants suggest they

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would not increase their budgets if oil remained above $60 and gas above $7, almost a quarter indicated they would.

"Smaller independents are more likely to respond to changing commodity prices as their size allows them to be nimble...The majority of those companies that would raise their budgets would spend 10% to 20% more than currently forecasted. Of course, this depends upon availability of equipment, which is a major issue in the U.S."

Meanwhile, for next year, 67% of the companies in the Lehman survey forecast higher E&P spending and 72% of these are planning double-digit percentage increases.

—Taryn Maxwell and Bertie Taylor

Change In Planned E&P Expenditures, June 2006 versus December 2005

	Increase	No Change	Decrease
U.S. Independents	52.7%	37.5%	9.8%
U.S. Majors	44.5%	33.3%	22.2%
Canada	53.4%	34.5%	12.1%
Outside N. America	45.7%	39.5%	14.8%
Worldwide	52.4%	37.6%	10.0%

Note: Responses with changes between +3/-3% are considered No Change.
Source: Citigroup Investment Research

E&P Capex, December 2005 versus June 2006 ($Million)

	2006E	2005A	% Change	Surveyed
Domestic Spending > $1B	$39,195	$31,075	26.1%	18
Domestic Spending < $1B	$23,029	$17,779	29.5%	180
Total U.S. Spending	$62,224	$48,855	27.4%	198
Canadian Spending	$24,713	$21,610	14.4%	61
International Spending	$166,179	$138,808	19.7%	75
Worldwide Spending	$253,116	$209,273	21.0%	266

Source: Lehman Brothers

Expected Spending In Second-Half 2006 versus First-Half 2006

	Greater	Less	Equal
U.S. Independents	41.5%	17.0%	41.5%
Canada	35.1%	27.0%	37.9%
Outside N. America	69.2%	5.1%	25.7%
Worldwide	48.2%	15.1%	36.7%

Source: Citigroup Investment Research

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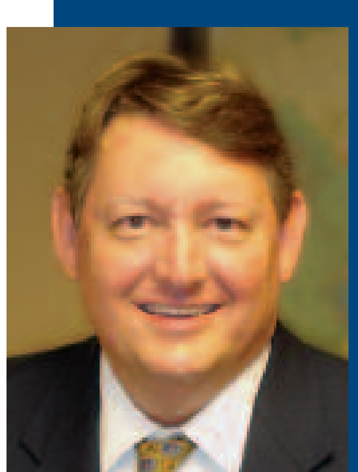


Greg Barnett, President

Greg Barnett is the president of EnerCom Inc. Established in 1994, EnerCom Inc., with offices in Denver, is an investor communications consultancy firm. EnerCom advises public and private companies on issues of corporate strategy, investor relations, media and corporate communications, and visual communications design.

Since its founding, EnerCom has helped hundreds of business leaders address their greatest challenges when communicating with investors, from creating long-term growth strategies to improving delivery of their key messages, all with the goal of maximizing their company's capital performance through periods of value enhancement and growth. The firm's leadership position is evidenced by its list of services, clients and contacts.

Barnett has more than 25 years of industry experience in energy, banking, public accounting, public relations and investor relations. He is a member of the National Association of Petroleum Investment Analysts and a member of the senior roundtable of the National Investor Relations Institute.

***Oil and Gas Investor:** Since you held The Oil and Gas Conference® last August, we've seen several E&P companies come to market. Do you think this is still a vibrant market for E&Ps going public?*

Barnett: I'd also add that it's a dynamic market. Oil and gas executives are watching commodity prices, rig counts, storage counts, oilfield service costs and rates of return, all the while wondering whether they should seek to raise new capital to expand their operations. The buyers of such offerings are doing the same thing. One side is looking long term, the other not so long. It's these dynamics that make for a vibrant market. We know of several companies in registration that could be expected to start their public lives with a market cap of more than $1 billion. Recent mergers will empower certain oil and gas professionals to step out to create new companies with new capital and new ideas, and the IPO process will start again; and so on, and so forth.

***OGI:** Why are they waiting to go public?*

Barnett: Primarily, they're waiting on a change in the market's sentiment toward the forward slope of the commodity price and interest rate curves, hoping the former will remain up and the latter will go flat. The 12-month strip for natural gas is more than $8.50 per thousand cubic feet (July 25, 2006) while oil is trading above $76 a barrel over the same period. We believe these prices are more than sufficient to come to the market. Although the wait has more to do with market sentiment or perception, the upshot is that these companies could actually get bigger through successful drilling or an acquisition, and therefore be an even more attractive investment later this year.

***OGI:** The amount of natural gas in storage is higher than ever and gas prices have declined as a result. Do you sense that they've declined enough for investors to want to pause?*

Barnett: The storage numbers, and the market's reaction to them, are really interesting. Having all this near- or real-time information is great, and it makes everyone more attuned to the industry; however, the week-to-week change doesn't make anyone a better operator or a better investor. Yes, there has been some "pause." Recall that back in November 2004 there was a hoped-for view that the 2005 forward strip for oil and natural gas prices would average above $35 per barrel and $4.50 per thousand cubic feet, respectively. We know today that oil and natural gas prices are trading well above those 2005 prognostications.

This is an industry that requires a very long-term perspective—for everyone—and therefore I believe too much emphasis can be placed on the weekly injection numbers. Is this laser-like focus bad? Perhaps, and not necessarily. What is problematic is when short-term decisions—up or down—are based on such short-term trends. When we talk to industry executives, they tell us that they too watch the short-term swings, but because they're making decisions that have longer-term implications, are far less inclined to expand or cut spending just because injections were higher or lower than some five-year average. What should be given greater weight is how E&P

companies have hedged their future production and cash flow streams at prices that most investors would be very comfortable with. Absolute numbers are not what they once were. Back in 1990, a 100-million-share trading day was "active." Today, a slow trading day is when 1 billion shares trade hands. It used to be that a $5 per barrel F&D cost was the benchmark. That mark has changed, and we may never return to it in our lifetime. I believe you have to analyze the storage numbers in some greater context for comparison, reflection and conclusion.

OGI: *Bottom line, how will these lower gas prices affect E&P companies going forward?*

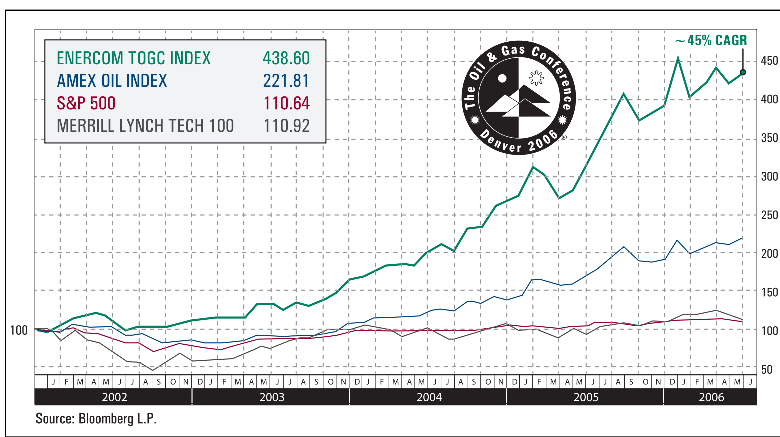
Barnett: Operators continue to tell us they're going to spend more in 2006 than they did in 2005, and early indications are they will spend more in 2007 than they will in 2006. The same is true from the oilservice providers—orders are up and so are their man-hours. The second quarter news releases are bearing that out. If the operators are willing to drill more, and are spending less on stock buybacks, that tells me they are pretty comfortable with current natural gas and oil prices.

OGI: *And they can hedge as well.*

Barnett: Yes. There is such a vibrant market for buying and selling commodity hedges that operators have more opportunities than ever to lock-in revenue and cash flow streams from their future production. Many companies reported gains in the second quarter from their hedging positions, and will add to those positions should the markets strengthen, which have in recent weeks. Many companies are reporting realized prices of more than $7.50 per thousand cubic feet equivalent—that's an attractive price that will generate significant returns on investment. With these prices, we do expect to see increases in capital investment.

OGI: *So you are still very bullish?*

Barnett: We are naturally long, but we are not bulls. When it comes to measuring how we view the market at any point within a cycle, I'd describe us as permanently optimistic about what's going on with our customers and with the industry—but we try to stay grounded. We want to tell our clients' stories in ways that deliver pertinent information to investors without hyperbole. We are not measured here at EnerCom on a day-to-day basis; we are measured by our experience, service solutions and long-term results we get for our clients. We've always tried to take the



Index performance as a change in percentage since August 31, 2001. Base=100.

long-term view of our clients' operations and finances. It's just our nature.

OGI: *You're on the road a lot with your clients meeting institutional investors. What has been the mood out there so far this year among the investors you visit?*

Barnett: If I tell you they were optimistic, would you believe me? During the first half of the year, we meet hundreds of institutional investors from sea to shining sea and the U.K. I'd have to say they are pretty upbeat. They are watching the gas storage numbers just like everyone else, yet they're telling us that they're finding very nice entry points for large purchases of the stock of companies large and small.

Remember, we were taught to buy low and sell high, not the other way around. We're in a very exciting "buy-low" cycle. On reflection, the first quarter of 2006 was an excellent "sell-high" cycle. If we track the group that presented at last year's Oil & Gas Conference, they're up 39.71%. Compare this to the Merrill Lynch Technology 100 index that is up 13.34% and the S&P 500 index that's up 6.62%. Given this one-year performance versus these other groups, E&P and oilservice names still are an attractive opportunity, especially with the 2006 summer pullback.

OGI: *After the great gains seen in the past two years, have investors changed what they are looking for?*

Barnett: They are still looking for growth, sizzle, and a value-oriented price point for purchases. They are still looking for well-run companies and well-thought-out stories. We've had a lot of good conversations with investors about how these management teams think about the long-term slope of commodity markets—the forward market. I believe these conversations gave investors confidence to make well-informed decisions.

During the summer months, we've seen our clients' stock price hold steady—they are positive for the year to date. I believe a lot of investors are pleased with the second-quarter numbers and the better-than-expected realized commodity prices. The balance sheets are in good shape. Chief executive officers are not sitting there with debt haunting them; they have rigs and projects to drill and produce.

OGI: What's new at the conference this year, your 11th annual?

Barnett: It is still four full days and a single track, with plenty of networking events. We are seeing new institutions sign up to attend, a strong indication that there is great interest in the energy sector. All of this is built on relationships that we've established over our 13 years in business as EnerCom Inc. We're constantly told by the market that they still like our independence and our candor.

Every year, we continue to strive to add new presenting companies and we have several this year. In fact, we have several new names each day. It's a testament to attracting good names both on the investor side and the presenter side. We continue to hear that this conference is a place where attendees can get new ideas and a lot of work done.

OGI: By that you mean?

Barnett: Because this is the first conference of the fall conference season, the attendees get a good perspective on results from the first half of the year and what the companies are planning for the next 12 months.

OGI: What do you think are investors' main concerns?

Barnett: Generally, for every company presenting, they have these key questions:

- How are you funding your future growth?
- Are you adequately hedged, or are you realizing the prices you need to meet the economic hurdles for your spending and investment programs?
- Are you going to initiate any kind of stock buyback program, or initiate or increase the dividend?

OGI: Any new buzzwords this year—like unconventional gas?

Barnett: No. Our approach with our clients is to be transparent without sounding like everybody else. Unconventional gas is a buzzword of interest out there, yes, but we still stick to proven words—growth, cost-containment and generating shareholder value.

"We are naturally long, but we are not bulls. When it comes to measuring how we view the market at any point within a cycle, I'd describe us as permanently optimistic about what's going on with our customers and with the industry—but we try to stay grounded."

OGI: Are you hearing questions about rig availability?

Barnett: We get fewer questions on that than we heard at this time last year or even earlier this year. Most companies have rigs and are drilling their programs. The most often asked question today is: "Do you have enough people, or the right people to execute your long-term plans?"

OGI: Do you represent service companies and E&Ps?

Barnett: Yes we do. For them, we get questions like, "Are your prices holding up? Do you have pricing strength? How are you attracting, training and retaining people? Are your margins holding up?" And of course investors want to know about any new technologies that aid in the extraction of oil or gas.

OGI: What do you think of the new model emerging, that of a publicly traded E&P partnership?

Barnett: Any time you come up with another idea like this, it affords investors another opportunity to make money. You have a lot of really smart guys in this industry and smart people looking at this business model right now, to see how to generate the highest return in this market. You have a lot of experienced entrepreneurs with proven track records in this sector, and I'm confident you will see the creation of new companies in this form in the not-so-distant future. ■

It’s not for everyone.

Just those that like to make money.

American Stock Exchange

John McGonegal, Equities Group Senior Vice President

John McGonegal is equities group senior VP with the American Stock Exchange, where he has worked since 2002. Previously, he held various positions with the Quick and Riley Group for 11 years. He graduated from the University of Buffalo in 1986, where he double-majored in economics and communications. He also holds a variety of security licenses, including the Series 4, 7, 8, 63 and 65 licenses, as well as his Chartered Mutual Fund Consultancy designation.

***Oil and Gas Investor:** What's your outlook for the fundamentals and commodity-price direction of the oil and gas industry through the balance of 2006?*

McGonegal: If I knew the answer to that then I wouldn't be working. I don't see what would make prices go lower. I expect them to actually stabilize or go even higher. There are more risks, whether geopolitical or supply related, than there are mitigating factors to make prices go down. If I had to place a bet, I'd say 'stay flat or go higher.'

***OGI:** How might this outlook impact your level of activity?*

McGonegal: I think it means we're definitely going to be visible in this space. It doesn't matter what the commodity price level does or where it goes—we're still committed to be in front of the oil and gas companies, mineral and mining companies and any natural-resource company. We want to be in that space, and we think we bring value to it. We'll be there no matter what the prices are. Also, I think the trend of the Amex becoming a leader in that space will continue. We're getting inquiries from different parts of the world now. With that happening, the exchange may have an even bigger draw going forward.

***OGI:** Why are so many of the smaller oil and gas companies drawn to the Amex?*

McGonegal: Many of these small companies have grown, they have a marketplace choice, and they're choosing the Amex for a combination of reasons. First, they want to be where their peers are. Second, we offer products and services that are unique to the smaller and midcap-sized companies, such as offering a dedicated relationship manager assigned to you as opposed to being a number at a huge marketplace. I think they feel that our staff knows the business and has a little bit of expertise even though we're not in that field. We understand how the trading in these commodities works, and we're more able to be conversant with these companies. They get a sense of comfort knowing that the people involved know the business. Add all that up along with how cost-effective we are compared with the NYSE or the Nasdaq.

***OGI:** How is the exchange able to compete for listings against larger rivals and smaller regional exchanges?*

McGonegal: We're focused and dedicated to a niche business where we know that the companies that we're going after—even though they are starting to get a little bigger—are still $1 billion or less in terms of market cap on the initial side. Many companies that come here—Ultra Petroleum Corp. is a good example—are small in the beginning. They're not as sexy or as well followed, but they know we're interested and we want them here. They feel like there's a home here for them where the NYSE and the Nasdaq might overlook them. Even some of the bigger listings we had that could have gone to another marketplace really want to trade with their peers, and they like the value proposition here. They also like being viewed as very important customers.

No matter what prices are doing, we want to get these listings. With that kind of focus, we've got a leg up. When a smaller company is thinking about listing now, the first name that comes to mind is the Amex, and that's because we're out there and we've made a commitment. I'm not sure that some of these other exchanges can make that kind of commitment to a $300-, $400- or $500-million market cap company. Those are big companies in our eyes, but they're probably not a big deal to the New York Stock Exchange.

***OGI:** To what do you attribute your growth?*

McGonegal: Even though we're known as a natural resource company exchange, we are fairly well diversified in terms of the types of equities that trade here. No one sector is more than 16% of the total number of listings. The natural resource companies are our biggest traders, but our specialist model is different than the Nasdaq model. The specialist is going to have a commitment to be there

and trade every day that the 'market maker' does not. On the Nasdaq, orders are dispersed among many different market makers, where at the Amex your specialist is your sole trader every day—so he or she has to be there.

Also, our specialists don't want to be limited to one sector. I think the diversity of our listings has really helped overall performance. When one is going down, typically another is going up.

***OGI:* Does the Amex plan to go public?**

McGonegal: It's absolutely on the horizon for the Amex. The board has given us the authority to look in that direction, and we'll probably have more news on how we go about it in 2007. With all of the global competition, the big companies are getting bigger, and they need to expand and trade more than one business line. You need to have different products on your floor. We're fortunate that we have equities options and ETFs [exchange traded funds]. We have a pretty diversified floor, but we need to be even more diversified and look at different avenues of business. That's the reason some of these exchanges have decided to go public. It's about more equity and expanding their lines of business. Everyone is looking to diversify what they trade and how they trade, and to do that you need capital.

***OGI:* What kinds of energy-investment stories are attractive to investors now?**

McGonegal: The smaller the better it seems. When we come out with a listing that is relatively small and new and it doesn't have a lot of eyeballs on it, it gets a lot of attention and tends to do relatively well. It's kind of scattered all along the board. If it's a good oil and gas story in this environment, people have an appetite for it. It's a combination of investors wanting a first-mover advantage with a new company and the desire to have a stake in energy. It's a sexy story right now. When oil and gas gets hit like they have during the past few weeks, the prices come down a bit and people come right back in and buy. They look at it as a bargain. There's a lot of that 'buy-to-dip' mentality, and you can buy a lot more stock when it's $5 a share than when it's $50. A lot of investors want to accumulate strong positions in these small companies.

***OGI:* Different kinds of investment vehicles are flocking to the energy space. How is this affecting the market?**

McGonegal: It's making the market more liquid. The more people that come in, the more money there will be out there. The better the markets get, the tighter the spreads get. Seven or eight years ago, a small company might have come out and just languished there, though they may have had some local investors in it that knew the story. A Houston company would have had 80% of its investors in Houston and the rest in Dallas. Today, the same kind of company can come out and everyone wants a part of it. The variety of vehicles opens up the investment opportunities to a much broader audience—that didn't happen a decade ago.

There are some negatives, and eventually every story comes to an end. Only so many people can get out of the door at one time during a fire. Eventually, someone's going to be left not getting the kinds of results that they wanted. It's akin to any type of hot investment. There will always be investors looking to make a quick buck, and as they say on Wall Street, it's becoming a 'crowded trade.' There's not much you can do about that.

***OGI:* What's the most innovative product or service your firm has provided the oil and gas industry within the past year?**

McGonegal: One of the best ones is the revamped Amex IR Alliance program. Many of the small companies we work with don't have in-house IR counsel, and we provide it to them free of charge. We pick up all of the associated costs, and it's highly utilized by many of our listed companies. This is especially true of the smaller companies, where the CFO may be wearing the investor-relations hat—not his or her core competency. We take that burden off of them and run them through the program. It helps get them up and running in a very professional way.

***OGI:* What does AmEx hope to do more of in energy?**

McGonegal: We'd like to see more international listings coming in. We'd also like to continue the momentum we have in the States and Canada. We want to be sure and use the success that we've had thus far as a springboard for similar success outside of North America.

***OGI:* What advice would you give a company looking to trade on the Amex?**

McGonegal: They need to start a dialog with us as soon as they think they're ready to make that move. We can guide them on what they need to do to become compliant under our rules. We have four quantitative listing standards that are cut and dry, but the firm will also undergo a qualitative process as well. The business-development side doesn't approve the companies, but we can tell them about the process and what they need to do to be approved. We provide a high level of personal service—it's one of the things that sets us apart. We know you have a choice, so we work hard to make sure you choose us and stay with us. ■

APACHE CORP. (NYSE: APA)

Roger Plank, CFO and Executive VP

ROGER PLANK was appointed executive VP and CFO of Apache Corp. in May 2000, having been VP and CFO since July 1997. He had been VP of planning and corporate development since March 1996, VP of corporate planning since 1994, VP of external affairs from 1993 to 1994 and VP of corporate communications from 1987 to 1993. Plank is a director of Parker Drilling Co. and a member of its audit committee. He also is past president of Texas Independent Producers and Royalty Owners Association, a large independent trade association.

Oil and Gas Investor:* *Describe your company's strategy.

Plank: Apache pursues a growth strategy that balances internal growth through the drill bit and opportunistic acquisitions, commodity mix (oil versus gas) and geologic risk across seven operating regions in the United States, Canada, the North Sea, Egypt, Australia and—most recently—Argentina. In each of these core areas, we have developed a large acreage position and local expertise that provides a competitive edge. Over the last three years, Apache has replaced 271% of its production, of which 186% was through drilling. Our strong balance sheet provides financial flexibility that enables us to act quickly when economic acquisition opportunities arise, even as we maintain an aggressive drilling program.

OGI:* *Describe your core drilling and production areas.

Plank: Apache has a portfolio approach to managing our assets. The Central Region, which includes assets in the Permian Basin of West Texas and New Mexico, East Texas and the Anadarko Basin of Western Oklahoma, is where the company got its start over 50 years ago. The Gulf Coast region comprises our interests in the Gulf of Mexico and along the Louisiana and Texas Gulf Coast. Apache is the largest acreage holder and the second largest producer in Gulf waters less than 1,200 feet deep. Our exploration and development activity in Canada is in Alberta, British Columbia, Saskatchewan and the Northwest Territories. In Egypt's Western Desert, Apache's 10.7 million gross acres encompass a sizeable resource play in the Cretaceous Upper Bahariya formations and outstanding exploration potential in deeper intervals from lower Cretaceous to Jurassic that are established producing trends. Since acquiring the legacy Forties field in the U.K. sector of the North Sea in 2003, Apache has increased production by more than 50% through drilling and facilities upgrades. We acquired 36 blocks through bid rounds and farmed in additional acreage. Apache's exploration activity in Australia is focused on the offshore Carnarvon, Gippsland, Browse and Perth basins, where we hold 6.4 million net acres; production operations are concentrated in the Carnarvon Basin. In April, we paid $675 million to acquire oil and gas assets in Argentina's Neuquen, San Jorge and Austral basins, providing an expanded base of operations in a nation where the company has conducted small-scale operations since 2001.

OGI:* *Does the company anticipate expanding to any new core drilling and production areas this year?

Plank: We recently established a strong base of operation in Argentina, and we are looking for additional opportunities there.

OGI:* *What kind of basin or play makes the most sense to the company and why?

Plank: Because Apache has the ability to grow through drilling, we can afford to be pretty discriminating regarding what we will or won't acquire. We're determined to find properties to which we can add value and that bring an inventory of future opportunities, and that enable us to prudently walk the line between growth and profitability. In each of our core areas, we have a strong production base and a large acreage position that provide plenty of running room for our field operators to increase production and our technical teams to develop drilling opportunities. When your goal is to build the company to last, you are not looking for the "flavor of the month" play.

OGI:* *Which one or two wells or projects could yield the greatest return for the company this year?

Plank: Apache's goal is balanced incremental growth across our portfolio. Interestingly, the Gulf Coast Region historically has provided some of the highest returns in the company.

OGI:* *This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?

Plank: We expect to spend in the range of $3.5 billion to $4 billion in 2006, compared with $3.4 billion in 2005. We will drill about 1,600 to 1,700 wells, which is below the 2005 program. For the last few years, we have been drilling several hundred low-volume wells each year on our Hatton acreage in Canada. We have shifted our focus in Canada to the ExxonMobil farm-in acreage.

OGI:* *Do you foresee any acquisitions this year?

Plank: We've already completed three asset transactions—in Argentina, the Gulf of Mexico and the Permian Basin—for a total of about $2 billion. We also announced the sale of our relatively small position in China to concentrate on our core regions that offer greater growth potential.

OGI:* *Can your earnings momentum be sustained?

Plank: We're not clairvoyant about commodity prices, so we don't give earnings guidance. We have said that our drilling program and recent acquisitions will lead to higher production. The combination of higher production and higher oil prices (50% of Apache's production is oil) gives us an excellent chance to sustain our momentum.

OGI:* *Does the company hedge?

Plank: From time to time, Apache hedges to protect our return on our investments. We are mostly unhedged to preserve the upside for our shareholders.

OGI:* *How did the hurricanes impact your business? Are you building any new equipment?

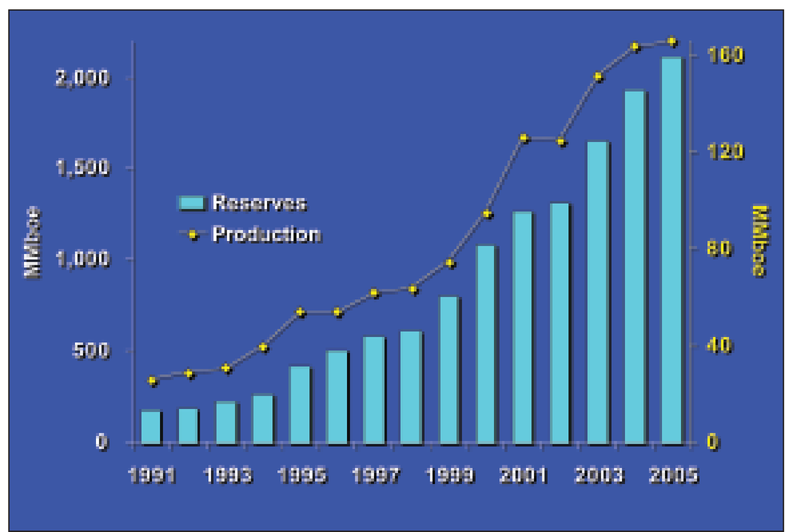
Plank: The fourth quarter of 2005 was the low point for production from the Gulf of Mexico. We will continue to restore production into 2007 on Apache's base properties and the fields we acquired from BP this year. Although some platforms were damaged beyond repair, we plan to tap remaining reserves using nearby existing facilities rather than building new platforms in older fields. Newer facilities built to the latest engineering standards were not damaged beyond repair.

OGI:* *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?

Plank: As I mentioned earlier, Apache had a very successful drilling program in 2005. We replaced 216% of our 2005 production, adding 352 million barrels of oil equivalent.

OGI:* *What is the greatest challenge facing your company?

Plank: Apache is in very good shape today with a portfolio of seven very strong regions. Every day, we are challenged to produce oil and gas and add additional reserves while keeping costs down. Like other companies, we continue to wrestle with volatility in commodity prices and—more recently—substantially higher drilling costs. Internationally, the industry's ability to tap new reserves has not kept up with rising worldwide demand because the availability of reserves is declining. *Business Week* recently reported that just 16% of known reserves worldwide are fully open to the international oil companies. Access to the rest of the world's oil and gas is either restricted or the investor-owned companies are shut off completely. We have to make the case to the producing nations that it is in their interests and ours to work together to increase production and, ultimately, improve living standards.

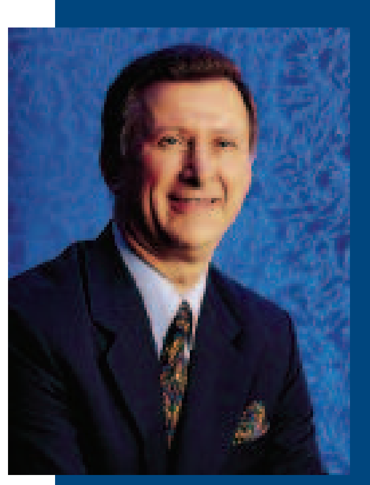


Apache's reserves have grown non-stop in the past 15 years.

OGI:* *You have recently acquired BP's remaining producing properties in the Outer Shelf of the Gulf of Mexico. In light of this deal, why do you continue to have so much faith in the Gulf of Mexico?

Plank: The assets we acquired from BP are a great fit with Apache's existing assets in the Gulf of Mexico, and our knowledge base of the properties is very high. After the acquisition, the Gulf of Mexico comprises about 20% of Apache's worldwide production, which is near the bottom of the historical range. Rewards of operating in the Gulf, which has the highest commodity realizations in the world, include great rates of return on investment and very strong net margins that far outweigh any real and perceived risks. It is a cash-generating machine. In the last three years, we have taken nearly $3 out for each $1 we have invested. Besides, when the pack is headed off, it creates great opportunities for contrarians like Apache. ■

ATP Oil & Gas Corp. (NASDAQ: ATPG)



T. Paul Bulmahn, Chairman and President

T. Paul Bulmahn is founder, chairman and president of ATP Oil & Gas Corp., an international offshore oil and gas development and production company with offices in Houston, London and Ijmuiden, Netherlands. After Bulmahn took ATP public in 2001, its share price performance has outstripped an array of prominent indexes including pork belly futures, gold futures, U.S. Treasury Bond Yield and the S&P 500 Index.

Oil and Gas Investor:* *Describe your company's strategy.

Bulmahn: ATP Oil & Gas Corp. has pursued a consistent business strategy since incorporation in 1991: to develop offshore oil and natural gas from previously drilled but undeveloped reservoirs.

OGI:* *Describe your core drilling and production areas.

Bulmahn: We are exclusively an offshore company with development property interests in the North Sea and in the Gulf of Mexico. Over time, the value balance has begun to tip to the North Sea where approximately 56% of our proved reserves are now located. We are an unusual company if you consider that on a PV-10 basis, independent third-party reservoir engineers prepare 99% of our proved reserves. The company has proved and probable reserves of 758 billion cubic feet equivalent—Bcfe—(68% natural gas) with a PV-10 value of $4.2 billion at December 31.

OGI:* *Does the company anticipate expanding to any new drilling and production areas this year?

Bulmahn: ATP plans to continue to focus on its core areas. ATP has an inventory of properties to develop in the North Sea plus more than 30 additional developments in the Gulf of Mexico. Including the probable reserves, ATP has 580 Bcfe of undeveloped proved and probable reserves. This represents a significant inventory of development opportunities for the next several years for ATP.

OGI:* *What kind of basin or play makes the most sense to the company and why?

Bulmahn: All of the company's properties are located offshore in the North Sea and the Gulf of Mexico. ATP's focused areas of operations and reserves enable it to realize economics of scale and synergies in drilling and production operations. Given its strategy of acquiring properties that contain proved reserves, ATP's operations are lower risk than exploration-focused Gulf of Mexico and North Sea operators. As a result of its strategy, the company has, since 1994, successfully brought to production 42 or 43 (98% success rate) properties that were not producing when acquired by ATP.

OGI:* *Which projects could yield the greatest return for the company this year?

Bulmahn: In the early part of 2006, ATP began production at three key properties, Mississippi Canyon (MC) 711, L-06d and Tors, almost tripling 2005 average daily production to a rate of 160 million cubic feet equivalent per day (MMcfe per day) at the end of the first quarter.

In the Gulf of Mexico, the second phase of development at MC 711 has commenced and will include additional developmental drilling plus the installation of a subsea manifold. At the end of 2005, ATP recorded proven reserves of approximately 93 Bcfe in three of the eight identified hydrocarbon-bearing sands at MC 711, so there is great potential as we move forward. During the next few years, our goal is to continue development at MC 711 to bring all eight sands into production. ATP has a 100% working interest and is the operator of MC 711.

In the North Sea, L-06d in the Dutch sector began producing in February and is our first producing project in that sector. In the U.K. sector, the Tors cluster consists of the Garrow and Kilmar fields, collectively approximately 73 Bcfe of proved reserves, which ATP operates with an 85% working interest. The Kilmar K1 well commenced production and the K2 well, the second in the area, is drilling near the top of the targeted reservoir. The first well at Garrow is planned for later this year. When fully developed, the company expects Tors to produce between 50- and 75 MMcfe per day net to ATP. So we are excited about 2006 because of these strong prospects in current development.

OGI:* *This year, what is your projected budget, and how many wells do you anticipate drilling with that budget? How does that compare with last year?

Bulmahn: The 2006 development capital budget is forecasted to be between $500- and $550 million; the

2005 development capital budget totaled $380 million. At the end of the first quarter, $80 million of the 2006 amount was spent. The budget for the remainder of the year includes spending on Phase II at MC 711, further North Sea Tors development, drilling of the North Sea Wenlock project, and drilling at several other fields in the Gulf of Mexico including: West Cameron 663, Ship Shoal 351 and High Island 589. Because of our recent refinancing success in the overall funding of our company, near-term development opportunities at Mirage, Oasis, Morgus and Green Canyon 37 are expected to be added to the program.

Phase II development is in progress at ATP's Mississippi Canyon 711.

***OGI:** Do you foresee any acquisitions this year?*

Bulmahn: ATP continues its goal to achieve a 200% reserve replacement each year, and circumstances in 2006 are very similar to those in 2005 when we achieved a 1,367% reserves replacement of production.

***OGI:** Can your earnings momentum be sustained?*

Bulmahn: Absolutely. Strong industry fundamentals, particularly long-term high commodity prices and the acquisitions pipeline, support ATP's plan to continue its successful business strategy. Since the company operates a significant majority of its properties and all of its properties in development, ATP has considerable influence on the timing of a project's development. By controlling the development of these properties as the operator, ATP is able to shorten the time between capital investment and first production, thereby maximizing return on capital. The company believes this strategy allows it to efficiently complete developments and sustain momentum.

***OGI:** Does the company hedge?*

Bulmahn: ATP employs a commodity price risk management program to enable it to execute its business plan over the entire commodity price cycle. The company is required to hedge 40% of its anticipated PDP production during the next twelve months. As of the end of June, ATP's average hedge price for 2006 is $9.85 per million Btue, and for 2007, the average hedge price is $11.34 million Btue.

***OGI:** What price deck do you use?*

Bulmahn: ATP utilizes current strip prices, discounts to strip prices, along with other price decks for planning purposes.

***OGI:** What factors or events had the most impact or led to the most success for you last year?*

Bulmahn: Clearly, one of the most outstanding elements of success for the last year was our reserve replacement record. Our annual goal is a 200% reserve replacement ratio, meaning that for each Bcfe we produce, we want to add 2 Bcfe to our reserve inventory. If we can achieve that type of success on an annual basis, we will continue to grow. During 2005, when we achieved the replacement ratio of 1,367%, it was more than six times our goal.

It is also hard to talk about 2005 without mentioning the impacts of the hurricanes in the Gulf of Mexico. They delayed completion at MC 711, impacted production and increased costs at several locations. Despite their impact, we continued to address the situations and move forward. By the end of the first quarter 2006, we had placed MC 711 on production, recorded a daily production rate of 160 MMcfe per day (almost three times our 2005 daily rate of 55 MMcfe per day) as well as placed L-06d in the Dutch sector of the North Sea on production. In April 2006, we placed on production the first well at our Tors complex in the U.K. sector of the North Sea, a property that achieved first production in less than nine months from the original 2005 development plan.

The significance of these achievements resulted in successfully completing our Volvo Challenge plan. Our stated goals of reserve replacement and a daily production goal of 160 MMcfe accompanied by a list of other significant achievements entitled each of our 52 employees, other than myself, to earn a brand new Volvo S-60. Recruiting and retaining qualified personnel in the energy industry is becoming more and more challenging. ■

Berry Petroleum Co. (NYSE: BRY)

Robert F. Heinemann, President and CEO

Robert F. Heinemann is the president and CEO of Berry Petroleum. He joined the board of directors in 2002, and from April 2004 to June 2004, he served as chairman and interim president and CEO. From 2000 until 2002, he served as the senior VP and chief technology officer of Halliburton Co. and as chairman of the Halliburton Technology Advisory Committee. He previously was with Mobil Oil Corp. where he served in a number of positions for Mobil and its various affiliate companies in the energy and technical fields from 1981 until 1999.

***Oil and Gas Investor:** Describe your company's strategy.*

Heinemann: Berry's strategy for growth hasn't changed and can be summarized as follows:

- Move into new oil and gas basins, utilizing joint ventures where attractive
- Expand the asset portfolio through acquisition and development
- Accelerate the execution of our field development plans
- Deliver powerful results and shareholder value

While our goals are the same, we are accelerating the change of the company.

***OGI:** Describe your core drilling and production areas.*

Heinemann:

- *California*—Heavy-oil production
- *Utah—Uinta Basin*—Light oil and natural gas drilling and production
- *Eastern Colorado—DJ Basin*—Shallow natural gas drilling and production
- *Western Colorado—Piceance Basin*—Natural gas drilling and production

Overall, Berry has interests in more than 1 million gross undeveloped and prospective acres in the Rockies basins.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Heinemann: We have completed two acquisitions in 2006, both in the Piceance Basin of Western Colorado. In the first, we acquired a 50% working interest in 6,314 gross acres targeting gas in the Williams Fork section of the Mesaverde formation, and in the second, we will jointly develop a portion of EnCana's North Parachute Ranch property in the Piceance Basin of Western Colorado. Berry will fund the drilling of 90 natural gas wells on EnCana's valley lands and will acquire 4,300 gross acres elsewhere in the North Parachute Ranch property with a working interest of 95% and a net revenue interest of 79%.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Heinemann: Natural gas makes the most sense to Berry, in that we are striving to become more balanced between oil and gas production. We are historically a net gas user because of the steam injection into our heavy-oil reservoirs in California, so an increase in natural gas production would help us meet that goal. The Rockies make the most sense geographically since it really is the main area growing for natural gas production onshore in the U.S.

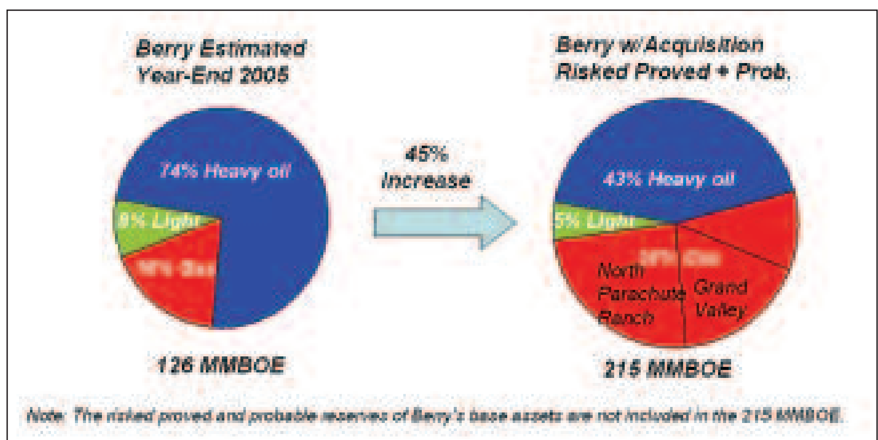
***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Heinemann: In addition to our Piceance drilling, Berry has two other significant new projects that we are focused on in 2006. In January of this year, we announced two successful wells in our Lake Canyon acreage. We believe that these wells confirm that the Green River oil reservoirs that are the source of our Brundage Canyon production extend a significant distance to the west. We will drill between four and six confirmation wells in Lake Canyon in the third quarter and may drill another 10 development wells later in the year if these are successful.

In California, we are continuing to expand our efforts in our diatomite resource. Berry owns about 200 million barrels of oil-in-place in these high-porosity, bit low-permeability reservoirs. We are targeting a 25% recovery of the heavy oil here, which implies potential reserves of 50 million barrels or 50% of the company's current heavy proved reserves. Our goal is to determine the commerciality of this development in the second half of 2006.

***OGI:** This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Heinemann: With the recent acquisition of the EnCana Piceance opportunity, we anticipate spending



With the Orion and EnCana acquisitions, Berry's reserves are increasing and becoming more balanced between oil and gas.

$232 million for 2006. In 2005, we spent $131 million in capital expenditures. We obviously are aggressively pursuing all of the development and exploitation opportunities we have.

OGI:* *Do you foresee any acquisitions this year?

Heinemann: We obviously have been an aggressive acquirer in 2006 and after demonstrating the performance of these acquisitions, we expect to continue to make additional acquisitions of assets that will increase the value of Berry Petroleum.

OGI:* *Can your earnings momentum be sustained?

Heinemann: We believe that with our current asset base and production profile, we are in a position to achieve double-digit production growth for the next several years, without additional acquisitions. That growth, coupled with our hedging program, gives us confidence that we can continue to deliver powerful results for our shareholders.

OGI:* *Does the company hedge?

Heinemann: Yes. We use both swaps and collars on about 50% of our current production. Our current hedging summary is available on our Web site at *www.bry.com*

OGI:* *What price deck do you use?

Heinemann: Just like every other energy company, we do not use a single price deck to evaluate our projects and our long-term projections of company performance. Overall, we use the current strip pricing for crude oil and natural gas and then run percentage increases and decreases against this pricing.

OGI:* *Absent the very high oil and gas prices of last year, what other factor or event has the most impact or led to the most success for you in 2005?

Heinemann: Increased production on a company-wide basis was the driver for our successes in 2005. That was primarily a result of our aggressive acquisition program, so I would say in a word, acquisitions.

OGI:* *What is the greatest challenge facing your company today?

Heinemann: Our focus is on those things we have a degree of control over and change them for our benefit. For those things we can't control, we will mitigate the impact. We have set ourselves up for success, have a good plan and will execute the plan over time to achieve that success. There are micro-challenges within each of the projects we have, but we have the people, the assets, the financial strength, the motivation and the desire to meet those challenges head on and overcome them.

OGI:* *Do you have any final comments or thoughts you would like to share?

Heinemann: Berry is well positioned right now and has several projects in the pilot or appraisal phase. If any one of these projects, let alone all of them, is successful, it will have a large impact on the company's performance. In California, we have the diatomite project under evaluation; in the Rockies we have Grand Valley and North Parachute Ranch in the Piceance, and Lake Canyon in the Uinta Basin. ■

Since 2003, Berry has acquired more than 1 million gross underdeveloped and prospective areas in the Rockies.

Bill Barrett Corp. (NYSE: BBG)

Frederick J. Barrett, CEO and Chairman of the Board

Frederick J. Barrett is CEO and chairman of the board of directors of Bill Barrett Corp. He has been a director of the company since its inception in January 2002 and had previously served as its president and CEO. He served as a senior geologist of Barrett Resources in the Rocky Mountain region from 1997 through 2001, and as a geologist from 1989 to 1996. Barrett was a partner from 1987 to 1989 in Terred Oil Co., a private oil and gas partnership providing geologic services for the Rocky Mountain region. Barrett worked as a project and field geologist for Barrett Resources from 1983 to 1987.

***Oil and Gas Investor:** Describe your company's strategy.*

Barrett: We are focused on the upstream potential of natural gas and oil in the U.S. Rockies, and we pursue that potential primarily through the drill bit. In just four years, we have established a development inventory in five basins with solid reserve and production growth visibility; we've balanced this with a strong record of exploration. We plan to test twice as many exploratory areas this year as last. We also will acquire properties that have significant upside. We're big believers in technology and focus on operational excellence while leveraging our geologic and geophysical experience and expertise. Our strong balance sheet allows us to both implement our drilling plan and act quickly on opportunities.

***OGI:** Describe your core drilling and production areas.*

Barrett: In the Uinta Basin, we will drill approximately 40 wells, primarily in West Tavaputs and Lake Canyon, where we had an oil discovery earlier this year. We anticipate drilling two delineation wells off our deep discovery in West Tavaputs.

In 2006, we will drill approximately 50 to 60 wells in the Piceance Basin (Colorado) targeting unconventional basin-centered gas. We have a number of different prospects in Wyoming, ranging from deep gas potential in Waltman Arch and Cave Gulch, where we are completing a delineation well off our Bullfrog 14-18, to nearly 330 coalbed methane wells in the Powder River Basin.

Further north, the Williston Basin provides us both year-round drilling area and an oil component to our operations. We plan to drill 14 oil wells there this year.

Our Tri-State project in the DJ Basin targets Niobrara gas over nearly a quarter of a million net acres. We are drilling up to 20 wells here this year, several of which are delineation wells off seven discovery wells.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year?*

Barrett: Yes. Much of the growth of our company has come from being the first entrants into areas with new creative ideas, an approach that has helped build some of our exploration inventory. We're looking for large-scale resource plays: shale gas, tight-gas sand, CBM, shallow "rim" plays targeting biogenic gas. We will continue utilizing 3-D seismic to help identify conventional plays that we believe still exist in the Rockies. More specifically, we plan tests in our Hook and Yellowjacket (both shale gas) and Woodside (structural play) prospects. We are also planning a test in the Montana Overthrust and in the Big Horn Basin. These tests are all planned for the second half of 2006 or early 2007, depending on the timing of completions of 3-D seismic surveys.

***OGI:* What kind of basin or play makes the most sense to the company and why?**

Barrett: Those that offer the best opportunity to increase production and reserves at reasonable rates of return. We rely on the experts we employ in all the key basins discussed above to help us meet these criteria. We have a healthier appetite for exploration than most companies, meaning that the management challenge is establishing the right balance between development and exploration. Exploration and development are not mutually exclusive—the best project is a new, significant discovery that in turn provides us development inventory for years. We have several ideas in the conceptual stage right now that we hope to see play out in that exact fashion.

***OGI:* Which one or two wells or projects could yield the greatest return for the company this year?**

Barrett: Our continued deep exploratory work in Cave Gulch and West Tavaputs. To be able to replicate and further perfect the drilling and completions on our initial deep well success in these areas would materially change our company. We are also excited about our Lake Canyon and Tri-State delineation wells this year.

***OGI:* This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?**

Barrett: We plan to drill approximately 492 wells in 2006 (337 are CBM wells). Capex is $350 million. Our 2005 capex was $334 million.

***OGI:* Do you foresee any acquisitions this year?**

Barrett: We've made one already with an $80 million purchase of some Powder River Basin CBM assets and are looking at the potential for some others. That may be one silver lining to the softening commodity price this summer: there may be more churn in the mergers and acquisitions.

***OGI:* Can your earnings momentum be sustained?**

Barrett: Given the cyclical nature of our business, quarter-to-quarter earnings are as much a function of commodity prices and drilling costs as they are production growth and operational excellence, meaning "earnings momentum" must be viewed over the longer term. On that basis, our portfolio of projects and excellent management team give us confidence our earnings growth can be sustained. We strive for annual growth of 15% to 20% in production and reserves. Our CAGR in production for our first four years is 53%.

***OGI:* Does the company hedge?**

Barrett: We hedge on natural gas and oil extending out to 2008. Depending on time of year, we have anywhere from 20% to 50% of our expected production hedged.

***OGI:* What price deck do you use?**

Barrett: We are currently using the forward strip for one case and $5.25 CIG and $45 WTI flat as the other, though our price decks change over time depending on market conditions.

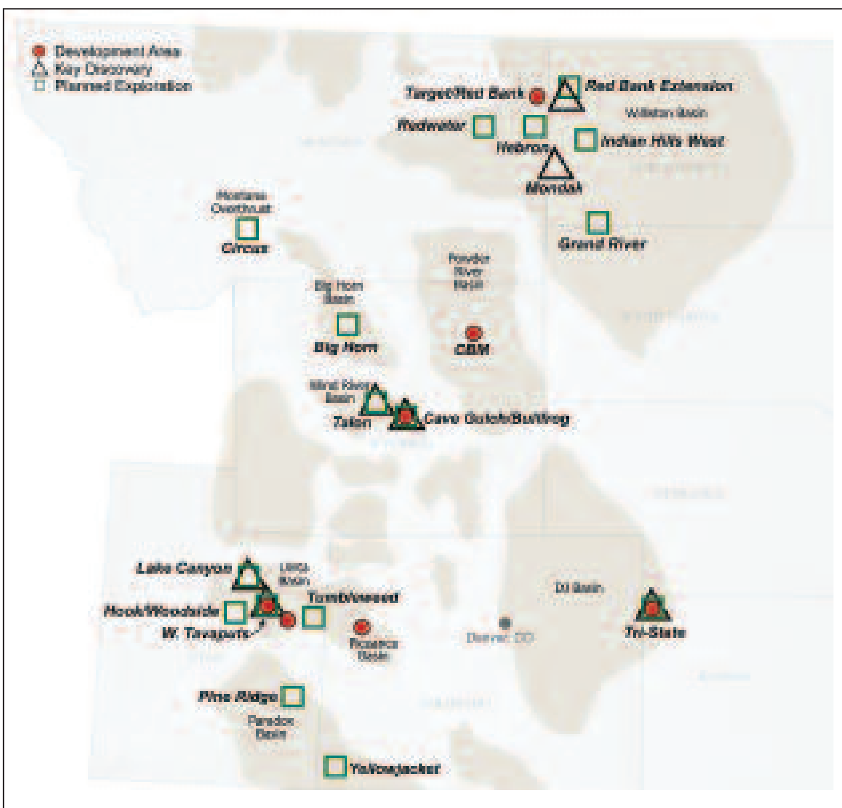
***OGI:* How did the hurricanes impact your business?**

Barrett: As a purely Rockies player, the impacts were mainly in the area of increased commodity prices and service costs.

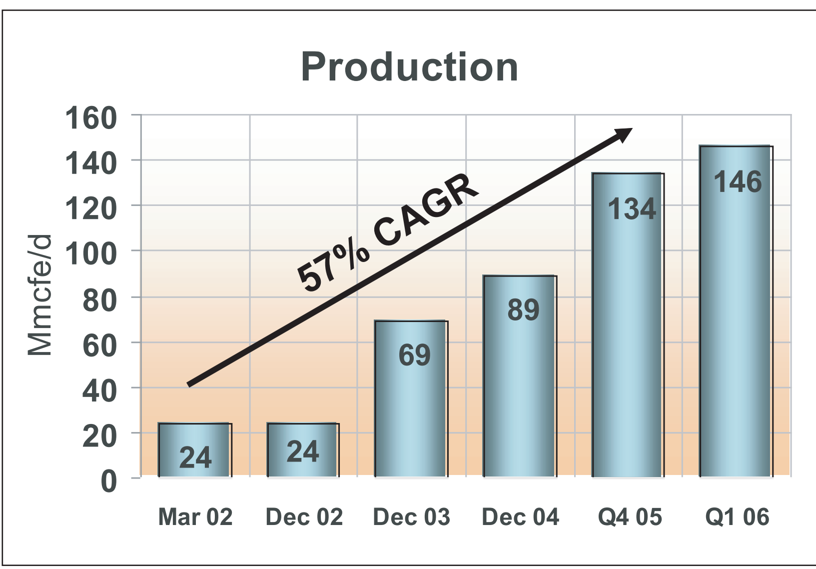
***OGI:* Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?**

Barrett: Our exploratory success in both Wyoming and the West Tavaputs in Utah. Our Bullfrog 14-18 in the Waltman field in the Wind River Basin IP'd at 20 million cubic feet equivalent per day, and we feel there to be pay behind pipe.

In West Tavaputs, our Peters Point discovery has produced 1 billion cubic feet equivalent to date and is currently producing nearly 10 million cubic feet



Bill Barrett Corp. balances exploration with development.



per day; recoverable reserves appear likely to fall in the range of 5- to 10 billion cubic feet equivalent per well. Additional shallow potential remains behind pipe. Both areas show that exploration still has a bright future in the Rockies. Also, 2005 revealed to us for the first time the tremendous upside in the Lake Canyon and Tri-State areas.

***OGI:** What is the greatest challenge facing your company?*

Barrett: Drilling and service cost inflation is something the entire industry is dealing with, along with softening gas prices. The cost of steel and labor, for instance, continue to grow, squeezing margins. We are constantly working with service providers as well as reviewing IRR's within the company to high-grade our opportunity set.

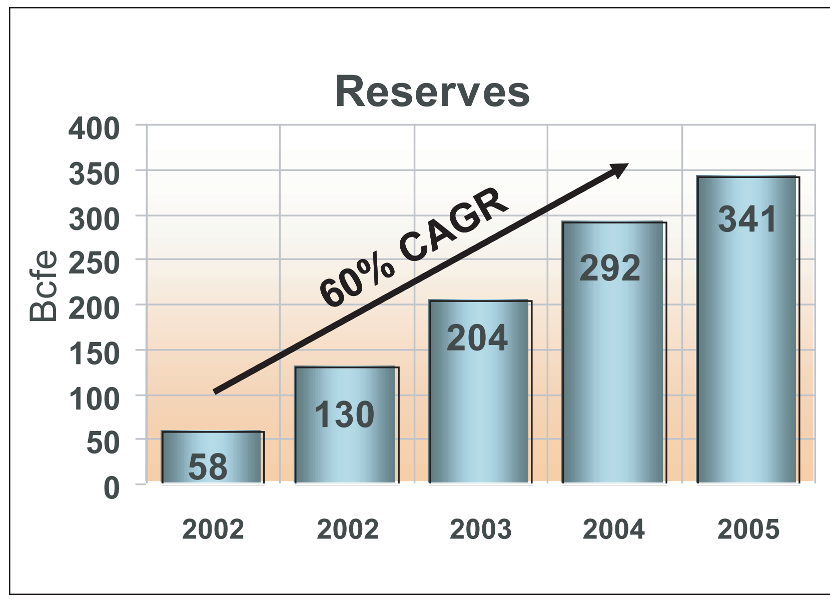
***OGI:** What are your plans for the big West Tavaputs discovery in 2006 and 2007?*

Barrett: 3-D seismic has identified two conventional structural closures that commonly trap gas. These types of historically prolific gas traps are extremely rare these days, so we are pleased having two on our 31,000-acre lease position (100% WI). We've allocated $20 million in 2006 to drill two offset wells to our discovery well and plan to drill a similar number of wells in 2007. It will not be until the completion of our ongoing EIS anticipated in 2007 that we would accelerate the development of these deep structures and proceed with plans to drill an ultra-deep test. The deep discovery is only one piece of our West Tavaputs program. We have a successful shallow development program as well.

***OGI:** Is there anything else you'd like to address that has not already been mentioned?*

Barrett: The Rockies, I believe, is becoming the central hub for natural gas supply to meet ever-growing U.S. energy needs; the natural gas industry recognizes this with major expansion projects already built and in progress to eastern markets as well as Western markets. This company is well positioned to take advantage of the Rockies' growing role in domestic production. This is also substantiated by our track record of exploration discoveries.

At the same time, we must be allowed to explore. Our industry is contending with literally billions of dollars amassed by environmental groups to oppose the development of American natural resources that belong to every American, yet only roughly one-tenth of 1% of all public lands have a direct oil and gas presence on them. I think the American public is enjoying great social and economic benefit from that small, temporary footprint. Our industry needs to do better at getting those facts out there. ■



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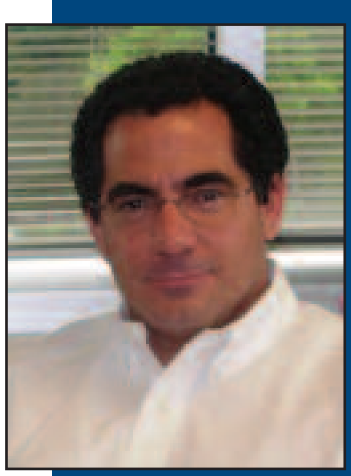


Manuel Pablo Zúñiga Pflücker, President, CEO and Director

MANUEL PABLO ZÚÑIGA PFLÜCKER

Manolo Zúñiga is a petroleum engineer who has spent the past 20 years in the international oil and gas business. Zúñiga Pflücker became president and director of BPZ upon consummation of the merger with Navidec Inc. in September 2004. In May 2005, he assumed the additional title of CEO. Immediately prior to the merger and since its formation in 2001, Zúñiga Pflücker served as president of BPZ-Texas. He also served as president of BPZ & Associates Inc., a technical consulting company he co-founded and the former parent company of BPZ-Texas, from 1989 until its merger with Navidec Inc. at which time BPZ & Associates became inactive. Zúñiga Pflücker began his career with Occidental Petroleum Corp. He has been involved in projects throughout Latin America and other areas of the world ranging from exploitation of marginal oil and gas fields to frontier exploration projects. He has also focused on the creative development of natural gas fields utilizing power generation and gas to liquids technology. He holds a B.S. in mechanical engineering from the University of Maryland as well as an M.S. in petroleum engineering from Texas A&M University.

***Oil and Gas Investor:** Describe your company's strategy.*

Zúñiga Pflücker: BPZ Energy has properties located in northwest Peru and southwest Ecuador. The company is focused on developing regional markets for its natural gas including the development of a 160-MW natural gas fired power plant in Peru. The company is also working to install a natural gas pipeline to transport gas to third-party power generators and industrial users in Ecuador.

***OGI:** Describe your core drilling and production areas.*

Zúñiga Pflücker: BPZ Energy has exclusive rights and licensing agreements for oil and gas exploration and production covering 2.4 million acres in four properties in Peru. BPZ is strategically positioned in three distinct and prospective geological regions of northwest Peru; the Tumbes, Talara and Lancones basins. The Corvina gas-to-power project is our first order of business, followed closely by the gas sales to Ecuador and Albacora oil field. The integrated gas-to-power project involves the drilling of three wells and the re-completion of the existing shut-in gas well in the Corvina gas field, located in the company's 739,520-acre Block Z-1, offshore northwest Peru, and the subsequent construction of a 10-mile gas pipeline for transporting the natural gas production to a planned 160-MW gas-fired power plant to be located near the town of Caleta Cruz.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Zúñiga Pflücker: The company has license contracts for Block Z-1 (739,520 acres) and Block XIX (473,061 acres) and is negotiating a license contract for Block XXII (948,000 acres). Block XXII was previously designated as Area VI, while under a technical evaluation agreement with Perupetro. The company also recently participated in a licensing tender for Block XXIII (247,827 acres) that is located onshore, between blocks Z-1 and XIX and has been advised that it has won the tender. These areas provide ample opportunities for the company's future growth.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Zúñiga Pflücker: Our strategic objective has always been to develop multiple markets for natural gas in Peru and Ecuador, for both power generation and industrial users, and to expand the pipeline infrastructure as necessary in order to deliver gas to end users. Peru and Ecuador both have strong growing economies with stable governments that support development of the region's natural resources as a way to grow the economy and create jobs. We will remain focused on the hydrocarbon basins of this region.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Zúñiga Pflücker: BPZ Energy has scheduled during the third quarter of 2006 to drill and complete its first well in the Corvina field located in Block Z-1 approximately 10 miles offshore Peru in about 200 feet of water. The well will be drilled

using a drilling rig that was recently modernized to our specifications and installed on an existing refurbished platform and supported by a tender barge moored alongside. After we prove reserves and production capacity, a pipeline will be installed to transport natural gas to our planned power plant, which will be constructed onshore near the town of Caleta Cruz.

OGI: *This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Zúñiga Pflücker: The initial budget for this project is $126.7 million, which includes the cost of refurbishing the CX-11 platform, drilling three wells and the re-completion of the existing shut-in gas well in the Corvina gas field, design and construction costs for the pipelines to bring gas to shore and to Arenillas, Ecuador, and material and labor costs to construct the power plant. We anticipate that approximately 65% of this initial budget will be allocated in 2006.

OGI: *Can your earnings momentum be sustained?*

Zúñiga Pflücker: As yet, we have no production, so we have no earnings. However, we are very pleased with our progress to date, we are on schedule and on budget. A great deal of effort has gone into locating and refurbishing a drilling rig to our specifications, buying and moving the tender barge to support drilling operations, acquiring all necessary drilling supplies and securing all necessary permits so we can begin drilling our first well in the third quarter of 2006.

OGI: *Does the company hedge?*

Zúñiga Pflücker: At this time there are no plans to hedge, we ultimately will have a regional market for our gas and contracts with end-users at specified prices.

OGI: *How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?*

Zúñiga Pflücker: The hurricanes had very little impact on our operations other than to make tight markets for drilling equipment and supplies even tighter and caused increases in other associated operating costs, such as insurance.

OGI: *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Zúñiga Pflücker: With no production, commodity prices have not been an issue for BPZ Energy. The factors that play into our favor are the continued growth in the economics of Peru and Ecuador.

> **"Our strategic objective has always been to develop multiple markets for natural gas in Peru and Ecuador, for both power generation and industrial users, and to expand the pipeline infrastructure as necessary in order to deliver gas to end users."**

OGI: *What is the greatest challenge facing your company today?*

Zúñiga Pflücker: Securing the appropriate funding to successfully complete the company's Corvina gas-to-power project. The company has adequate cash reserves to begin drilling activities at Corvina but will require additional capital and financing to complete this project. In that regard, the company continues to work with the International Finance Corp. (IFC) to secure financing for the Corvina gas-to-power project. The company has signed a mandate letter with the IFC that extends through August 2006 and continues to closely assist the IFC in its project appraisal, which includes a review of the technical, economic, commercial, financial, environmental and legal aspects of the project. While the IFC has not made any binding commitments at this time, it continues to express confidence in the project and its financing. ■

Calyon Securities (USA) Inc.

Mark S. Urness, Senior Analyst and Director, Oil Services & Equipment Group

Mark S. Urness is a senior analyst and director of the Oil Services & Equipment group at Calyon Securities (USA) Inc. He has been an investment professional for 12 years including nine years at Citigroup, two years at Merrill Lynch and one year at Calyon Securities. His current position at Calyon is head of U.S. Energy Research. At Citigroup and Merrill Lynch, he led research teams that were consistently top-ranked in polls conducted by Institutional Investor Magazine and Greenwich Associates. Prior to joining Citigroup, Urness held management and engineering positions for 12 years at Phibro Energy and Amoco Production Co. He holds a B.S. degree in chemical engineering from the University of Wisconsin and an MBA in finance from the University of Houston. In addition, he is a registered professional engineer in the State of Texas and a member of the Society of Professional Engineers.

Oil and Gas Investor: *What is your outlook for the energy industry in 2006 and 2007?*

Urness: We have a positive outlook for the energy industry in 2006 and 2007, underscored by our view that crude oil and natural gas prices will remain strong. We believe that crude oil prices will continue to garner support from limited global spare capacity, both production and refining capacity, and heightened geopolitical risk. U.S. natural gas prices should remain strong due to the increasing difficulty and cost of growing North American natural gas production. Our outlook assumes the global economy does not slip into recession.

OGI: *With this outlook, where do you see commodity prices?*

Urness: We are projecting crude oil prices to subside from current levels to average $65.50 per barrel in 2007, $62 per barrel in 2008, $58 per barrel in 2009 and $55 per barrel thereafter as additional production capacity comes on line. We are assuming global demand growth of 1.4% in 2006 and 1.8% in 2007 (in line with the IEA forecast), and 1.6% per year thereafter.

With regard to natural gas prices, we expect prices to remain essentially flat through the third quarter (barring any extreme heat or hurricane-related shut-ins), with an increase in the fourth quarter assuming normal winter temperatures. For 2007, we are forecasting a 1.5% year-over-year increase in U.S. natural gas supply (driven by the resumption of shut-in volumes in the Gulf of Mexico and an up-tick in liquefied-natural-gas—LNG— imports), along with a 7% increase in demand (assuming normal temperatures this winter). We are projecting the composite spot natural gas price to average $6.90 per million Btu in 2007 and $7 per million Btu in 2008 and beyond, which is the price we believe is required to spur domestic natural gas drilling and to attract LNG imports (based on our $55-per-barrel long-term crude oil price forecast).

OGI: *Do you see loan activity or other finance activity picking up in 2006 or 2007?*

Urness: Yes, Calyon sees growth in both loan and capital markets activity. This growth continues to be driven by a strong M&A/A&D market and expanding capital budgets for E&P companies.

OGI: *What concerns do you hear from your E&P clients and their investors?*

Urness: The biggest concern from E&P investors is the potential for a significant drop in near-term natural gas prices, which are down roughly 35% year-to-date. Investors are worried about the record high natural gas storage levels and the possibility of gas-on-gas competition near the end of the traditional injection season (end of October), although we believe this concern is overblown. To a lesser extent, investors are concerned about the potential for a sharp correction in crude oil prices driven by the possible exodus of relatively new investors (over the past few years) from the commodities markets.

OGI: *What is your outlook for the economy and its impact on the industry?*

Urness: Calyon Securities is forecasting 3.4% U.S. GDP growth in 2006 and 2.9% in 2007, which should be positive for both natural gas and crude oil demand. Worldwide GDP should grow at an even faster pace of 4.4% in 2006 and 3.8% in 2007, with China and India playing a big role, with annual GDP growth of 7% to 9%.

***OGI:** What are the benefits of going public?*

Urness: There are numerous benefits of going public, primarily improved access to capital markets and enhanced liquidity. It also allows companies to reduce debt, have currency with which to make acquisitions and motivate employees through stock ownership plans.

***OGI:** How many energy clients do you have?*

Urness: Calyon has approximately 100 customers in North America that are engaged in various facets of the energy industry. Calyon provides corporate, investment banking and other services to companies in the E&P, oilfield services and equipment, refining and marketing, petrochemical, power/gas utility, pipeline, mid-stream, trading and marketing and LNG segments of the energy market.

***OGI:** What does Calyon bring to the table for clients?*

Urness: Calyon provides a wide variety of products and services to its energy clients including:

- corporate banking services such as lending, leveraged finance, loan syndications, loan securitization, project finance and trade finance;
- investment banking services such as equity and debt placement/trading and corporate finance;
- equity research in the E&P, oilfield service and equipment and utility sectors;
- interest rate and commodity derivative products (swaps, collars, options, etc.). Commodities covered include crude oil, natural gas, refined products, coal and plastics; and
- foreign exchange and Nymex brokerage services.

***OGI:** What are your clients stressing most today in their meetings with investors and analysts?*

Urness: In the case of E&P companies, they are often stressing volume growth opportunities and asset portfolios by geographic location/basin. They also emphasize trends in finding and development and lease operating costs. Oil service companies often stress their new technologies, organic growth opportunities and pricing trends. In addition, they address business segments, geographic exposure and other company-specific attributes.

***OGI:** What is the biggest challenge you face in helping clients communicate their stories to the investment community?*

Urness: The biggest challenge we face is finding ways clients can differentiate themselves from their competitors and convince investors they represent a compelling investment. Another challenge is helping companies appreciate the importance of a proactive investor relations effort. The market often undervalues companies that do not effectively communicate their story to the investment community.

***OGI:** At the conference you sponsor, what should presenters emphasize most?*

Urness: E&P companies: We believe investors would most like to hear about each company's organic production growth expectations, as well as the capital expenditures required to achieve this growth. It would also be useful to highlight operating and finding cost expectations for 2006 along with current views on the acquisition market.

Oilfield service companies: Oil service and drilling companies should emphasize organic growth opportunities and execution on record backlogs. Investors are interested in views on the intermediate outlook for the North American market, particularly in light of lower natural gas prices. They are also very interested in developments in the Eastern Hemispheric markets, especially the Middle East, North Africa and Russia/CIS.

***OGI:** Are energy stocks trading at the correct price?*

Urness: We believe E&P stocks are currently reflecting mid-cycle crude oil and composite spot natural gas prices of $45 per barrel and $5.60 million Btu, well below our mid-cycle forecasts of $55 per barrel and $7 per million Btu. Thus, we believe there is currently about 20% upside for the E&P sector.

We believe oil service stocks are trading at very attractive valuations, with the forward 12-month P/E multiple for the Philadelphia OSX at about 12x, equal to prior trough levels. Once investors overcome short-term concerns related to natural gas inventories, we believe multiples have the potential to re-expand toward the 15x level.

***OGI:** What does Wall Street not understand about the energy industry?*

Urness: We believe Wall Street is underestimating the long-term finding and development costs for both oil and natural gas, particularly given the shift toward unconventional projects (tight gas, shale, coalbed methane and oil sands). In our view, Wall Street does not have a full appreciation for the potential extended duration of the current up-cycle.

***OGI:** Do you have any closing thoughts or comments you'd like to share?*

Urness: We would just like to close by saying that we believe investors should maintain an overweight position in energy stocks. Over the next few years, we believe that they will perform better than most other equity investment alternatives. ■

Canadian Natural Resources Ltd. (NYSE: CNQ)

Steve W. Laut, President and COO

Steve W. Laut joined Canadian Natural in 1991 as senior exploitation engineer and was appointed VP of operations in 1996. In 1997, he was appointed senior VP and in 2001, executive VP. In 2003, he was named cheif operating officer of Canadian Natural and is responsible for all aspects of exploration, exploitation and production in the company. In May, Laut also assumed the responsibilities of president of Canadian Natural.

Prior to joining the company, Laut was reservoir engineer and production engineer with Poco Petroleum, Adams Pearson, Petro-Canada, Dome Petroleum and Unocal.

He holds a B.S. degree in mechanical engineering from the University of Calgary.

***Oil and Gas Investor:** Describe your company's strategy.*

Laut: Our strategy is to allocate capital to maximize value; it is easy to say but hard to do. We have a defined growth plan for each one of our products and basins where we operate at high working interests. We operate everything we do, which enables us to be flexible and allocate capital in an effective manner. Canadian Natural believes in being balanced, which includes our product mix of crude oil and natural gas, where we are spending our money in Canada, the U.K. section of the North Sea and offshore West Africa. Our time frames are balanced as we have short-, medium- and long-term plans, and we focus on maintaining a strong balance sheet.

This strategy has been executed successfully during the past 17 years where we have grown through a successful combination of organic growth and strategic acquisitions. The cornerstone to maximizing value is controlling costs as the low-cost producer will ultimately prevail.

***OGI:** Describe your core drilling and production areas.*

Laut: Canadian Natural is a Canadian-based exploration and production company with operations focused in five core areas of Western Canada, the U.K. section of the North Sea and offshore West Africa in Cote D'Ivoire and Gabon. Our production mix is approximately 60% crude oil and 40% natural gas. We are a very significant producer of natural gas in Western Canada at over 1.4 billion cubic feet per day. We are a very significant producer of heavy oil in Western Canada and have significant exposure to oil-sands developments using mining and in situ recovery techniques. Our defined growth plans call for oil sands developments in the next 15 years of more than 600,000 barrels per day, which will be combined with an equal amount of upgrading capacity so that the final product will be a high-grade, light, sweet synthetic crude oil.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Laut: Although we do not anticipate expanding into new core areas this year, we continue with the development of our Horizon Oil Sands project, which will add 110,000 barrels per day in 2008. Last year, we acquired the Olowi field in Gabon, which is scheduled for development resulting in 20,000 barrels per day of new production in late 2008. For 2006, we are in the process of adding 13,000 barrels of oil equivalent per day of new production from the West Espoir field offshore Cote D'Ivoire. Additionally, we continue to develop our in situ oil-sands leases in a systematic and methodical manner. The Primrose North expansion adds 30,000 barrels per day this year, and Primrose East is expected to add an additional 30,000 barrels per day in 2009. Being the second-largest holder of undeveloped land provides us with the unique opportunity to develop several key initiatives in the coming years such as coalbed methane from the Horseshoe Canyon and Mannville formations and natural gas from the prolific areas of Northwest Alberta and Northeast British Columbia where we have extensive infrastructure and land positions.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Laut: Again, we focus on being balanced and taking an approach where we focus on developments in the short-, medium- and long-term, keeping our product inventory full at all times. Each of our products and areas has its own strengths, which is why we are happy to be balanced and focused on our plans while not chasing the latest play trend or hot spot. Our diversification and land holdings give us opportunities when new plays are discovered; however, we prefer to lead the followers to maximize value for our shareholders.

OGI: *Which one or two wells or projects could yield the greatest return for the company this year?*

Laut: We take a project portfolio approach so each of our projects exceeds internal project hurdle rates. Our oil-sands assets will unlock significant shareholder value over time, and both in situ and mining provide robust returns, but their greatest characteristic is that there are virtually no reserve replacement costs for 30 to 40 years. Our undeveloped land position in Canada and working relationships internationally also provide great platforms for continued growth and superior returns.

OGI: *This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Laut: Our capital budget this year for the conventional business is just over $3.8 billion, which is about 15% higher than 2005, reflecting both increased activity and cost pressures related to higher commodity prices. In addition to the conventional spending, we will be spending about $2.6 billion for our Horizon Oil Sands project which will add production from our 2.2 billion barrels, of proved oil-sands reserves in mid-2008. Our total well count for the year will be approximately 2,000 net wells after adjustments made after the first quarter where we reduced the number of natural gas wells to be drilled by 140 locations.

OGI: *Do you foresee any acquisitions this year?*

Laut: Given our focus on cost control, discipline and current commodity prices, it is unlikely that we will undertake acquisitions in 2006, however, should prices correct for either oil or natural gas, we will look at potential strategic acquisitions. This question also depends on the opportunities for property acquisitions, which may arise from other companies re-evaluating their asset holdings. Our interest in property acquisitions is always dependent upon the location of the assets in relation to our existing asset holdings.

OGI: *Can your earnings momentum be sustained?*

Laut: With the amount and earnings impact of hedging that we have undertaken to ensure cash flow certainty during the heavy spend Horizon Oil Sands project in 2005 and 2006, our earnings momentum should accelerate in 2007, provided commodity prices remain strong. Again, in this market, our focus on cost control is paramount to ensuring margins remain strong.

OGI: *Does the company hedge?*

Laut: Yes, we hedge to protect capital for our capital programs. In 2006, we have used both costless collars and puts to hedge approximately 75% of crude oil and 60% of natural gas production. In 2007, primarily puts have been used to protect the balance sheets, which, unlike collars, do not limit your upside in a high commodity price environment.

Canadian Natural's Primrose facility, Alberta, Canada.

OGI: *What price deck do you use?*

Laut: For planning purposes, we currently use a long term $35 West Texas Intermediate crude oil price and $5.83 Nymex natural gas price deck. We supplement this with a one-year budget price that is more reflective of strip pricing.

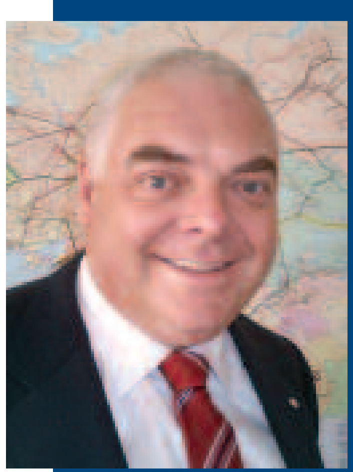
OGI: *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you this year?*

Laut: The key drivers to growth in 2005 were the development of the Baobab field offshore Cote D'Ivoire, our first deepwater development, which was undertaken in a 4.5-year cycle time. Additionally, growth from our Canadian natural gas assets and thermal in situ oil-sands properties at Primrose helped grow overall production close to 10% in 2005.

OGI: *What is the greatest challenge facing your company?*

Laut: The greatest challenge is the availability of labor (both technical and skilled). The under-investment in energy in the past 15 to 20 years has resulted in reduced numbers of technical people entering the industry. Historically, we were able to recruit enough experienced people; however, we are now required to hire more people out of university and take responsibility for training them. This is also a function of our growth in size into a larger producer. On the skilled labor front, it is more of a challenge of having the right people in the right places at the right time. There is a lot of global construction activity going on and that is placing tremendous pressure on the skilled trades market. ■

CanArgo Energy Corp. (AMEX, OSLO: CNR)



David Robson, Chairman, President and CEO

David Robson's career has been primarily in operating oil and gas companies. Trained as a geologist with a bachelors (Honors) degree in geology and Ph.D. in geochemistry, he also holds an MBA.

He has worked as an E&P geologist, and in petroleum engineering and commercial functions. In addition, Robson has been involved in the management of several energy companies including Britoil plc, Mobil Oil and BHP Petroleum (formerly Hamilton Oil).

His involvement in the Former Soviet Union began in 1990 in a business development capacity, and he has since worked on projects in Hungary, Poland, Albania, Ukraine, Georgia, Azerbaijan, Kazakhstan and Uzbekistan as well as many parts of Russia. Robson was the founder and CEO of JKX Oil & Gas plc, a U.K. company primarily involved in oil and gas production in Ukraine.

He has been involved in the energy sector in Georgia since 1992 and is well known by the government at all levels. He was responsible for the first international drilling and production there since the last century. In 1998, he was made an honorary citizen and freeman of the ancient Georgian city of Telavi and has spoken on investment in Georgia at international forums such as the Paris Club of creditor nations.

***Oil and Gas Investor:** Describe your company's strategy.*

Robson: CanArgo Energy Corp. is a company focused on relatively under-explored areas in regions with large hydrocarbon potential—currently the Caucasus and Kazakhstan. Here, our strategy is to seek projects with large exploration upside in order to give the potential for substantial company growth whilst also being complemented by early cash flow projects. Such projects include existing field rehabilitation and appraisal, and development of other deposits to provide the company with cash flow while we explore for what we hope will be a "company-making" discovery.

CanArgo adopts a locally focused operational approach using the highly-skilled local workforce augmented by international experts where required. CanArgo's approach is to have most of its staff in the operational areas and, as such, maintains a very small head office function thereby having a low-cost and efficient approach to its operations.

CanArgo is looking at new opportunities in its current focus areas and further opportunistic niches to exploit the company's focused strategy in areas where there is potentially significant competition from major players.

***OGI:** Describe your core drilling and production areas.*

Robson: Our core drilling and production areas are focused in Georgia in the Caucasus where we have recently made two potentially large oil discoveries, where we are using horizontal drilling to develop proven fields and where we expect to commence gas development activities later this year.

We also operate in Kazakhstan, close to the Aral Sea, where we are currently involved in a gas field development project—the first of its kind in Kazakhstan—and with potentially deeper drilling of oil prospects next year.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Robson: CanArgo is currently evaluating additional opportunities in Kazakhstan and throughout Central Asia. Additionally, we are looking at the broader area for opportunities that fit with our strategy and might offer significant potential upside for CanArgo and its shareholders.

Currently we have no specific plans for any new core drilling and production areas.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Robson: CanArgo's management experience is in both extensional and compressional play types with senior management having spent their early careers working in the North Sea but more recently in the Caucasus thrust belts.

CanArgo's focus is on areas that are relatively under-explored or where they offer a specific niche—these are not related to any specific geological formation or reservoir type.

We are developing fractured volcanoclastic reservoirs in Georgia, exploring for carbonates and developing unconsolidated standstones in Kazakhstan. As such,

we already have a broad range or experience of different types of reservoirs and within the company, experience of many other kinds of plays. I would say that our strategy is more driven by opportunity and the business environment in the countries in which we work.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year? Which project is the most significant to the company this year?*

Robson: The Manavi M12 appraisal well is appraising the potentially very large oil prospect at Cretaceous level in Georgia, which has previously been flowed in the M11 Well where 34° API oil was flowed at visibly good rates prior to the collapse of the production tubing.

[Also] Well MK72, another large structure in Georgia, this time in the Middle Eocene, where light oil and gas was recovered from the Middle Eocene reservoir, which was not fully tested and where oil was encountered in Oligocene sandstones in the higher stratigraphic sequences.

***OGI:** This year, what is your projected budget, and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Robson: The company does not usually make public information about its forward budget plans.

***OGI:** Do you foresee any acquisitions this year?*

Robson: CanArgo is currently looking at potential acquisitions through its Tethys subsidiary in Kazakhstan both of existing licensed acreage and its competing in the current Kazakh licensing round.

***OGI:** Can your earnings momentum be sustained?*

Robson: The company is currently focused on appraisal of potentially large oil discoveries whilst bringing onstream the gas project in Kazakhstan. As such, our focus is currently principally on bringing these projects to fruition rather than on short-term earnings gains.

***OGI:** What price deck do you use?*

Robson: We price our Georgian oil against dated Brent Mediterranean applying a transportation discount of approximately $6.50 per barrel.

***OGI:** Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Robson: Our exploration/appraisal program in Georgia, particularly the progress of the Manavi structure where we successfully drilled a slimhole sidetrack through the entire reservoir sequence (although this still remains to be tested) and on Norio where we encountered oil in two formations.

[Also] Finalization with the Georgian State of a long-term gas off-take arrangement, which will enable us to move ahead with gas/gas condensate appraisal and development activity.

***OGI:** What is the greatest challenge facing your company?*

Robson: Completing our appraisal program in Georgia, particularly Manavi and Norio, and commencing our appraisal/development program of gas/gas condensate projects in Georgia following agreement with the Georgian State on a long-term take or pay contract. ■

A CanArgo rig drills in Georgia.

Canadian Superior Energy Inc. (AMEX: SNG)

M.E. (Mike) Coolen, President and COO

M.E. (Mike) Coolen is president and chief operating officer of Canadian Superior Energy Inc. as well as a director. Since joining Canadian Superior in July 2001, Coolen has been responsible for Canadian Superior's operations offshore Nova Scotia, Canada, operations offshore Trinidad and Tobago and a variety of corporate management responsibilities associated with several senior management positions, including, as of April, president and cheif operating officer of the company.

Directly prior to joining Canadian Superior, he was safety, health and environmental manager for ExxonMobil Canada, seconded to the Sable Offshore Energy Project, offshore Nova Scotia, Canada, as Sable's manager of health, safety and environment, reporting to the president and general manager. A seasoned veteran of more than 30 years in the oil and gas business, 20 years with Mobil Oil Canada, Coolen has been involved in numerous oil and gas projects and natural gas-processing and gas-gathering projects onshore and offshore. He has completed various operational and engineering assignments in a number of senior technical and senior management positions. These have involved many aspects of onshore and offshore exploration and production. He holds a B.S. from Dalhousie University, a bachelor of mechanical engineering with Distinction from Nova Scotia Technical College; and has a variety of post-graduate training, including courses at Dalhousie University, Texas A&M and Oklahoma State University. He is a professional engineer and member of the Association of Professional Engineers of Nova Scotia and the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

Oil and Gas Investor: *Describe the strategy that drives your company.*

Coolen: The corporation's strategy is to increase shareholder value through strategic drilling and development and by prudently managing the balance sheet. We believe in creating "home-run" opportunities for our shareholders through the "drill bit."

OGI: *Describe your core drilling and production areas.*

Coolen: In 2006, the corporation has continued to follow-up on its 2005 successes with further drilling in Western Canada to build additional production, add to the corporation's reserve base and increase asset value. The corporation's current production in Western Canada is primarily located in the Drumheller area of Alberta with other production and exploration in the Windfall, Boundary Lake, East Ladyfern, Giroux Lake, Bison and Teepee areas of Western Canada.

OGI: *What single project could have the most impact on your company? Can you describe the project?*

Coolen: The corporation is aggressively pursuing "high impact" opportunities offshore Trinidad and Tobago, where it has a large strategic offshore acreage position in this world class basin off the east coast of Trinidad. The first of two back-to-back company-operated wells, on two separate structures, on the corporation's Intrepid Block 5(c) will commence drilling in the fourth quarter of 2006. The Intrepid Block 5(c) has several drillable structures and has multi-trillion-cubic-feet natural gas potential, which could yield significant returns for our shareholders and have the most impact on the company.

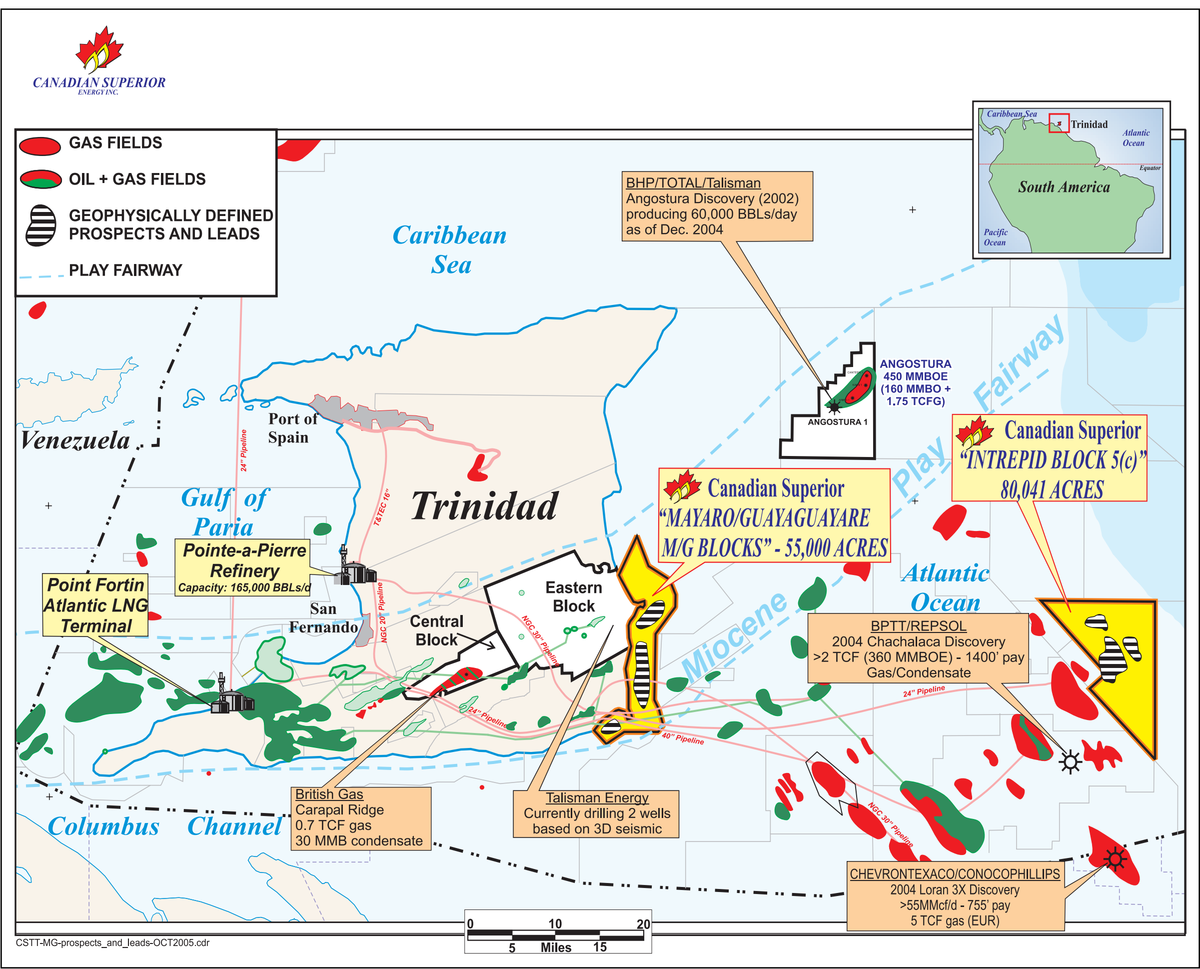
OGI: *What is the role of your Western Canadian production in your overall corporate strategy?*

Coolen: By increasing production and reserves in Western Canada, over the last number of years through very successful drilling and solid asset management, we have been able to position the corporation to properly take full advantage of the high impact opportunities the corporation has in its offshore projects.

OGI: *What are your plans for coalbed methane (CBM) development in the coming year?*

Coolen: The Drumheller area is near the heart of recent CBM development in Western Canada where Canadian Superior is fortunate to have one of the largest concentrated high-working interest land positions with significant land holdings in the Horseshoe Canyon and the Mannville stratigraphic zones.

Canadian Superior's current activities in CBM are centered on the Horseshoe Canyon in which the corporation drilled or participated in several successful



Canadian Superior's Trinidad and Tobago offshore holdings.

wells over the last two years. The corporation plans to continue to develop these assets in 2006. Canadian Superior holds 157 gross (81 net) sections of Horseshoe Canyon rights.

An untapped resource that exists in the Drumheller area is the Mannville coals. The corporation is well positioned with 42 gross (41 net) sections of land in the Mannville CBM fairway. Drilling for these coals would include horizontal drilling techniques. Plans for development of Mannville CBM by Canadian Superior will be measured until the reserve and production parameters are better defined.

OGI: *Do you plan to expand into new areas this year?*

Coolen: We are always looking for opportunities to expand and add value. For the moment, successful implementation of our Trinidad projects provides significant opportunities for expansion.

OGI: *You posted a record financial year in 2005. Can you keep up this momentum, and how do you plan to do so?*

Coolen: Due to our planned high-impact offshore exploration programs, we expect our growth to continue. However, as opposed to recording increased net "earnings," we expect earnings that reflect our reinvestment of cash into project capital spending aimed at significant growth and the addition of significant shareholder value.

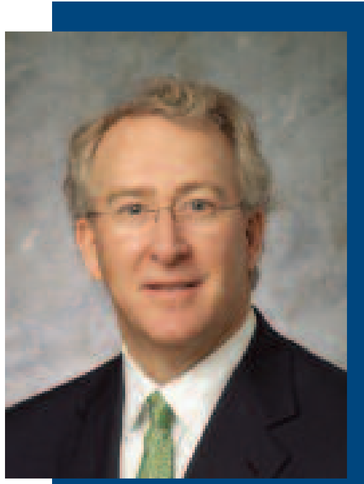
OGI: *What is your budget for 2006?*

Coolen: We have a 2006 budget of US$68 million, increased from past years to address regular ongoing programs, as well as the cost of drilling and preparing to drill offshore Trinidad and Tobago.

OGI: *What are the greatest challenges facing your company?*

Coolen: In today's high-cost and highly competitive environment, the challenge is to drill cheaper and better wells. We need to continue to attract and keep the best exploration team and the best management who are able to "Skate Faster, Work Harder, Better and Smarter" than the competition. ■

Chesapeake Energy Corp. (NYSE: CHK)



Aubrey K. McClendon, Chairman and CEO

Aubrey K. McClendon has served as chairman and CEO since co-founding Chesapeake Energy Corp. in 1989. From 1982 to 1989, he was an independent producer of oil and gas in affiliation with Tom L. Ward, who was the company's president and chief operating officer.

McClendon is a member of the Board of Visitors at the Fuqua School of Business at Duke University, from where he graduated in 1981.

***Oil and Gas Investor:* Describe your company's strategy.**

McClendon: Our company's strategy is centered on several key elements. We make high-quality, focused acquisitions complemented by organic drill bit growth, maintain a regional domestic U.S. orientation east of the Rocky Mountains, reduce finding and operating costs through the creation of economies of scale, and focus on clean, secure onshore natural gas.

***OGI:* Describe your core drilling and production areas.**

McClendon: Chesapeake operates in 12 different operating areas spread over 13 different states including the Mid-continent, Permian Basin, South Texas, Texas Gulf Coast, Barnett Shale, Arkansas-Louisiana-Texas and Appalachian Basin regions of the U.S. We are the nation's leading driller with 90 active rigs and have 31,000 future drilling locations across our almost 10 million net acres of onshore U.S. leasehold.

***OGI:* Does the company anticipate expanding to any new core drilling and production areas this year?**

McClendon: We will continue to focus our efforts in areas onshore in the U.S. and east of the Rockies where we can utilize our advanced technology drilling and completion expertise and built sufficient scale to reduce operating costs.

***OGI:* What kind of basin or play makes the most sense to the company and why?**

McClendon: Our aggressive drilling program over the past decade in deep and tight reservoirs has provided the company with the expertise to be successful in conventional gas resource environments, unconventional gas resource plays and emerging gas resource plays across the onshore U.S. We avoid areas of geopolitical, environmental or weather-related conflicts such as in the Rockies, Gulf of Mexico or international.

***OGI:* Which one or two wells or projects could yield the greatest return for the company this year?**

McClendon: Chesapeake has numerous high rate-of-return projects that are well diversified across its operating areas. The company's best project is in the Fort Worth Barnett Shale where the company has risen to be the third-largest producer in just over 18 months in what many consider to be the best play in America. Chesapeake has built its operations in the play through a combination of acquisitions and off-the-ground leasing efforts followed by an active and growing drilling program. The company plans to accelerate its drilling activity from eight rigs at the end of June 2006 to as many as 30 rigs by the end of 2006, including six rigs that will be operating on the company's most recent acquisition of properties from Four Sevens and Sinclair Oil.

Other Chesapeake projects to watch in 2006 are the Fayetteville Shale play in Arkansas, the Deep Bossier play in East Texas, the Deep Haley play in West Texas, and the Barnett and Woodford Shale plays in the Delaware Basin of West Texas.

The growth of Chesapeake and the diversification of our asset base have protected the company against the potentially adverse impact of reliance on one or two plays. We will have numerous wells that will provide the company with the opportunity to continue our record of 19 consecutive quarters of production growth.

***OGI:* This year, what is your projected budget and how many wells do you anticipate drilling? How does that compare with last year?**

McClendon: Chesapeake's current budget for drilling, leasehold and seismic acquisition in 2006 is a range of $3.5- to $3.8 billion. That compares with expenditures in 2005 of $2.1 billion.

***OGI:* Do you foresee any acquisitions this year?**

McClendon: Chesapeake has made over $12

billion of acquisitions since 1998 and has made over $2 billion of acquisitions through mid-year 2006. If the opportunity arises to enhance our asset base through astute corporate or regional asset acquisitions, we will always consider their potential to increase the value of our company and our return to shareholders.

***OGI:** Can your earnings momentum be sustained?*

McClendon: Chesapeake's extensive oil and natural gas hedging program, aggressive drilling program, company-owned drilling rigs and 10-year inventory of future drilling locations should provide the basis from which the company can continue to maintain its earnings momentum.

***OGI:** Does the company hedge?*

McClendon: We have used and intend to continue using hedging programs to reduce the risks inherent in acquiring and producing oil and natural gas reserves. We believe price volatility is likely to continue in the years ahead and that we can use this volatility to our benefit by taking advantage of prices when they reach levels that management believes are either unsustainable for the long-term or provide unusually high rates of return on our invested capital.

***OGI:** What price deck do you use?*

McClendon: We currently have natural gas hedges in place covering 90% of our expected natural gas production for the second quarter through the fourth quarter of 2006, 72% for 2007 and 57% for 2008 at average Nymex prices of $9.17, $9.88 and $9.37 per thousand cubic feet, respectively (excluding collars and options). In addition, we have 87% of our remaining expected oil production hedged for 2006, 76% for 2007 and 63% for 2008 at average Nymex prices of $65.24, $71.42 and $71.45 per barrel of oil, respectively.

***OGI:** How did the hurricanes impact your business?*

McClendon: As a company with only onshore operations, we had no exposure to the hurricanes and their impact on the Gulf Coast region, other than the favorable impact they had on our ability to lock in exceptionally attractive natural gas prices for 2006.

***OGI:** Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

McClendon: The company had an exceptional year in 2005, increasing its exposure to conventional, unconventional and emerging gas resource plays through a lease acquisition program that is second to none in the industry and has increased our drilling backlog to 32,000 locations on almost 10 million net acres of leasehold.

In addition, our proactive risk mitigation program through commodity price hedging, rig acquisition and new builds and our $3 billion acquisition of Appalachian Basin producer Columbia Natural Resources were all highlights for us and allowed the company to enjoy an exceptional year in 2005 and should help enable Chesapeake to deliver another successful year in 2006.

***OGI:** What is the greatest challenge facing your company?*

McClendon: One of the greatest challenges facing our company today is trying to compete for the next generation of energy professionals to replace the older workers of today. The success of our company as well as that of all other energy producers is contingent on the creation of a culture that attracts young, creative, entrepreneurial newcomers to our industry. At Chesapeake, we are comfortable we are taking the necessary steps to build that kind of environment.

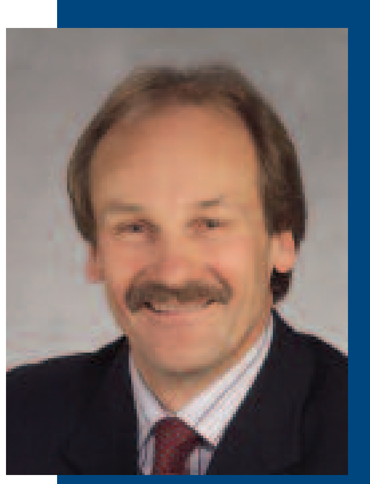
***OGI:** You have recently had a huge acquisition in the Appalachian Basin. Can you update us on how that is going?*

McClendon: We have increased the rig count from the three that were active when we made the acquisition to the 11 that are active today. In addition, we are engaging in three separate 3-D seismic shoots covering as estimated 200 square miles. We are very excited about the number of new plays we have been able to initiate so quickly after the acquisition closed late last year. We have now integrated the transaction and are now fully in the growth mode with the CNR acquisition.

***OGI:** Do you have any closing thoughts you'd like to express?*

McClendon: Chesapeake has survived and prospered during the many challenging years since it went public in 1993 because of its creativity, tenacity, courage, innovation and skillful utilization of advanced technology drilling. We are proud of having delivered a 23-fold return to our investors since our IPO and believe we have built a company that has the strategy, the people, the land and the science to continue delivering further value to our investors for years to come. ■

Compton Petroleum Corp. (Toronto: CMT; NYSE: CMZ)



Ernie G. Sapieha has been president and CEO of Compton Petroleum Corp. since he founded the company in 1993. Sapieha has more than 25 years of experience in the petroleum industry. He is a graduate of the University of Saskatchewan, Canada, with a Bachelor of Commerce degree and is a Chartered Accountant.

Ernie G. Sapieha, President and CEO

Oil and Gas Investor: *Describe your company's strategy.*

Sapieha:
- Natural gas emphasis—focused on unconventional resource plays—internal generation of prospects
- Build up technical expertise and teams
- Obtain a dominant land position with high working interest and operatorship
- Control infrastructure
- Full-cycle exploration

OGI: *Describe your core drilling and production areas.*

Sapieha:
- Unconventional natural gas in two core areas situated in the deep basin of Alberta
- Third core area in the Peace River Arch of Alberta focused on conventional oil

OGI: *Does the company anticipate expanding to any new core drilling and production areas this year?*

Sapieha: No.

OGI: *What kind of basin or play makes the most sense to the company and why?*

Sapieha: Geographically focused natural gas resource plays and operations within the deep basin fairway of Alberta.

OGI: *Which one or two wells or projects could yield the greatest return for the company this year?*

Sapieha: In Southern Alberta, we have two unconventional gas plays and one light-oil play in Worsley, Alberta, which should produce the best returns in 2006.

OGI: *This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Sapieha:
- 2006 capital budget $494 million
- 2006 drill 360 to 380 wells
- Similar to 2005

OGI: *Do you foresee any acquisitions this year?*

Sapieha: No, we will concentrate on our drilling; however, should something become available in our core area, we would definitely be interested.

OGI: *Can your earnings momentum be sustained?*

Sapieha: Yes, because of our low-risk unconventional gas plays.

OGI: *Does the company hedge?*

Sapieha: Yes, our objective is to hedge 40% to 50% of our production to ensure funds and cash flow for our capital programs.

OGI: *What price deck do you use?*

Sapieha: 2006 budget is based upon $7.25 per thousand cubic feet CDN gas and $67.50 U.S. WTI.

OGI: *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Sapieha: Success of unconventional resource (gas) plays and our light-oil drilling success at Worsley in the Peace River Arch.

OGI: *What is the greatest challenge facing your company today?*

Sapieha: People, services and regulatory issues.

OGI: *Do you have any final comments or thoughts you'd like to share?*

Sapieha: Compton's growth in the past 5 to 6 years has been through the drill bit by internal generation of prospects, and we have a large undeveloped land base with unconventional resources plays to ensure years of growth. ■

Core Laboratories (NYSE: CLB)

***Oil and Gas Investor:* Describe the strategy that drives your company.**

Demshur: Core Laboratories provides technology that optimizes reservoir performance by increasing the daily production of oil and natural gas, and, more importantly, increasing the total amount of oil and natural gas that will ultimately be produced from the reservoir.

***OGI:* Where does the most promising business lie for the company, in the U.S. or internationally?**

Demshur: Currently, Core generates over 70% of its revenues from internationally-based projects. This should increase as the company focuses on expanding further in West Africa, the Middle East and Asia-Pacific.

***OGI:* Does the company have a backlog?**

Demshur: Currently, Core Lab works in approximately 800 of the world's largest 4,000 oil and natural gas fields. The company plans to expand our market penetration to work in 1,200 fields over the next decade.

***OGI:* Are there any plans to expand capacity at your manufacturing facilities?**

Demshur: The company has spare capacity at its perforating charge and perforating gun manufacturing plant. Core only works two shifts out of a possible four, so the company currently has ample manufacturing capacity.

***OGI:* What percentage of the company's growth is organic as opposed to acquisitive?**

Demshur: Over the past three years, Core Laboratories' growth has been essentially all organic as the company has added several new services and technologies focused on reservoir optimization. All of the new services have been developed internally.

***OGI:* What well or project will be most significant to the company this year and why?**

Demshur: The development of new technology and services has been very successful for Core Lab. The company's HERO Line of perforating charges and gun systems coupled with Core's SpectraStim, SpectraChem and SpectraFlood technologies have increased daily hydrocarbon production and ultimate hydrocarbon recoveries for Core's clients.

***OGI:* How much have you increased your day rates, and is that the end, or do you foresee drilling rates continuing to rise in 2006 and 2007?**

Demshur: Core Laboratories has been able to grow faster than market activity over the past several years by adding new services, working in more fields and continuing the company's focus on the international market.

***OGI:* Are there any additional comments or thoughts you would like to share?**

Demshur: Core Laboratories continues to be the most technologically advanced, uniquely focused reservoir optimization company in the oilfield service universe.

As the world's petroleum provinces will be more challenged to produce more crude oil and natural gas over the next decade, Core Lab technology will play an ever increasing role in optimizing reservoir performance. Core Lab will meet these challenges by helping our clients produce more oil and natural gas every day and over the lives of their producing fields. ■

David M. Demshur, CEO, Chairman and President

David M. Demshur is chairman, CEO and president of Core Laboratories. Since joining the company in 1979, he has held various operating positions, including manager of geological sciences, VP of Europe, Africa and Middle East Division and senior VP. He was named president in December 1993 and assumed duties in January 1994. In 1995, he was named CEO and in 2001 became chairman.

Previously, Demshur worked for Gulf Oil Corp. from 1977 to 1979. He graduated from The Pennsylvania State University in 1977 with a B.S. degree in geology. He was recognized by the College of Earth and Mineral Sciences as a Centennial Fellow in 1996 and by the university as an Alumni Fellow in 1998. Demshur serves as an active member of the Society of Petroleum Engineers, American Association of Petroleum Geologists, Petroleum Exploration Society of Great Britain and Society of Core Analysts section of the Society of Professional Well Loggers Association.

Delta Petroleum Corp. (NASDAQ: DPTR)

John R. Wallace,
President and COO

John R. Wallace, president and chief operating officer, joined Delta Petroleum Corp. in October 2003. Prior to Delta, he was VP of Exploration and Acquisitions for United States Exploration Inc.

Oil and Gas Investor:* *Describe your company's strategy.

Wallace: Our strategy is to concurrently develop our core areas where we have a multiple-year inventory of drilling locations that will allow for increases in net proven reserves, production and cash flow. In addition, we are focusing significant efforts on internally generated new resource play concepts that may provide for substantial reserve potential.

OGI:* *Describe your core drilling and production areas.

Wallace: Our core development areas are located in various basins in the Rocky Mountains and South Texas. The location of these core areas has more to do with the similarity of the geological parameters than the specific geographic locale. Within these core areas, we target multiple stage fracture stimulation completions to exploit stacked tight-gas sands. Most of our long-term development is in the Rocky Mountains.

OGI:* *Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?

Wallace: Yes. 40% of our 1.2 million acres of undeveloped leasehold are on specific prospects in the Columbia River Basin of Washington and the Hingeline Play in central Utah.

The Columbia River Basin has two exploratory wells drilling, which we are participating in. Because this is a resource play and all of our approximately 400,000 acres are prospect specific and in close proximity to the drilling wells, any success in this project would immediately impact Delta's reserves and future drilling plans. We project that if the geologic concept of numerous over-pressured stacked gas charged sands over a large vertical column is realized, then based on the previously drilled wells and newer multiple stage completion technology, we have net reserve expectations in excess of several trillion cubic feet of gas. This is the type of development project that we concentrate on, and if the initial wells are successful, this area will become a new core area for the company.

In addition, we have recently acquired a 65% interest in approximately 170,000 gross acres of exploratory leasehold on 21 separate structural features in the prolific central Utah Hingeline Play. These lands are in relatively close proximity to the Covenant field, a key new oilfield discovery, which in 2004 opened up this previously unknown petroleum province. The central Utah Hingeline Play is characterized as having large seismically defined structures with potentially significant recoverable reserves. The Wyoming-Utah Overthrust Belt, which produces from the same reservoir, will ultimately produce approximately 2 billion barrels of oil. The Canadian Overthrust Belt is projected to ultimately produce approximately 10 billion barrels of oil. This summer, we will drill the first of three exploratory wells on a structure that has a reserve potential of 350 million barrels of oil. Given the large reserve size of these prospects, any success would be extremely meaningful to Delta.

OGI:* *What kind of basin or play makes the most sense to the company and why?

Wallace: Any basin where we can apply our completion technology and use our drilling rigs to exploit low-risk reserves. Resource projects that rely on advances in completion technology generally are lower risk because they normally target reservoirs that have consistent geologic parameters and extend over a large area.

OGI:* *Which one or two wells or projects could yield the greatest return for the company this year?

Wallace: The Columbia River Basin and the central Utah Hingeline play.

OGI:* *This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?

Wallace: In 2006, we plan to spend $150 million in drilling capital expenditures, which is an increase of about $50 million from 2005.

OGI:* *Do you foresee any acquisitions this year?

Wallace: If we make an acquisition, it will probably

be complementary to our core areas. We are continually evaluating and searching for opportunities that would allow us to increase exposure in and around ongoing development projects. Because we generally have field personnel, field offices, access to DHS drilling rigs and established relationships and/or joint ventures with third-party contractors, we can more easily absorb acquisitions within our core areas.

***OGI:* Can your earnings momentum be sustained?**

Wallace: Because of our extensive inventory of low-risk probable reserves and our commitment to developing those reserves, Delta will be able to continually demonstrate quarter over quarter proven reserve growth for years to come, assuming commodity prices don't pull back and drilling costs do not radically increase.

***OGI:* Does the company hedge?**

Wallace: In the past, Delta would use hedging to protect its capital expenditure budget or to lock in acquisition returns. In late spring of this year, as a result of record natural gas storage and a near-term improvement in the Rocky Mountain basis differentials, the company added more hedges. We hedged our Rocky Mountain gas production to CIG, effectively locking in basis differentials with floors of $6 per million Btu and our other production has been hedged to Nymex with floors of $7 per million Btu. We have also recently hedged a majority of our oil production to Nymex with floors of $65 per barrel.

DHS Rig No. 1 drilling in the Wind River Basin, Wyoming.

***OGI:* What price deck do you use?**

Wallace: For 2006 and 2007, estimations we use $6 per thousand cubic feet Nymex Gas and $55 per barrel Nymex Oil.

***OGI:* How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?**

Wallace: The hurricanes had a short-term impact on Delta that affected our third and fourth quarter numbers last year. While none of our fields was directly impacted, some of the pipelines and third-party services were affected and adversely impacted our production for approximately four months.

***OGI:* Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?**

Wallace: In late 2004, Delta had a large inventory of available drilling locations but lacked the necessary qualified technical people, access to drilling rigs and reliable third-party services to timely implement this development program. In 2005, Delta hired all the necessary personnel and developed a predictable fracture stimulation scheduling by developing a system of firm frac dates. We have also grown DHS Drilling from two rigs to 15 rigs with depth capacities ranging from 7,500 feet to 25,000 feet. With Delta now having the personnel, access to drilling rigs and reliable third-party services primarily at the end of 2005, the company has begun realizing the more predictable growth that we were previously forecasting.

***OGI:* What is the greatest challenge facing your company ?**

Wallace: While we are confident that revenues and production will continue to increase every quarter as long as commodity prices remain constant, orchestrating a timely development plan is getting more difficult because of a lack of qualified personnel and equipment in the field. As we grow, production delays will have less of an impact than in previous years, but access to drilling rigs and reliable third-party services are critical for Delta or any other resource company.

***OGI:* Your company has recently completed a merger with Castle Energy Corp. Why did you acquire Castle, and what does it do to enhance your company?**

Wallace: The Castle acquisition is the conclusion of an acquisition that was initially started in 2002 when we acquired the majority of the producing properties of Castle Energy. The total acquisition was not completed until recently because of litigation between Castle Energy and a major oil company. The lawsuit was settled during 2005, and we then merged Castle into Delta. ■

Denbury Resources Inc. (NYSE: DNR)

Gareth Roberts, President and CEO

Gareth Roberts has been president, CEO and a director since 1992. He founded Denbury Management Inc., the former primary operating subsidiary of the company, in April 1990. Roberts has more than 30 years of experience in the exploration and development of oil and natural gas properties with Texaco Inc., Murphy Oil Corp. and Coho Resources Inc. His expertise is particularly focused in the Gulf Coast region where he specializes in the acquisition and development of old fields with low productivity. Roberts holds honors and masters degrees from St. Edmund Hall, Oxford University, where he has been elected to an Honorary Fellowship. He also serves as chairman of the Genesis Energy L.P., a public master limited partnership.

Oil and Gas Investor:* *Describe your company's strategy.

Roberts: Predominantly low risk exploitation and modest exposure to exploration, mostly development drilling and tertiary carbon dioxide (CO_2) floods. We own our own source of CO_2 and plan to use it to expand our operations.

OGI:* *Describe your core drilling and production areas.

Roberts: Denbury operates in Mississippi, Louisiana, Alabama and Texas.

OGI:* *Does the company anticipate expanding to any new core drilling and production areas?

Roberts: No, the company has at least a five-year inventory of projects on-hand and expects to add more through the use of CO_2 tertiary floods.

OGI:* *What kind of basin or play makes the most sense to the company and why?

Roberts: Mature oil fields in the Gulf Coast region within reach of our CO_2.

OGI:* *Which one or two wells or projects could yield the greatest return for the company this year?

Roberts: CO_2 tertiary flooding is our most important play, and drilling at the Jackson Dome, the source of our CO_2, is the single-most important factor in our future growth.

OGI:* *This year, what is your projected budget, and how many wells do you anticipate drilling with that budget?

Roberts: The 2006 budget is $500 million but is likely to increase, perhaps as much as an additional $50 million.

OGI:* *Do you foresee any acquisitions this year?

Roberts: We do acquire a number of small acquisitions, usually mature fields with potential for CO_2 flooding, on a steady basis.

OGI:* *Can your earnings momentum be sustained?

Roberts: Growth in production is what we hope to maintain. Assuming no change in pricing, we should then see higher earnings.

OGI:* *Does the company hedge?

Roberts: Very little; we prefer to maintain a strong balance sheet.

OGI:* *What price deck do you use?

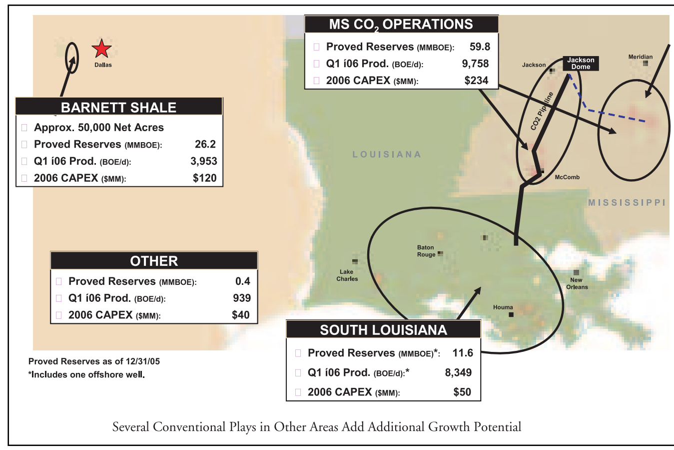
Roberts: $50 per barrel of oil for acquisitions, and $35 per barrel of oil for internal projects.

OGI:* *What is the greatest challenge facing your company?

Roberts: Attracting qualified people, handling rising costs and delays in equipment delivery.

OGI:* *Any final comments/thoughts?

Roberts: We might have the best play in North America. ■



Denbury is an active driller.

EnCana Corp. (Toronto: ECA)

***Oil and Gas Investor:** Describe your company's strategy.*

Eresman: EnCana is a leading North American resource play company focused on exploration and development of unconventional natural gas and oil reservoirs onshore North America. The company's primary goal is to grow net asset value of every EnCana share over the long-term through disciplined capital investment in the development of its vast unconventional resources.

Four fundamental characteristics illustrate why EnCana has confidence in the strength of its resource play potential:

- An extensive drilling inventory
  - 43,000 well locations
- Strong production and reserves growth
  - Forecasting average annual 10% per share sales growth
- Robust project returns
  - Targeting greater than 15% risk-adjusted internal rate of return
- Significant value upside
  - In situ oil-sands development
  - High impact exploration and portfolio management

***OGI:** Describe your core drilling and production areas.*

Eresman: EnCana's portfolio of long-life resource plays includes 12 key plays in Canada and the United States—10 natural gas and three oil—located in Northeastern British Columbia, across Alberta and in Wyoming, Colorado and Texas. The company has an unparalleled onshore North American land position of 26 million net acres, including 17 million net undeveloped acres.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Eresman: EnCana conducts an extensive exploration program, having drilled more than 550 exploration wells in each of the past three years. We are examining potential new resource plays in North America and are in the very early stages of resource play exploration in France.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Eresman: EnCana is focused on unconventional natural gas and oil-sands resources in the world. Our geographic focus is North America, which has among the highest known concentrations of unconventional resources. Compared with conventional plays, these long-life reservoirs typically have lower than average long-term decline rates and lower geological and commercial development risk. EnCana's people have the skills, expertise and technology to maximize the value from these assets. EnCana has currently identified 43,000 future drilling locations and about 39 trillion cubic feet of gas equivalent of unbooked resource potential on its lands.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Eresman: In 2006, the company's key natural gas resource plays are expected to increase production by more than 12%. Some early stage developments, such as coalbed methane, are expected to see production more than double. With the completion of the Environmental Impact Statement at the Jonah field in

Randy Eresman is the key architect of EnCana's North American resource play strategy. Since 2002, Randy has led the development of EnCana's business unit operating model and designed and implemented rigorous portfolio management techniques — foundations for the successful integration of predecessor companies Alberta Energy Co. Ltd. (AEC) and PanCanadian Energy Corp.

Eresman's career spans 25 years with progressively increasing responsibilities with EnCana and prior to that AEC, which he joined in 1980.

At AEC, he played key roles in oil and natural gas E&P and the development of the AECO gas storage facility. He was appointed VP of AEC Oil & Gas, a division of AEC, in 1996 and president, AEC Oil & Gas Partnership in 1999. These were roles in which he led the tripling of AEC's production and reserves.

At the creation of EnCana in 2002, Randy was named executive VP responsible for the company's Onshore North America division. In December 2002, about eight months after EnCana's formation, Eresman was named EnCana's chief operating officer. He became president and CEO of EnCana Corp. on Jan. 1, 2006.

A petroleum engineer, Eresman received his technical education from the Northern Alberta Institute of Technology in Edmonton, Canada, and the University of Wyoming, where he earned a B.S. degree in petroleum engineering. He is a member of The Association of Professional Engineers, Geologists and Geophysicists of Alberta, the Canadian Institute of Mining, Metallurgy and Petroleum and the Young President's Organization.

"At EnCana, we believe that we are well positioned to be the leading North American resource play company.

Wyoming, infill drilling is expected to generate more than a 15% increase in daily gas production rates. In our oil-sands developments, our Foster Creek project is expected to increase production by more than 15%.

OGI: This year, what is your projected budget, and how many wells do you anticipate drilling with that budget? How does that compare with last year?

Eresman: EnCana expects to invest between $5.8 billion and $6.1 billion of upstream capital to drill approximately 4,000 wells in 2006.

OGI: Can your earnings momentum be sustained?

Eresman: We have seen strong operating and financial results. Our North American natural gas and oil sales continue to grow at a steady pace, increasing 6% in the past year, which is a rate that we plan to continue for several years.

OGI: Does the company hedge?

Eresman: Yes. Due to the youthful nature of our entire portfolio of gas resource plays and in situ oil-sands projects, a relatively high degree of capital investment is desired. To help assure capital funding, we primarily use put options to limit the downside risk associated with commodity pricing, without limiting the upside exposure when prices spike. For 2006, more than 90% of the company's forecast gas sales were hedged at an average Nymex price of more than $7 per million Btu.

OGI: What price deck do you use?

Eresman: We use the forward strip for the first two years. In the longer term, we use gas at $6 per thousand cubic feet and oil at $40 per barrel.

OGI: What is the greatest challenge facing your company?

Eresman: The global energy industry is experiencing very high levels of activity and investment, which has generated strong demand for the highly-skilled technical and professional personnel that it takes to build a successful oil and gas business. EnCana is facing the same challenges as other companies in recruiting and retaining a competitive and creative work force. To enhance the work-life balance at EnCana, we recently implemented an adjusted work month, which results in 24 Fridays off each year for office staff. Along with rewarding business opportunities and professional challenges, we believe we offer our staff very competitive compensation and a benefits package that will help us maintain and grow our EnCana workforce for many years ahead.

OGI: In the last year, you have greatly revamped your company. Are you satisfied with the progress and what is your immediate focus now—oil sands or natural gas?

Eresman: The performance and history of our extensive natural gas resource plays is evidence that gas will continue to dominate our production mix for some time. In addition, we have tremendous growth potential in our in situ oil-sands assets, which are really at a very early stage of development. For the past several months, we have been focusing on establishing a downstream partner to upgrade and refine our future bitumen production. EnCana is one of the largest landholders of in situ oil sands with 1.2 million net acres along the eastern flank of the northern Alberta oil-sands deposits. We forecast that our oil-sands projects are capable of growing from the current level of about 50,000 barrels per day to 500,000 barrels per day by about 2015. In support of this growth forecast, we recently had external reserve evaluators assess our oil-sands resource potential. Their findings were at the upper end of our previous estimate of approximately 5- to 10 billion barrels of ultimate recoverable oil. We are a leading gas company in North America, and over the next few years, we expect to build a very strong presence in delivering steady, reliable oil production to the continent.

OGI: Do you have any final comments or thoughts?

Eresman: At EnCana, we believe that we are well positioned to be the leading North American resource play company. We are focused almost exclusively on the exploration and development of unconventional resources onshore North America, and we have established ourselves as an industry leader in both unconventional natural gas and in situ oil sands. Our major focus is to ensure that there is a good understanding of the long-life, low-risk future potential of our resource plays as well as achieving a downstream integration solution for our oil-sands production. We are making decisions and executing our operations with the goal of strongly increasing the net asset value of every share. We think all of these factors combined set us apart as the leading resource play company and a compelling energy investment. ■

Endeavour International Corp. (AMEX: END)

***Oil and Gas Investor:** Describe your company's strategy.*

Seitz: Endeavour was formed to take advantage of an industry transition taking place in the North Sea similar to that which occurred in the Gulf of Mexico in the 1980s. As major integrated energy companies restructured their portfolios away from mature provinces, they are creating opportunities for smaller players with the technical and financial capabilities to exploit profitably the remaining resources.

A significant competitive advantage for us is our access to the Mega Survey seismic data base that is the most comprehensive regional 3-D seismic ever compiled for the North Sea. Through the use of this unique and largely contiguous database of high-quality 3-D seismic, our exploration teams have generated an expanding inventory of exploratory prospects that were overlooked, unidentified or deemed to be uneconomical.

Transier: We have also been working to develop an asset portfolio balanced between exploration and exploitation, oil and gas, together with production derived from acquisitions, with the objective of providing cash flow for funding our continued growth through exploration and development. In May, we announced our intention to purchase interests in four producing asset areas in the Central North Sea. This acquisition will provide significant new production and cash flow to conduct an active and sustainable exploratory campaign and fund the development of our successes.

***OGI:** Describe your core drilling and production areas.*

Transier: We own interests in production in two fields in the Norwegian Continental Shelf and an interest in a new field development along the median line between the U.K. and Norway. Our agreement to purchase interests in four producing asset areas in the Central North Sea will add a position in three high-quality, long-life oil and gas fields and one mature multi-field complex where we have identified satellite exploration opportunities from our extensive regional seismic data base. We are also pursuing both exploratory and acquisition opportunities in the Netherlands.

Seitz: Endeavour currently holds 1.8 million gross acres in the Norwegian and U.K. Continental shelves. We recently announced our first commercial discovery in the Southern Gas Basin in the U.K. sector of the North Sea. The company will operate two exploration wells in the Central North Sea in early 2007. While our exploration portfolio is weighted toward opportunities in the Central Graben and Southern Gas basins, we are developing an equally attractive inventory of prospects on the Norwegian Continental Shelf.

John N. Seitz,
Co-CEO and Director

William L. Transier,
Co-CEO and Director

John N. Seitz is co-chief CEO and director of Endeavour International Corp. Previously, Seitz served as CEO, chief operating officer and president of Anadarko Petroleum Corp. Seitz began his career as a petroleum geologist with Amoco Production Co. He is a certified professional geological scientist from the American Institute of Professional Geologists and a licensed professional geoscientist with the state of Texas. He serves as a trustee for the American Geological Institute Foundation and as a director of Input/Output Inc. and Elk Resources Inc.

William L. Transier is co-CEO and director of Endeavour International Corp. Previously, Transier served as executive VP and CFO for Ocean Energy Inc. He began his career in public accounting with KPMG LLP, an international audit and business strategy consulting firm, where he rose to the title of partner and headed its energy practice.

Transier is a director of Reliant Resources and Cal Dive International. He is a former chairman of the Natural Gas Supply Association, director of the Independent Petroleum Association of America and served as chairman of the Texas Online Authority and Department of Information Resources appointed by Governor Rick Perry.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Seitz: Endeavour is pursuing five play types as it develops its North Sea exploration inventory. The Paleocene and the Eocene channels in the U.K. and

Norway are often supported by Direct Hydrocarbon Indicators. In those cases, we see a 40% to 50% chance of success with reserve quantities in the range of 10- to 25 million barrels of oil equivalent (MMboe). Lower Cretaceous, Upper Jurassic and Upper Triassic sand pods are combination traps generally in a range of 20- to 75 MMboe with an approximately 25% success rate. We are also exploring the Upper and Middle Jurassic and Upper Triassic pre-rift sands located in the Inner Moray Firth for structural traps with reserve potential between 100- and 500 billion cubic feet. This inlet of the North Sea off the coast of Scotland is considered an ecologically sensitive area and was just recently reopened to oil and gas exploration. Our recent Cygnus discovery was in the Permian Rotliegend and Carboniferous sands that we are exploring in the Southern Gas Basin. While we have not announced specific numbers, we believe that our find is potentially of significant size. In The Netherlands, we are also looking at the Lower Triassic Bunter sands with reserve potential between 100- and 200 billion cubic feet. These last three plays that we are pursuing fall in a 20% to 25% success rate category.

The Brage field is one of two producing Norwegian fields in which Endeavour acquired an interest in 2004. (Photo courtesy of Hydro)

OGI:* *Which one or two wells or projects could yield the greatest return for the company this year?

Transier: Endeavour is in a unique position as a small company in that each exploratory well that is drilled has the potential to contribute materially to the growth of the company.

Seitz: We are excited about our first discovery, Cygnus 44/12-2 well, in the Southern Gas Basin. The success confirmed that there are still significant reserves to be found in mature basins and reinforces the validity of our North Sea strategy and the potential of our exploration portfolio. It is an important milestone in our exploration program, especially since we had four non-commercial wells in 2005. We are now in the process of working with our partners to complete the key pre-development studies to facilitate a commerciality decision.

OGI:* *This year, what is your projected budget, and how many wells do you anticipate drilling with that budget? How does that compare with last year?

Seitz: We project spending of approximately $50 million during 2006 to fund oil and gas exploration and development in the North Sea. Our original plans called for us to drill four to six wells as part of our ongoing exploratory campaign. With the limited availability of rigs in the marketplace, that number will more likely be two to four wells. One discovery has already been drilled, and we will drill one more company-operated well before year end. We are also looking at several potential farm-in opportunities.

Transier: To ensure that we can continue an aggressive exploration program, the company has entered into rig arrangements that assure the availability of equipment and services through 2007 in the U.K. and through 2008 in Norway. In Norway, the company is part of a consortium that contracted for the use of a drilling rig for a three-year period beginning in the second half of 2006. Endeavour has committed to 100 days of services conducted by the Bredford Dolphin, a semi-submersible drilling rig. Agreements are in place in the U.K. for the use of two rigs. The *GlobalSantaFe 140*, a semi-submersible rig, is committed to drill two wells for

us beginning in late 2006. The *GlobalSantaFe Magellan*, a heavy-duty jack-up rig, is committed to Endeavour beginning in March 2007 for 220 days during a one-year period.

***OGI:** Do you foresee any acquisitions this year?*

Transier: We recently announced that our company has entered into an agreement with a subsidiary of Talisman Energy Inc. to purchase all shares of Talisman Expro Ltd. The transaction involves four producing asset areas in the Central North Sea section of the U.K. Continental Shelf. Current net production from the asset group is approximately 9,200 barrels of oil equivalency per day. We estimate proven and probable reserves as of December 31, 2005, at 18 MMboe. We consider this a transforming acquisition for Endeavour, and it represents a major milestone in executing the North Sea strategy we embarked upon a little over two years ago. The asset provides us critical mass in production and cash flow. We now have a sustainable business model that will allow us to move forward with our exploration program and develop future successes in a much more accelerated fashion. The assets are located in our focus areas where we have assembled an attractive exploration portfolio that we believe can be leveraged to add even greater value. The transaction makes us a stronger and better player in the North Sea and differentiates us from other players in terms of our geographic and exploratory focus. Our goal is to become the largest independent solely focused in the North Sea. In order to achieve that goal, we will have to balance other acquisition opportunities and exploration and development activities.

***OGI:** What is the greatest challenge for your company?*

Seitz: While we have made much progress since adopting a North Sea-focused strategy two years ago, we realize that our ultimate success depends on our ability to convert our extensive portfolio of assets into recoverable reserves. This requires continuous high-grading of our expanding inventory of exploratory prospects. Our objective is to maximize the probability of drilling successful wells with the highest value commercial return. Increasing commodity prices have led to a demand for equipment and services that caused drilling rig shortages and much higher day rates. Ensuring that we drill the best prospects in a timely and efficient manner is especially a challenge at this point in our evolution and the impact each discovery and ensuing development has on our ability to move forward with our growth strategy.

In only its second year of existence, Endeavor has been certified as an operator in the U.K. and Norway. In 2005, the company drilled two exploratory wells from the GlobalSantaFe Arctic II semi-submersible rig pictured here. (Photo Courtesy of GlobalSantaFe)

***OGI:** You have made your first discovery in the North Sea. What led to its success?*

Seitz: The world class data set that we hold in the North Sea is continuing to be an invaluable and effective tool. Of course, it is only as good as the technical team that is utilizing and evaluating the information. We are both very proud of the group of highly experienced and successful geoscientists, engineers, commercial, financial and administrative professionals that the company has attracted. In today's competitive marketplace for talent, we feel very fortunate to have in place a strong team of oil and gas finders who believe in our vision and strategy. Thanks to them, we have assembled a strong portfolio of technically supported opportunities, and that is the key to a successful drilling program.

***OGI:** Do you have any final comments or thoughts?*

Transier: With the near-term production and cash flow impact of the Talisman and Enoch field acquisitions, we have assumed the financial capability to assure our execution of a sustainable business model. The recent Cygnus success signals the first tangible result of our expanding and ever-improving exploration portfolio. Our recent longer-term rig commitments give further confidence in our ability to execute that business model. We will continue to produce results that further distinguish Endeavour as the only pure-play independent with a balanced North Sea growth strategy fueled by exploration. ■

First Albany Capital Inc.

Jim Hansen, Managing Director and Head of Energy Investment Banking

Jim Hansen has been managing director and head of energy investment banking at First Albany Capital Corp. in Houston for three years.

Previously, at Banc of America Securities LLC, he was a managing director in that firm's Energy and Power group, with responsibilities for originating and supporting the distribution of energy-related equity and debt issues as well as providing M&A advisory services. Prior to that, Hansen was a managing director in the corporate finance department of Howard Weil. In that capacity, he executed more than 50 energy-related equity and high-yield debt offerings and corporate advisory assignments. He received degrees in politics and economics from Princeton University.

***Oil and Gas Investor:** How would you describe First Albany's energy corporate finance practice?*

Hansen: Within the E&P and oil-service sectors, we focus on growth companies—emphasizing micro-caps, small-caps and mid-caps—to which we provide a full suite of investment-banking services. This includes sales, trading, research and corporate finance—a combination of services typically only available from larger investment-banking firms.

***OGI:** What's your outlook for the E&P sector for 2006?*

Hansen: We're still bullish on the sector, although guarded with respect to short-term commodity prices, particularly for natural gas, which has become a somewhat weather-related commodity. By that I mean if we have an active hurricane season or very warm summer, there'll be upward pressure on natural gas prices; conversely, if neither of these events occur, there'll be downward pressure on gas prices. That said, we still feel comfortable with our 2006 price forecast of an average $60 WTI for oil and $7.66 for Henry Hub gas.

***OGI:** What is your outlook for upstream M&A activity for the balance of the year?*

Hansen: We expect a very active M&A calendar for second-half 2006 and 2007. There's still a major disconnect between public E&P stock valuations and the M&A market. The disconnect is that many analysts are still using normalized price decks that reflect 10% to 20% discounts to recent spot and futures pricing for both oil and gas. So if an acquisition-minded company wants to make an aggressive bid, it can hedge commodity prices three to five years out and thus offer a premium price for a targeted company versus the lower stock-market valuation for that targeted company.

***OGI:** Do you see more energy-related IPOs this year compared with 2005?*

Hansen: We think there'll be less activity in the IPO market this year versus 2005 since most of the energy companies that had a strong desire to go public have already taken advantage of the extremely robust equity market in the past year and a half. As for the remaining potential candidates that could go public, I believe they'll opt to stay in the private sector and achieve liquidity through a sale to a third party.

***OGI:** Has the recent widening disconnect between crude oil and natural gas prices, which have historically moved in a 6:1 ratio, had any dampening effect on planned gas-related IPOs?*

Hansen: Absolutely. There's still a lot of natural gas in storage as the result of this past warm winter and that supply overhang hasn't gotten worked off yet. So we expect, at least near term, continued downward pressure on natural gas prices and gas-related stocks and therefore, reluctance by gas-prone independents to go public in such a market environment—unless the economics are compelling at a lower price deck.

***OGI:** What has been the level of First Albany's energy corporate-finance activity in the past year?*

Hansen: In terms of transaction dollar value, we've had a much more active first six months this year than we did the last six months of 2005. This January, we were the lead placement agent on a $20-million PIPE (private investment in public entity) offering for Fort Lauderdale, Florida-based Maverick Oil & Gas, and in April, sole placement agent on a $22-million PIPE for Houston-based Cygnus Oil & Gas. Both these E&P companies are partnering in the Fayetteville Shale Play in Arkansas.

In addition, in March, we were senior co-manager on a $550-million senior debt offering for Houston's Newfield Exploration, then the following month, co-manager on an $84.7-million secondary stock offering for Oklahoma City's Gulfport Energy.

OGI: *First Albany has been very active in energy-related PIPE deals this year, last year and in 2004. What's driving this type of deal activity?*

Hansen: It's a very appropriate financing tool for small-cap companies to access the equity markets without having to go through the relatively lengthy process of a fully-registered public offering.

OGI: *What does First Albany's second-half 2006 energy deal flow look like?*

Hansen: Extremely strong based on our existing transaction backlog—mainly for E&P companies—which includes three or four equity and equity-linked PIPEs totaling $100 million, an $80-million public debt offering, a public preferred stock offering for $40 million and one M&A advisory for a mid-cap independent.

OGI: *What's the greatest strength First Albany brings to the table for energy clients?*

Hansen: As I suggested earlier, it's providing a full suite of financing capabilities, particularly for smaller-cap companies. Take Gasco Energy, an Englewood, Colorado-based producer focused on Utah's Uinta Basin. In February 2004, we were the lead placement agent on a $21-million PIPE for the company. Then in October 2004, we co-managed for it a $65-million convertible-debt offering. Next, in November 2005, we co-lead-managed for Gasco a fully registered $84 million common-stock offering.

Also, during the past two years, we were co-managers or co-placement agents in five separate financings for Houston-based Carrizo Oil & Gas. This aggregate $250 million worth of financings included common-stock offerings, a PIPE and the private placement of debt.

OGI: *What do you look for most in an energy-financing candidate?*

Hansen: First and foremost, a strong management team with a visible track record of success, then a business plan that clearly articulates their strategy for growth.

OGI: *What has been the most significant energy deal you've handled since joining First Albany?*

Hansen: A $575-million M&A transaction in September 2004 where we were the sole advisor to Inland Resources on its sale to Newfield Exploration. It was a win-win deal for both Inland, which was capital constrained at the time, and for Newfield, which liked the upside potential of the Uinta Basin and was able through this merger to accelerate drilling there.

OGI: *What's the mood of investors about the energy sector? Do they believe the current upcycle is sustainable?*

Hansen: I think investors today are very comfortable with the long-term prospects for the sector; however, they've expressed short-term investment concerns and uncertainty related to the interim price outlook for natural gas. Excess supply and the hurricane season could have opposite impacts on gas stocks.

OGI: *Will the balance of 2006 and first-half 2007 be as good a time for energy companies to raise capital as it has been within the past year?*

Hansen: For quality companies, it will be the same because quality managements with excellent growth prospects will always continue to attract capital. The situation might be different, however, for those companies with "marginal stories" and uncertain or undeterminable upside, which managed to attract capital within the past year.

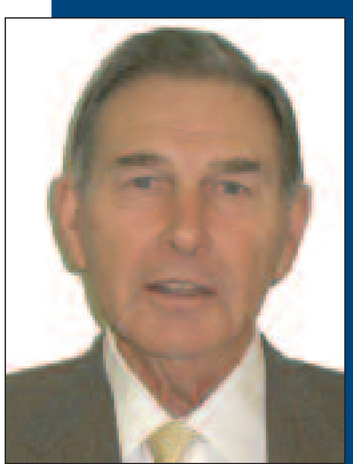
OGI: *How does First Albany plan to compete more effectively with other investment banks?*

Hansen: We're very relationship driven. By that I mean we do a lot of background work prior to taking on an assignment or working with a new client. Our business approach is that we want to be able to provide long-term services to an energy client as opposed to simply doing a one-off transaction. The way we see it, if we provide good service before and after the transaction—at all levels including sales and trading—the client will return to us for their next capital raise. ■

Date	Company	Amount ($MM)	Transaction	FAC Role
April 2006	Gulfport Energy	$84.7	Secondary Offering	Co-Manager
April 2006	Cygnus Oil & Gas	22.0	PIPE	Sole Placement Agent
March 2006	Newfield Exploration	550.0	Senior Sub-Notes Offering	Senior Co-Manager
Jan 2006	Maverick Oil & Gas	20.0	PIPE	Lead Placement Agent
Dec 2005	NGAS Resources	37.0	PIPE	Sole Placement Agent
Nov 2005	Gasco Energy	84.1	Follow-On Offering	Joint-Lead Manager
Sep 2005	Toreador Resources	86.3	144A Debt Offering	Co-Manager
Aug 2005	Bill Barrett Corp.	189.1	Secondary Offering	Co-Manager
July 2005	Carrizo Oil & Gas	150.0	Second Lien Term Loan	Co-Manager
	LTM Total	**$1,223.2**		

Recent First Albany deal flow (last twelve months).

Flotek Industries Inc. (AMEX: FTK)



Jerry D. Dumas Sr., Chairman and CEO

Jerry D. Dumas Sr. has been chairman and CEO of Flotek Industries Inc. since September 1998. Formerly group division president of Baker Hughes Tool, he was responsible for Global Operations of Hughes Offshore Subsea Products and Services and Hughes Drilling Fluids. He served as president of HydroTech International, an offshore pipeline engineering, manufacturing and marketing company. Prior to joining Flotek, he was VP of corporate and executive services in the Merrill Lynch Private Client Group. Dumas holds a B.S. degree in general studies, with a business major and minor in natural sciences from Louisiana State University.

***Oil and Gas Investor:* Describe your company's strategy.**

Dumas: Our focus remains continued growth in three industry segments: specialty chemicals, artificial lift, and downhole drilling equipment sales and rentals. In the chemical segment, research is concentrated on proprietary products used in stimulation and production applications. The downhole production (artificial lift) segment grows geographically in coal bed methane and oil and gas brownfields (in concert with the chemicals segment). The downhole drilling segment offers total bottomhole assembly across an expanding our geographic coverage. As always, we seek to add experienced management with a strong ethical history consistent with the integrity and character of Flotek Industries.

***OGI:* Do you foresee any acquisitions this year?**

Dumas: We continue to accelerate growth through organic actions; strongly pursuing strategic acquisitions in our three core segments. This is a continuation of management's goal to build a more profitable oilfield service company.

***OGI:* Can your earnings momentum be sustained?**

Dumas: We are confident the company can sustain earnings growth both through the consolidation of cost savings and adherance to our acquisition strategy.

***OGI:* Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?**

Dumas: The combination of geographic expansion and market share growth coupled with industry acceptance of our patented chemical offerings contributed to success in 2005.

We made great strides toward long-term stated goals. Chemicals and logistics continued its growth by producing record revenues from geographic expansion throughout the U.S. market and successful entry into several international venues in Russia, Canada, Mexico and Venezuela. Growth of our proprietary offerings now represents approximately 50% of segment sales. Our environmentally friendly "green" chemicals continue to advance in revenue and market share.

Our goal for drilling products was to envelop the domestic market through strategic alignment and acquisitions. The integration of Spidle Sales and Services with Turbeco was a notable advancement in the drilling and mining markets. In addition, Flotek acquired Harmon Machine Works and Galleon Mining in the Permian Basin of West Texas as well as in South Texas.

Another stated goal was the development of our Petrovalve product line into a larger artificial lift group. We saw a significant sales increase for 2005.

Finally, the goal of increased visibility was achieved listing on the American Stock Exchange.

***OGI:* What is the greatest challenge facing your company ?**

Dumas: Maintaining our track record of successful acquisitions. Another challenge, from a cost-control perspective, is the affect of rising interest rates.

***OGI:* Are you planning to expand your operations into the Netherlands? What do you expect to benefit from this endeavor?**

Dumas: This is Flotek's first international location. We expect to increase our customer base and thus create more opportunities.

***OGI:* Do you have any final comments or thoughts you'd like to share?**

Dumas: I would like to add that although our capitalization has been reduced significantly, our firm is fundamentally stronger. We continue to adhere to our mission statement and our promise to provide the best value to enhance customers' performance. The market will either recognize our strengths or ignore the oil industry segment. ■

Fortis Capital Corp.

Oil and Gas Investor: What is the priority of your global oil and gas team this year, and what is your read on the marketplace?

Holley: Our priority is to continue to elevate Fortis, expanding upon our product mix and bringing our approach as a true Merchant Bank to the forefront of the oil and gas market, both in the U.S. and globally. Our objective is to provide products, services and ideas to our clients that provide genuine value to their businesses. We are also focused on building out our operations in other major markets outside the U.S. Our operation in Calgary is growing every week, and we have been well received in the Canadian marketplace since opening our office approximately 18 months ago. Fortis has a major presence in the European and Asian markets, and we are working to further our oil and gas business in those regions as well as emerging markets like Africa, Eastern Europe and throughout the Pacific Rim.

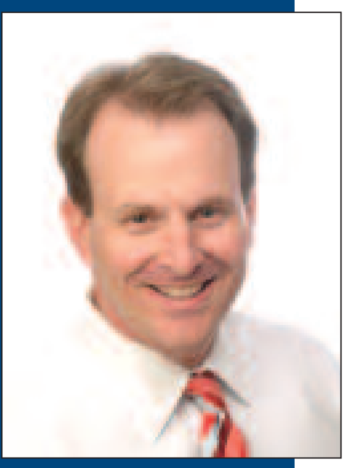
The current market is highly competitive, extremely liquid and very active. The continuing high commodity price environment has resulted in robust health among oil and gas companies and record drilling activity and infrastructure development. Lower demand for senior bank debt and the entry of many non-traditional energy capital providers has placed even greater pressure on institutions to differentiate themselves through added value services and unique product and structures. It is no longer sufficient to simply provide access to your balance sheet and offer generic products and services to your clients.

OGI: What is your internal oil- and gas-price forecast upon which you are currently basing loans?

Holley: Fortis' pricing assumptions have never been the highest or the lowest among our competitors. We have tried to remain consistent and tried to reduce the tendency to chase the forward strip and raise and cut pricing assumptions every time the market moves. We believe that pricing alone should not be the principal driver in forecasting future cash flow and determining borrowing base levels among our reserve-based facilities. Having said that, our current price deck utilizes a start price of approximately $55 for crude oil and $6 for natural gas, reducing over 4 years to a long-term price of $30 and $5 for oil and natural gas, respectively.

OGI: What kind of weighting do you give these days to proved undeveloped reserves (PUDS)?

Darrell Holley joined Fortis (formerly MeesPierson) in 1994, when the Dallas office was established. He is responsible for overseeing Fortis' worldwide oil- and gas-related activities. The group has grown from a start-up in 1994 to a current total portfolio of $2.5 billion. Prior to joining Fortis, Holley was a VP at Texas Commerce Bank (TCB) where he worked as a client manager in TCB's Global Energy Finance Group focusing on the upstream and midstream activities. He joined TCB upon graduating from Texas A&M University in 1986 with degrees in finance and accounting.



Darrell Holley, Managing Director and Head of Global Oil and Gas

Holley: Fortis has always taken a very engineering/technically-based approach to reserve-based lending and projects where PUD and 3P reserve development is necessary for company/project success. We are known among our clients and our competitors for taking what some have classified as an aggressive stance on PUD reserves, many times being able to advance higher-value weighting to this reserve class than many of our competitors. We have three very experienced reserve engineers on staff, and we pride ourselves on doing our own engineering on each individual deal and not taking a "cookie cutter" approach by simply risk-weighting on third-party reports and company-prepared data. We truly look at every deal individually and do not apply a formula-based approach. Therefore, I can't give you a number or percentage weighting as to how we would value PUD reserves across the board.

Each reserve base is different, and each strategy, technical team and capital plan is different, and all those things—in addition to reserve characteristics—drive the weighting we would apply to an individual transaction. The current price environment certainly allows for a more aggressive view, as the likelihood of capital availability and

profitability provides greater assurances that reserves classified as PUD today will be successfully moved to the PDP classification. I will say that we are typically able to weight PUD reserves as high or higher than many of our competitors. Our historical track record would validate this position.

"The current market is highly competitive, extremely liquid and very active. The continuing high commodity price environment has resulted in robust health among oil and gas companies and record drilling activity and infrastructure development."

OGI: *What is the greatest concerns today of your oil and gas clients?*

Holley: Our clients feel added pressure to grow and demonstrate success and the ability to generate reserve prospects and inventory for future development. They are concerned about the price assumptions and multiples being used to value transactions in the M&A market, and about higher drilling/service costs and rig/crew availability. Our international clients are concerned about changing roles of national oil companies and volatile political climates.

OGI: *Has the growth in private equity and the change in interest rates affected your ability to compete with other capital being offered to oil and gas producers?*

Holley: The short answer is yes, it has certainly had an affect on our ability to compete. However, the higher utilization of private equity among oil and gas entities has spawned the growth of new companies and thus, has created new prospective clients for Fortis. The entry of "non-traditional" capital providers within our sector has certainly changed the landscape and caused us to re-focus on being innovative and expanding our product offering.

Although we will certainly conform to certain market movements to stay competitive and meet new demands from our target market, we will not deviate from the basic fundamentals and standards that have kept Fortis among the most active institutions over the past 13 years since we established our oil and gas activates in North America. We have grown in every cycle of the market, and have remained consistent and steadfast in our dedication to the sector, unlike many of the institutions that have emerged as of late as our competitors. Our clients also recognize that many new entrants to the market—brought on by the current commodity price environment and high activity level within the sector—may not be around if the environment changes.

Fortis has also benefited by the growth in demand for private equity capital, as we have made investments in certain PE funds as well as direct equity investments in oil and gas companies and midstream and oilfield service companies.

OGI: *How does Fortis differentiate itself in the marketplace?*

Holley: First, we believe that we differentiate ourselves with our people. We believe we have one of the top teams in the oil and gas (upstream, midstream and downstream) and services sectors. The oil and gas sector is still based heavily on relationships, and we feel that this is one of Fortis' greatest strengths. We also strive to be a true Merchant Bank, providing a full slate of products and services across the entire capital chain. We try to look at each transaction individually and objectively. We are aggressive in our approach with clients and prospects that we trust and believe in. We have a vast international network, and our global oil and gas business is based here in Dallas. We have the ability to follow (or in some cases lead) our clients outside the U.S. market and service their needs around the globe. The same people that they have a relationship with here in the U.S., are also the "face of Fortis" outside the U.S. and this allows them to deal with the people they know best as they expand and develop their businesses.

OGI: *What should oil and gas producers know about the current capital-access climate that would help them make better financial decisions near-term and long-term?*

Holley: The current market is highly liquid and capital is available like never before for oil

and gas producers. We believe it is still important for companies to align themselves with financial partners that are dedicated to the sector and have stayed active in the market through all price cycles and industry environments. There are currently a vast variety of innovative financial products and financial structures that companies can take advantage of to position themselves for current and long-term success and strength. We believe that a willingness to consider carving out a portion of equity and debt offerings for foreign investment (primarily among investors from mature markets in Europe and Asia) will allow for greater share price stability and diversification—taking advantage of a slightly different investor profile outside the U.S. capital markets.

OGI: *Have current upstream acquisition prices peaked?*

Holley: I would be lying if I said I knew. I would certainly not be surprised to see future transactions with higher multiples or higher prices paid. I think we sometimes make mistakes in how the market evaluates a price paid by a company for an upstream acquisition—whether it was high or not. It depends so much on what the dynamics surrounding a particular acquisition are and who the acquirer is. I believe in the saying that "One man's garbage is often another man's gold," and to take a general view on the effective price paid cannot truly be assessed until the acquirer has had a chance to execute its strategy surrounding a particular reserve acquisition. The underlying belief that prices will remain high will undoubtedly cause acquisition prices to remain high, as evaluated against historical standards. An active derivative market and the ability to hedge a material part of your price risk and lock in certain base rate of return levels enables companies to be more aggressive in the M&A market.

OGI: *What kind of deals have you done in the midstream sector?*

Holley: We have been very active in the midstream sector, especially in the past 4 years. Our midstream business has grown to approximately 40% of our current portfolio, and we have made great strides in developing products and services specifically for the midstream sector. We have been active in all aspects of the sector: providing working capital financing for pipeline and gas processing companies, financing the construction of onshore and offshore pipelines and treatment/processing facilities. We have provided mezzanine debt and made direct equity investments in private midstream companies, as well as developed specific energy derivative products for the midstream sector. We have advised clients on acquisitions overseas and have assisted clients in raising equity capital in both the U.S. and Europe. The midstream sector is a core component of our business strategy.

OGI: *What kind of deals have you done in oilfield services?*

Holley: We are a global lender to all sectors of the oilfield service sector, covering names from the large-cap drillers and integrated service companies to small, private companies. In North America, our portfolio spans onshore and offshore drilling, contract compression, workover and well services, offshore construction and pipelay, fabrication, OCTG, offshore supply and capital equipment manufacturing. Internationally, we have relationships with many of the established industry participants as well as the speculative rig builders through our offices in London, Oslo, Rotterdam and Singapore. Our transactions range from large unsecured syndicated loans to one-off highly structured credits for early-stage growth companies. Fortis has also taken underwriting positions for hundreds of millions of dollars in the sector over the last 12 months. Beyond credit, we have been focused on increasing our equity capital markets activities in the sector, with the bank acting as co-manager on several transactions thus far in 2006. ■

"I would certainly not be surprised to see future transactions with higher multiples or higher prices paid. I think we sometimes make mistakes in how the market evaluates a price paid by a company for an upstream acquisition—whether it was high or not."

Gasco Energy Inc. (AMEX: GSX)

Mark Erickson, President and CEO

Mark Erickson is president and CEO of Gasco Energy Inc. He was a founder and senior office and director of Pennaco Energy Inc., with properties in the Powder River Basin of Wyoming. He was also a founder and past president of RIS Resources (USA). He received his Masters of Science degree in mineral economics from the Colorado School of Mines. Erickson is a registered petroleum engineer with 24 years of experience in business development, finance, strategic planning, marketing, project management and petroleum engineering.

***Oil and Gas Investor:** Describe your company's strategy.*

Erickson: Denver-based Gasco Energy is an independent exploitation and production company focused on developing tight-gas sands in the U.S. Rocky Mountains. The company's leasehold is in two prolific hydrocarbon-bearing basins, the Uinta Basin of Utah and the Greater Green River Basin of Wyoming. Proved reserves at December 31, 2005, were 76.7 billion cubic feet of natural gas equivalent, 100% of which were in Utah and 97% were natural gas.

Our principal business is the acquisition of leasehold interests in petroleum and natural gas rights, either directly or indirectly, and the exploitation and development of the properties subject to these leases and enhancing their value through the application of modern technologies to develop high-potential exploitation resources. We are currently focusing our drilling efforts in the Riverbend project located in the Uinta Basin of Northeastern Utah, targeting the Wasatch, Mesaverde and Blackhawk formations. As of December 31, 2005, we held interests in 264,329 gross acres (165,577 net acres) located in Utah, Wyoming, California and Nevada.

Gasco's properties are located near major pipelines in the Rocky Mountains. Questar's 20-inch diameter system passes through Gasco's Riverbend project. Additional gas deliverability is available to markets on both U.S. coasts through several interstate and intrastate pipelines including: Colorado Interstate Gas, Northwest Pipeline, El Paso Natural Gas, Questar, the Pony Express Pipeline, Trailblazer Pipeline, TransColorado and the Kern River Pipeline.

***OGI:** Describe your core drilling and production areas.*

Erickson: Gasco's 2006 preliminary capital expenditure budget is set at $80 million, up from $50 million in 2005. The 2006 capex focuses on its Riverbend project in Duchesne and Uinta counties in Utah. Further, capex will be applied in the drilling of up to three wells in Wyoming as well as seismic, infrastructure and G&G. Riverbend is a statistical play yielding predictable, low-risk reserve adds marked by low geologic risk. The key to the project is in leveraging proven modern drilling and completion technologies, in particular stage fracing techniques, to best recover the gas in place. Gasco's large riverbed acreage position of approximately 124,000 gross acres (74,000 net) provides the company with a large inventory of potential well locations.

The Wasatch, Mesaverde and Blackhawk formations are the target tight gas-bearing sands in the Riverbend project. The formations are found at these approximate depths: Wasatch from 7,000 feet to 9,000 feet, Upper Mesaverde from 9,000 feet to 10,500 feet, Lower Mesaverde from 10,500 feet to 12,000 feet and Blackhawk from 12,000 feet to 14,000 feet. With three rigs currently running on Riverbend, Gasco is targeting approximately 32 gross wells, the majority to test the Blackhawk Formation in 2006.

The Blackhawk is an important primary target for Gasco due to its potential to add an estimated 0.25- to 2 billion cubic feet of incremental reserves. The formation is an additional 1,500 feet to drill and can be drilled and completed for an estimated $750,000. The Blackhawk sand bodies are over-pressured and underlie Gasco's entire leasehold position. These stacked pay zones are found in multiple fluvial trends, which Gasco continues to define through its active drilling program. Gasco geology indicates Blackhawk pay as a fluvial coastal plain environment across the entire Riverbend project, which predictable trends in higher-quality marine shoreface environments. These marine trends are currently being successfully developed in two areas of the Riverbend project with potential to identify additional trends.

The Wasatch, Mesaverde and Upper Blackhawk formations are normal to over-pressured, discontinuous, stacked, fluvial sandstones yielding multiple

Gasco's Blackhawk Spring Canyon marine trend yields 387 gross (259 net). Potential locations based on 40-acre spacing representing approximately 149 of Gasco's net Utah household.

completion opportunities. The normal-pressured Wasatch formation, where present, typically yields 0.25- to 1.0 billion cubic feet of estimated ultimate recovery. The over-pressured Upper Mesaverde yields estimated recoveries of 0.25- to 1 billion cubic feet. The Lower Mesaverde, also over-pressured, with estimated ultimate recoveries of 0.5- to 1.5 billion cubic feet. The over-pressured Blackhawk yields 0.25- to 2 billion cubic feet. A typical well is currently estimated to yield 1.5- to 3.5 billion cubic feet.

Gasco's current completion methodology involves initial completion of over-pressure Blackhawk and Lower Mesaverde pays where the gas is flowed directly to sales while the zones produce for a period of six to 12 months as the reservoir experiences a drop in pressure. Once the pressure is reduced allowing production from the lower pressure uphole zones, engineers re-complete the Upper Mesaverde and Wasatch formations with improved success from these gas-changed reservoirs.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Erickson: Gasco's Daniel Anticline and Muddy Creek projects are two core areas on its Greater Green River Basin acreage. According to the U.S. Geological Society, the Greater Green River Basin has produced more than 7.3 trillion cubic feet of natural gas and 849 million barrels of oil, making it one of the country's giant oil and gas regions. Gasco currently controls either through ownership or contracts, approximately 82,200 gross acres (39,000 net) in the northern green river basin.

The targets for this acreage include the Lance, Mesaverde, Ericson, Rock Springs and Hilliard formations. The Daniel Anticline prospect, at depths up to 16,500 feet, is a 2-D and 3-D seismically-defined prospect targeting over-pressured tight-gas sands and shales in the above described formations. The Muddy Creek prospect is targeting the same formations for normal pressure gas production at depths of less than 10,000 feet. Additional opportunities exist targeting the over-pressured Hilliard Shale prospective across Gasco's leasehold. The company will spud up to three wells in Wyoming in 2006.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Erickson: Management's extensive technical expertise is focused in the Rocky Mountains, particularly in drilling and completing tight-gas sands. Management has drilled hundreds of wells in the Rockies in its career and designed and implemented thousands of fracture stimulations. We retain our operational focus in these types of plays due to our expertise in the area.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Erickson: We do not focus attention on any one well or project due to the resource play nature of our projects. Resource plays take a "basket" approach where are range of EURs from high, medium to low are all factored in to arrive at an average

for the project. Resource plays are marked by repeatable, lower-risk, reinvestment opportunities to be developed over a multi-year project life-cycle.

OGI:* *This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?

Erickson: Gasco's 2006 preliminary capital expenditure budget is set at $80 million, up from $50 million in 2005. The 2006 capex focuses on its Riverbend project in Duchesne and Uinta counties in Utah where 32 gross (15 net) wells will be drilled. Further capex will be applied in the drilling of up to three wells in Wyoming as well as seismic, infrastructure and G&G. Riverbend is a statistical play yielding predictable, low-risk reserve adds marked by low geologic risk. The key to the project is in leveraging proven drilling and completion technologies, in particular stage fracing techniques, the best to recover the gas in place.

OGI:* *Do you foresee any acquisitions this year?

Erickson: We were early aggregators of large and contiguous acreage positions in Utah and Wyoming and are using our investment dollars to prove up these plays. We are fortunate to not have to assemble additional acreage. Possible acquisitions would only add to our core areas, but the lease play is largely over in both of our Uinta and Green River Basin plays.

OGI:* *Can your earnings momentum be sustained?

Erickson: Yes.

OGI:* *Does the company hedge?

Erickson: No. We do not control firm transportation and cannot prudently hedge production with this arrangement. We are not hedging averse, but do not need to do so at this time.

Gasco operates in gas-rich Rockies basins, an importang onshore source of hydrocarbons.

OGI:* *What price deck do you use?

Erickson: Our projects are evaluated at $6 and higher per thousand cubic feet Nymex. We run sensitivity cases down to $4 Nymex, which indicate that well economics can still yield a small return on investment at these low product prices.

OGI:* *How did the hurricanes impact your business?

Erickson: We believe that the Rocky Mountain region has picked up renewed interest from large-cap companies that are seeking lower risk predictable exploitation opportunities because its production operations are not impacted by hurricane activity. The evidence for this renewed interest is from recent M&A activity in the region by major and independent producing companies.

OGI:* *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you in last year?

Erickson: Our geologic model is defined, now we are working on completion design and reducing drilling days as we get more wells under our belt. Working with our service providers, we are further refining per-well economics on our play by focusing on cost reduction. Long term, we will derive tremendous economies of scale as our activity increases on our large contiguous acreage positions.

OGI:* *What is the greatest challenge facing your company?

Erickson: We continue to focus on development cost reduction. Historically, high activity levels have put tremendous pressure on service costs and manpower. These are not problems unique to Gasco, but challenges for all E&P companies.

OGI:* *Do you have any final thoughts or comments?

Erickson: We are fortunate to have large acreage positions in two leading hydrocarbon-rich basins. Barring high-price acquisitions, it is logistically challenging to assemble similar acreage positions in this environment. We look at recent pending and completed M&A transactions by larger E&Ps like Anadarko and ConocoPhillips as a reinforcement of our belief that the Rockies are a very important source of natural gas to help fuel the U.S. economy and its growth. New pipeline infrastructure such as Rockies Express may have a material impact on company valuations. We feel we are in the right place at the right time and will continue our work to fully define the value of our assets. ■

Gastar Exploration Ltd. (AMEX: GST)

Oil and Gas Investor: *Describe your company's strategy.*

Porter: Gastar Exploration Ltd.'s strategy is to create value and liquidity for our shareholders through exploiting our existing natural gas assets in East Texas, Wyoming, West Virginia and Southeast Australia while continually evaluating new opportunities and positioning the company for future growth.

OGI: *Describe your core drilling and production areas.*

Porter: Gastar's core drilling and production activities are in the Deep Bossier play located in Leon and Robertson counties in the East Texas Basin. Gastar has contiguous 55,000-gross acre leasehold with approximately 25,000 net mineral acres. The Deep Bossier play is focused on a series of deep sands (the lower and middle Bossier sands) that have been deposited off a Jurassic continental shelf and into an ancient deep-water environment in the form of turbidite flows. The lower Bossier sands range from 17,500 feet to over 21,000 feet in depth while the prolific middle Bossier sands are found from approximately 15,000 feet to 17,500 feet.

The lower Bossier sands are found productive primarily on the Hilltop structure where structural position has likely influenced early hydrocarbon migration and porosity preservation. The middle Bossier sands are found on the flanks of the Hilltop and other less dominant structures as well as downthrown to a series of regional growth faults where larger accommodation space has resulted in thicker deposition and improved reservoir characteristics.

These wells are characterized by high initial production rates ranging from 8- to 15 million cubic feet per day with steep first-year decline rates but a strongly hyperbolic production curve. Gastar believes that the average recoverable reserves per well in the Deep Bossier play are 6 billion cubic feet.

OGI: *Does the company anticipate expanding to any new core drilling and production areas this year?*

Porter: We do not anticipate expanding to any new core drilling and production areas. Gastar is participating in the drilling of a lower Yegua prospect in Orange County, Texas.

OGI: *What kind of basin or play makes the most sense to the company and why?*

J. Russell Porter serves as CEO and director of Gastar Exploration. He has a unique background with about 12 years of oil and gas E&P experience and 5 years of banking and investment banking experience specializing in the oil and gas industry. Previously, Porter was executive VP of Forcenergy Inc., a publicly traded exploration and production company, where he was responsible for the acquisition and financing of the majority of their assets across the U.S. and Australia. He holds a B.S. from Louisiana State University and an MBA from the University of North Carolina.

J. Russell Porter, CEO and Director

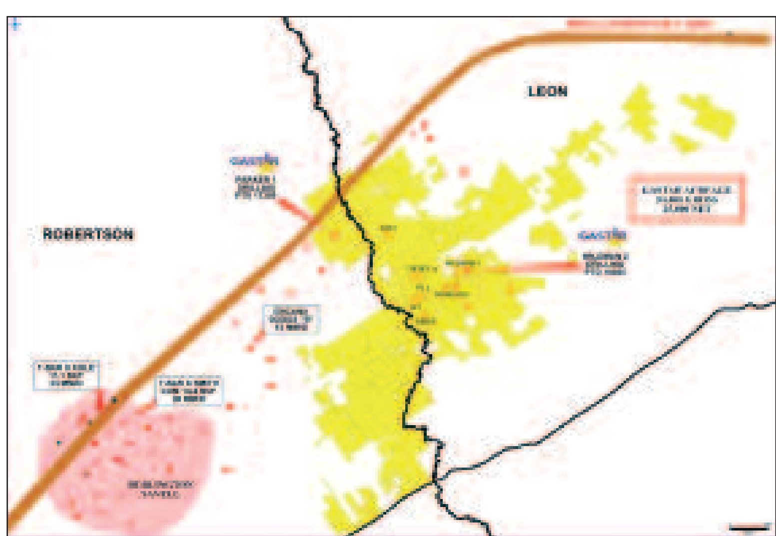
Porter: Unconventional deep gas reservoirs probably make the most sense to Gastar from a standpoint of the company's expertise in the drilling and completion of deep, high-temperature natural gas wells. The reduced exploratory risk inherent in the repeatability of such plays is a proper financial fit from a strategic perspective.

OGI: *Which one or two wells or projects could yield the greatest return for the company this year?*

Porter: In Gastar's Deep Bossier play, the John Parker No. 1 well is a pivotal well in that if it is successful, it will test and prove up a large number of similarly situated development drilling locations that have the potential to substantially increase production, cash flow and proven reserves. The John Parker No. 1 well is the first middle Bossier well that Gastar is drilling in a geologic setting similar to the neighboring successful middle Bossier wells completed by ConocoPhillips and EnCana.

The Wildman Trust No. 2 well is a lower Bossier well that has the potential to confirm the continuity of the production of lower Bossier sands over a large portion of the Hilltop structure with positive implications for future-reserve bookings and future lower-risk drilling locations.

The Odom No. 1 well in the lower Yegua play also has the ability to yield superior returns for



Gastar's acreage is located in the heart of the current Deep Bossier play.

Gastar due to the large reserve potential of the prospect. The gross reserve potential for the prospect is approximately 120 billion cubic feet with Gastar holding a 25% WI after casing point in the well.

***OGI:** This year, what is your projected budget and how many wells do you anticipate drilling? How does that compare with last year?*

Porter: Gastar's projected budget is approximately $[65] million compared to a $60 million (excluding acquisitions) budget in 2005. Gastar anticipates drilling a total of six Bossier wells, approximately 100 coalbed methane wells in the Powder River Basin of Wyoming and 10 CBM wells in Southeast Australia during 2006. A significant portion of the 2006 budget, approximately $6.5 million, is dedicated to the acquisition of a 250-square mile 3-D seismic survey over the company's East Texas Deep Bossier leasehold.

***OGI:** Do you foresee any acquisitions this year?*

Porter: We are evaluating potential acquisitions; however, our focus is on acquiring leasehold positions in developing plays or adding synergistic assets in Southeast Australia. We are not focused on the acquisition of producing properties, as we do not believe that our cost of capital will allow us to be competitive in the highly competitive market for quality producing properties with development potential.

***OGI:** Can your earnings momentum be sustained?*

Porter: We are focused on increasing our production from the Deep Bossier play over the next 12 months to generate positive earnings. We are generating positive operating cash flow with a goal of positive earnings within the next 12 months.

***OGI:** Does the company hedge?*

Porter: To date, we have not hedged primarily due to the risk inherent in the fact that a large portion of our production is concentrated in the Deep Bossier play in a relatively few number of wells and transported through a single gathering and transmission system. The risk associated with a shut down of the transmission system or in a shut down in the production capacity of key wells, when coupled with a gas price movement against a hedge position, would leave Gastar in a naked position relative to a hedge with potentially negative financial consequences.

Going forward, we are rapidly expanding our production base and working on additional outlets for the transportation of our Deep Bossier production. We are making arrangements for the ability to enter into hedges over the next 12 months and anticipate that we will likely use costless collars to hedge gas price exposure.

***OGI:** What price deck do you use?*

Porter: For internal budgeting purposes, we use a price deck that discounts the current 12-month natural gas futures strip, which is then adjusted quarterly.

***OGI:** How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?*

Porter: As an onshore producer, Gastar benefited from the increased natural gas prices related to the effects of hurricanes Katrina and Rita. Gastar does not consider its operations susceptible to major damage or loss from hurricanes.

***OGI:** Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Porter: Operational success in our Deep Bossier program and the successful registration of Gastar as an SEC-reporting company and the subsequent listing of Gastar's common shares on the American Stock Exchange.

***OGI:** What is the greatest challenge facing your company today?*

Porter: The greatest operational challenge for Gastar in the present environment is probably the challenge of competing for key services against larger operators while not possessing the

leverage that larger operators possess relative to large-scale drilling and completion programs. The current environment for drilling rigs and completion services, primarily experienced frac crews and equipment capable of safely and effectively fracing the deep Bossier wells, favors larger operators with large-scale operations that allow for pre-scheduling of services. Gastar is forced to settle for these services as available and on a lower priority basis with the service providers.

The greatest financial challenge is our ability to continue to access capital markers to raise capital for a drilling program that will outweigh internal cash flow for the next one or two years depending on activity level and gas prices.

***OGI:** Recently you have announced a joint venture with Chesapeake Energy Corp. What are your hopes for this venture?*

Porter: Our joint venture with Chesapeake (CHK) resulted in CHK acquiring approximately 16.5% of our outstanding common stock and a one-third interest in our Deep Bossier leasehold. Gastar's strategic and operational goal was to associate ourselves with a premier operator that could bring credibility and technical capacity to the deep Bossier program. The equity component of the transaction was intended to fund Gastar's portion of the drilling and seismic activities in the Bossier play for the remainder of 2005 and 2006.

Our hopes for the joint venture are that, with continued success, we will prove up significant value in the deep Bossier assets leading to a possible transaction for the sale of Gastar or the deep Bossier assets. Given CHK's successful and aggressive history of acquisition and expertise in deep natural gas plays, they are one of the logical potential acquirers for either Gastar or its assets.

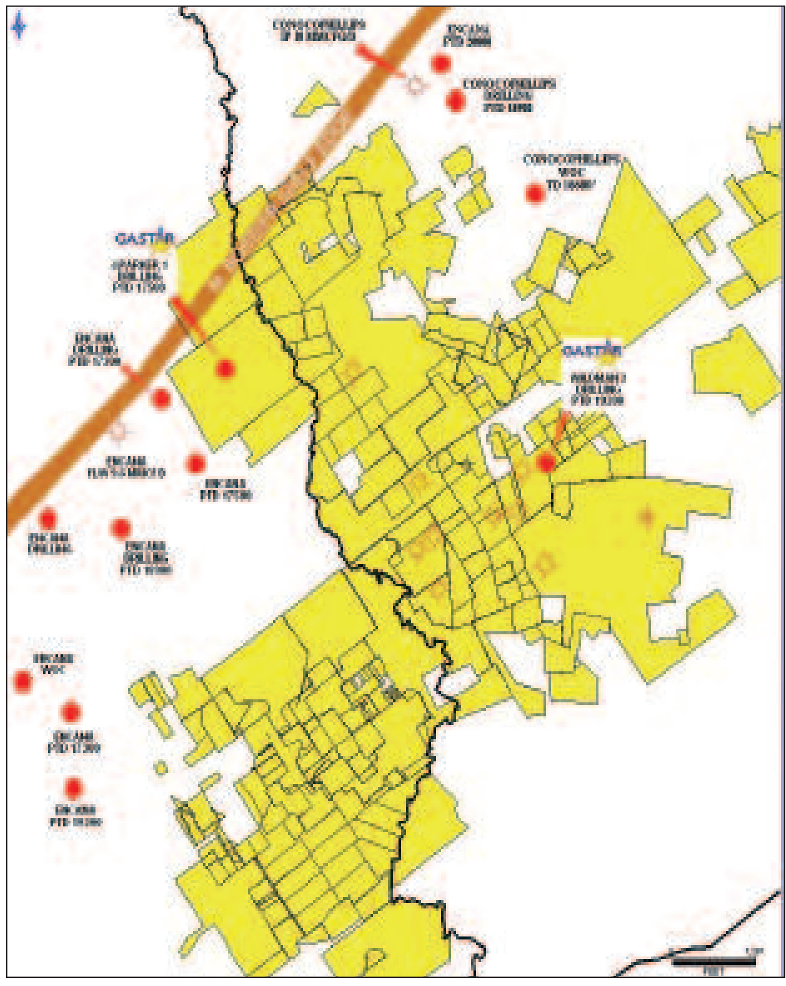
***OGI:** Do you have any final comments or thoughts?*

Porter: Gastar has substantial exposure to large-scale coalbed methane assets through its approximately 3 million gross acres of CBM concessions in New South Wales and Victoria, Australia. Gastar is actively exploring the CBM potential on both properties.

In New South Wales, Gastar has a 35% working interest position in PEL 238, a 2 million-gross acre concession located approximately 250 miles northwest of Sydney. Gastar and its Australian partners have recently completed the drilling of nine new CBM wells designed to test and prove the sustainability of commercial production rates from a de-watered area. The nine wells will be completed using large, sand-propped fracture stimulations in the Bohena coal seam with the goal of establishing initial gas production by year-end 2006 and a further goal of establishing the ability to begin booking proven reserves by mid-year 2007.

In Victoria, Gastar has a 75% working interest in the 1 million-gross acre EL 4416 license. Along with the operator, CBM Resources, we have recently completed the first two pilot CBM wells on the property with encouraging initial results. Both wells have demonstrated an ability to produce water at high rates (an indication of highly permeable coals) with signs of free gas in the early water streams. These wells are being equipped with larger capacity PC pumps and will be returned to production in the near future.

Gastar has also announced a potential acquisition of brown coal mining rights under the EL 4416 Victoria license, and it's currently evaluating financing possibilities related to this potential acquisition. ■



Gastar's Deep Bossier acreage is large and contiguous.

GEOCAN Energy Inc. (Toronto: GCA)

Wayne S. Wadley, President and CEO

Wayne S. Wadley is president, CEO and a founding director of GEOCAN Energy Inc. Wayne was the vice president, Production / Operations for Danoil Energy Ltd., now Canetic Resources Trust. From 1989 to 1992, Wadley held the position of production superintendent with OMV (Canada) Ltd., an Austrian-based oil and gas production company with operations in Canada. He has extensive experience in oilfield production operations. Wadley is a certified engineering technologist, receiving a diploma in Petroleum Resource Technology from the Northern Alberta Institute of Technology in Edmonton in 1980.

***Oil and Gas Investor:** Describe your company's strategy.*

Wadley: GEOCAN's strategy is four-fold:

1. Grow value for shareholders organically through the drill bit on company-owned lands;
2. Grow value for shareholders through acquisitions that are accretive;
3. Achieve a balanced asset mix of natural gas, light and medium oil, and heavy oil; and
4. Practice fiscal discipline and operational control while maintaining a balanced risk profile.

***OGI:** Describe your core drilling and production areas.*

Wadley: GEOCAN has three core areas located in unproven multi-zone hydrocarbon fairways in the Lloydminster area of Alberta/Saskatchewan, west central Alberta and northeast British Columbia.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? Where?*

Wadley: Over the past two years, in keeping with one of our core strategies of a balanced asset mix, GEOCAN has expanded its operations into the west central Alberta and northeast British Columbia areas, targeting light oil and natural gas. With the acquisition of Assure Energy in September 2005, the company now has operations in these areas. We plan to continue expanding in these core areas through acquisitions or development of prospects generated in-house.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Wadley: Areas of interest that include multi-zone proven play concepts with available unleased land are of the most interest to GEOCAN. This criterion provides the company with the opportunity to grow upon drilling success and develop the infrastructure to have a competitive advantage within these areas. GEOCAN has a balance of low-risk development projects with typically 80% to 90% drilling success rates and a portfolio of higher-risk, higher reward prospects. The company manages this overall risk profile very carefully.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Wadley: While the company is spending over US$10.5 million on exploration drilling (about 34% of the capital budget) in fiscal 2006, there are several exciting projects that could contribute significant returns. The recently announced 25% earned participation in the Raven well in west central Alberta has the potential to be very significant for the company. This $3.9 million (gross) well will test an 11,500-foot zone that has produced over 1.6 trillion cubic feet directly to the west in another geologic sequence. In keeping with our strategies, this opportunity comes with a large 44-section land base and an additional 44-section area of mutual interest on which to explore if the first well is successful. The appeal and strength of GEOCAN is the depth and variance of its prospects. No single play concept for prospect is critical to the success of the company. Operating in three core areas provides a diverse range of opportunities. This approach ensures that the solid foundation of the company is never in jeopardy while there still remains the upside that exploration drilling provides.

***OGI:** This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Wadley: GEOCAN's projected capital budget for 2006 is approximately $30.7 million with 41 wells scheduled to be drilled including projects associated with the recently closed Columbus Exploration acquisition. The budget earmarks about $13.5 million for development drilling, $10.5

million for exploration drilling and about $5.8 million for land and seismic acquisitions. Also included is about $900,000 for capitalized G&A expenses. In comparison, the total capital expenditures for 2005 were $17.9 million, which represents about a 71% increase for 2006.

***OGI:* Do you foresee any acquisitions this year?**

Wadley: GEOCAN is always active in evaluating potential acquisitions that are consistent with our overall strategy. The company announced recently the acquisition of a private company, Columbus Exploration Ltd., which included natural gas production and prospects within our existing west central Alberta core area.

***OGI:* Can your earnings momentum be sustained?**

Wadley: As the company continues to enjoy higher operating netbacks from reducing operating costs associated with a greater weighting to light and medium oil and natural gas production, growth in earnings is expected to continue.

***OGI:* Does the company hedge?**

Wadley: Not typically. The company has hedged production in the past only to protect the integrity of an acquisition and its ongoing capital spending plans.

***OGI:* What price deck do you use?**

Wadley: We use the Sproule Associates Ltd. price deck that is updated on a monthly basis. For budgeting purposes, we used Sproule May 31, 2006, prices as follows: WTI $71.24 per barrel, medium oil $45.24 per barrel, heavy oil $45.05 per barrel and natural gas $5.91 per million Btu. Please note that medium oil, heavy oil and natural gas prices are based on Canadian dollar forecasts and have been converted to US$ at an exchange rate of 0.90 CAN$/US$.

***OGI:* How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?**

Wadley: Other than through the affect on commodity prices, hurricanes do not directly affect our business as we do not produce in regions that have hurricanes. Production rates have increased to approximately 3,600 barrels of oil equivalent per day (including Columbus Exploration of about 400 barrels of oil equivalent per day) from 3,414 barrels of oil equivalent per day at year-end December 31, 2005. The company is active in constructing wellsite and production facilities on an ongoing basis as properties get developed.

***OGI:* Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?**

Wadley: Two major events for GEOCAN had the most impact for 2005; the acquisition of Assure Energy Inc. for approximately $46.4 million in September, and a subsequent bought-deal financing of about $18 million. These events positioned the company in additional core operating areas with a medium and light oil and natural gas production. That acquisition represents about 40% of the company's current production with prospects yet to be developed. The financing provided for a clean balance sheet that ensured ongoing capital projects would be completed in a timely fashion without fiscal constraints.

***OGI:* What is the greatest challenge facing your company?**

Wadley: Access to qualified services and personnel. The oil and gas industry is very active with many companies having difficulty attracting and retaining people. GEOCAN has added 17 new people over the past year to ensure future growth and responsible stewardship of existing assets. Service providers are also more eager to deal with larger organizations. As a result, as the company grows, it has increased buying power and the ability to command more timely services.

***OGI:* Do you have any final comments or thoughts?**

Wadley: GEOCAN has shown significant growth over the past two years (a four-fold increase in production rates in the past 2.5 years). With a net undeveloped land base in excess of 125,000 acres, a strong balance sheet and a balanced inventory of development and high-impact exploration projects, the company is well positioned to take advantage of continued strong commodity prices and to create value for shareholders. The current share price provides the investor the opportunity to participate in a value story that has a proven track record of strong growth with surplus opportunities. GEOCAN was recently awarded the 56th spot on PriceWaterhouseCoopers 2005 survey of Canada's Top 100 E&P companies up from 99th the prior year. Additionally, the *Globe & Mail's Report on Business Magazine*, which came out in July 2006, ranks Canada's Biggest Companies (Top 1,000) and ranks GEOCAN at No. 639 for 2005, our first listing by this publication. ■

Goodrich Petroleum Corp. (NYSE: GDP)

Robert C. Turnham, President and COO

Robert C. Turnham, Jr. has served as the company's chief operating officer since August 1995 and became president in February 2003. He has held various positions in the oil and natural gas business since 1981. From 1981 to 1984, Turnham served as a financial analyst for Pennzoil. In 1984, he formed Turnham Interests Inc. to pursue oil and natural gas investment opportunities. From 1993 to August 1995, he served as president of Liberty Production Co., an oil and natural gas exploration and production company.

***Oil and Gas Investor:* Describe your company's strategy.**

Turnham: We are in the midst of rapidly growing our production and reserves through the accelerated development of our project inventory, primarily in the Cotton Valley Trend of East Texas and North Louisiana, as well as selective exploitation of our South Louisiana assets. With eight rigs under contract, and a ninth scheduled to arrive in November, we anticipate double-digit growth in production, quarter-over-quarter, and significant year-over-year reserve growth for 2006.

***OGI:* Describe your core drilling and production areas.**

Turnham: Approximately 90% of our 2006 preliminary capital expenditure budget of $220 million will be spent in the Cotton Valley Trend, where we have in inventory approximately 140,000 gross (90,000 net) acres, which equates to over 2000 potential drill sites with probable and possible reserve exposure of approximately 1.2 trillion net cubic feet of gas. By virtue of our concentrated efforts, the majority of our production growth for this year will be coming from the Cotton Valley Trend.

***OGI:* Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?**

Turnham: We continue to evaluate additional resource plays to bolt onto our current inventory, primarily in Texas and Louisiana.

***OGI:* What kind of basin or play makes the most sense to the company and why?**

Turnham: At our current rate of drilling, with eight rigs under contract and a ninth coming in November, we have approximately 20 years of drilling inventory. The repeatable, statistical nature of the Cotton Valley Trend provides us a predictable model for production, reserve, cash flow and net asset value growth for the foreseeable future.

***OGI:* Which one or two wells or projects could yield the greatest return for the company this year?**

Turnham: Approximately 10% or our 2006 capital expenditure budget is allocated to moderate risk exploration and exploitation of our South Louisiana assets, but no one or two wells will have a material impact relative to the production and reserve growth anticipated from the Cotton Valley. We do, however, feel the potential returns for the South Louisiana program as a whole relative to the moderate risk provides a nice complement to our development activities in East Texas and North Louisiana.

***OGI:* This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?**

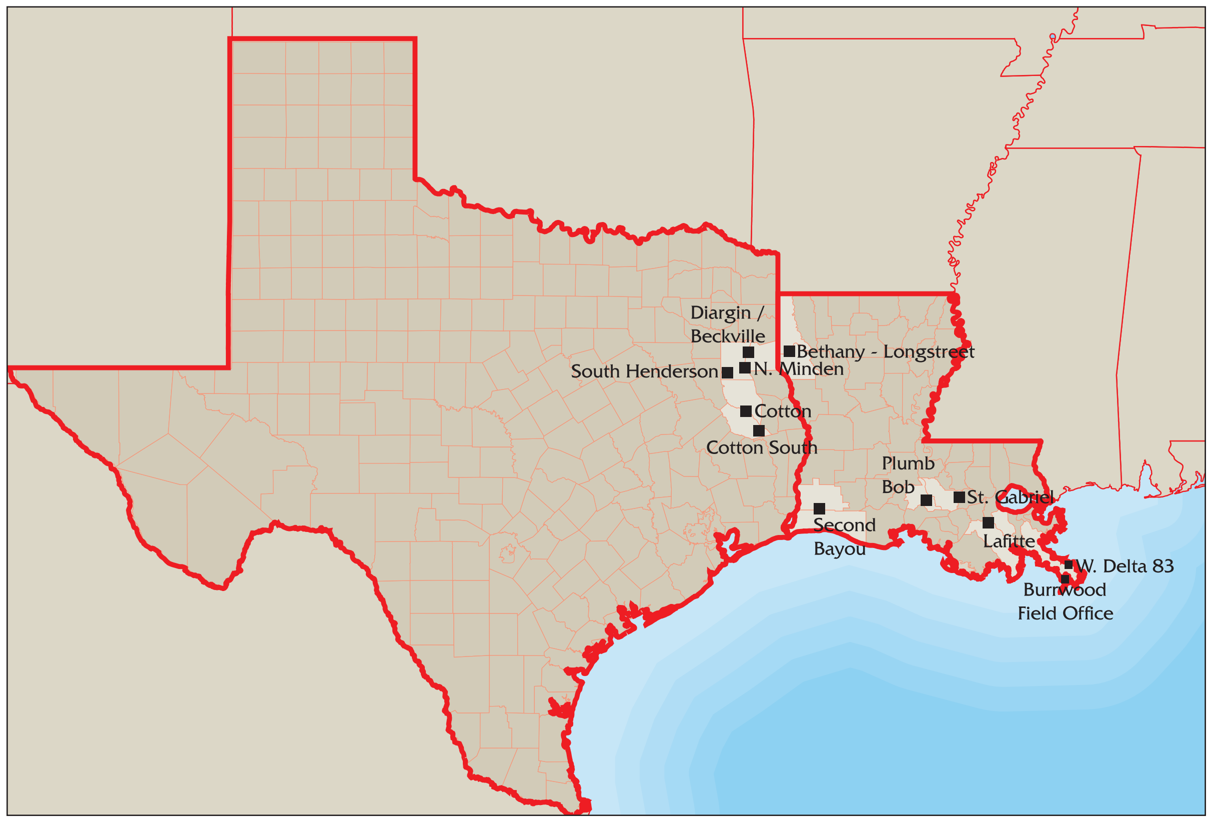
Turnham: We are projecting that we will drill approximately 100 wells this year with our $220 million capital expenditure budget, versus capital expenditures of $165 million in 2005.

***OGI:* Do you foresee any acquisitions this year?**

Turnham: We continue to expand our acreage inventory through lease acquisitions and joint ventures. We would entertain strategic acquisitions that add value, so long as we didn't dilute down the impact of our drilling inventory just for the sake of getting bigger.

***OGI:* Can your earnings momentum be sustained?**

Turnham: That all depends on commodity prices and the corresponding costs in the field. We are a company that believes in layering in a sufficient amount of hedges to protect against depressed commodity prices, which will ensure continuing development activity. With our rigs under contract in the Trend, we are confident in our ability to grow production and reserves and, based on the current 12- to 24-month Nymex strip, we are projecting increasing cash flow and net operating income per share.



Goodrich Petroleum's core assets are in highly concentrated regions of Texas and Louisiana.

***OGI:** Does the company hedge?*

Turnham: Yes, we use a combination of swaps and collars, and focus on locking in a floor sufficient to continue to yield attractive rates of return.

***OGI:** What price deck do you use?*

Turnham: We are big believers in modeling, utilizing different assumptions. We typically run an expected case on anticipated volumes, with a 15% variance, then run those volumes with \$5, \$7, \$9 and \$11 gas price cases, with corresponding prices on oil, and our hedges baked in.

***OGI:** How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?*

Turnham: We were impacted from both hurricanes Katrina and Rita. We had approximately \$8 million of hurricane-related capital expenditures and were shut-in at two of our fields for approximately 45 days. We were able to restore approximately 90% of our affected production within 90 days. Our insurance rates for South Louisiana increased dramatically as a result of the London insurance market's losses.

***OGI:** Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Turnham: Build-up of our drilling inventory in the Cotton Valley Trend and reserve growth. Over a 12-month period, we were able to grow our acreage position in the Trend from 45,000 gross acres to approximately 140,000 gross (90,000 net) acres, which, based on our eight rigs under contract, has given us our 20-plus-year drilling inventory. We also grew reserves by 71% in 2005 and anticipate significant reserve growth from our drilling program in 2006 as well.

***OGI:** What is the greatest challenge facing your company ?*

Turnham: Although we continue to look for additional opportunities and expand our acreage position in resource plays, our existing drilling inventory is in place for sustained growth. Our greatest challenge is now execution and maintaining a superior technical staff that will allow us to continue to accelerate the development of our acreage in the Trend.

***OGI:** Do you have any final comments or thoughts?*

Turnham: You can tie the company's recent success, as well as project into the future our growth potential, to the efforts of a very talented technical staff, whose loyalty and focus is unmatched in the industry. ■

Grey Wolf Inc. (AMEX: GW)

David W. Wehlmann, CFO and Executive VP

David W. Wehlmann joined Grey Wolf Inc. in July 1996 as VP and controller. He was promoted to senior VP, CFO and secretary in February 1998 and executive VP in March 2003. From November 1994 until he joined the company, Wehlmann was VP and chief accounting officer of EnerVest Management Co., L.C., a privately held oil and gas property acquisition and management company.

Wehlmann is a certified public accountant.

Oil and Gas Investor: *Describe the strategy that drives your company.*

Wehlmann: The overriding strategy for Grey Wolf Inc. is the continued growth of our company. We believe this growth can be achieved through both internal means and acquisitions as well as through the expansion of the turnkey segment of our company. We would expect this continued growth to translate into superior value for our shareholders.

OGI: *Where does the most promising business lie for the company, in the U.S. or internationally?*

Wehlmann: While Grey Wolf is currently 100% domestic, we believe we have growth opportunities in both the domestic and international markets. In recent years, the company has grown domestically as well as had international rigs. The company has also bid on several large international projects.

Grey Wolf also provides turnkey drilling services, which remain a significant part of our business strategy and an area for growth.

OGI: *Does the company have a backlog?*

Wehlmann: The company is currently marketing 112 land drilling rigs. Currently, 74 rigs out of the total 112 are working under long-term contracts that extend for a year or longer. The remaining 42 rigs are working under well-to-well day work contracts and turnkey contracts. There currently exists approximately four to six months of committed work for each of these rigs.

OGI: *Are there any plans to expand capacity at your fabrication facilities?*

Wehlmann: We plan on increasing our marketed rig fleet to 120 by the end of 2006. This will be accomplished through the refurbishment of three rigs that are held in inventory and the purchase of five new rigs. All seven are contracted with our customers under full-recovery long-term contracts.

OGI: *What percentage of the company's growth is organic as opposed to acquisitive?*

Wehlmann: Over the past several years, approximately two-thirds of the company's growth has been organic with the remaining one-third being accomplished through acquisitions. We added 11 rigs to our fleet in 2005 through refurbishment of inventory rigs, and we should add 11 to the fleet this year through a combination of refurbishment and the purchase of new rigs. In 2004, we acquired 10 rigs through the acquisition of a company.

OGI: *Have the prices or rates you charge finished rising, or are more increases possible in 2006 and 2007? Why?*

Wehlmann: Day rates for land rigs have increased substantially over the past two years, and there have been day rate increases in 2006. We believe that with the current level of oil and gas prices and rig activity, that additional rate increases are not only possible but also likely as we move through 2006 and 2007.

OGI: *Are you building new rigs? At what cost?*

Wehlmann: The five new rigs that are expected to be delivered in the fourth quarter of 2006 are costing approximately $15 million for each rig. Again, all of these rigs are contracted with our customers under full-recovery term contracts.

OGI: *Are you experiencing personnel (crew) shortages? What are you doing to attract and retain people?*

Wehlmann: While Grey Wolf has not experienced any shortages of personnel, the level of activity in the oil service industry is such that quality personnel are at a premium. Grey Wolf has taken several steps to ensure a quality workforce. First, we have not cut wages during the downturns while most of our competition did. Second, we provide a safe working environment with competitive wages and benefits. Third, we instituted a retention bonus program. The purpose of the program is to retain our key personnel, reduce the cost of turnover and improve safety and efficiency. ■

Hein & Associates LLP

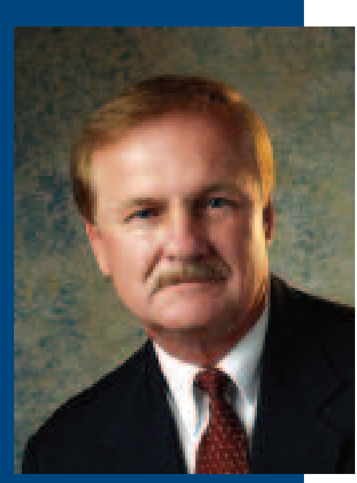
Oil and Gas Investor: *How long has your firm served the oil and gas industry?*

Unruh: Hein & Associates LLP is one of the few full-service accounting and business advisory firms in the nation with a primary market niche in the oil and gas industry. We have provided specialized financial services for the oil and gas industry since the firm opened its doors in 1977. Our offices are in some of the major markets for oil and gas companies—in Denver, Houston, Dallas and Southern California.

OGI: *What are some of the most important trends in the capital markets for oil and gas companies? What advice can you offer to executives in this area?*

Unruh: A time of high energy prices and intense focus on development of domestic energy supplies has created a favorable environment for buying, growing, developing and selling properties through both private and public markets. Some investors are targeting so-called "legacy" assets, fields that gushed oil and natural gas years ago, and which can now be brought back into production, thanks to higher commodity prices and newer technology. We often see this cycle of acquisition and business formation occur repeatedly with experienced management and investor groups. Taking the time to formulate an effective entity structure for this activity is imperative for safeguarding the investment and maximizing financial rewards. Good advice and planning in the beginning pay huge dividends by: maximizing after-tax returns; increasing the flexibility of the investor group; providing favorable tax options for management compensation plans; and providing for efficient sale of the assets.

Private equity markets have begun to avoid the double taxation of the corporation in favor of a tax-advantaged limited liability company (LLC) or partnership structure. This choice is advantageous for investors as well. Pension plans find this framework attractive because proper structuring can avoid creation of Unrelated Business Income Tax (UBIT). Foreign investors also find appeal in the tax advantages of this structure. The LLC or partnership provides ease and flexibility in designing management compensation programs. Granting of equity interests, vesting and special allocations can all be accomplished with greater ease in this type of structure. At the time of sale, the simplicity of the partnership structure helps owners to avoid time-consuming and costly negotiations, since most transactions can involve the direct sale of assets.



Larry Unruh,
Managing Partner

Larry Unruh has more than 30 years of tax and business consulting experience and serves as the managing partner of Hein & Associates LLP. His specialized business and tax structuring knowledge and industry experience has enabled him to provide important business planning guidance for energy companies. Unruh regularly assists public and privately held companies in the areas of business formation, debt and equity offerings, compensation planning, mergers and acquisitions, business valuation, new business planning and the sale of assets.

Unruh has been a member of the board of directors or the advisory board of four public companies. He is currently a member of the Independent Petroleum Association of Mountain States, the Colorado Oil and Gas Association, the Colorado Society of Certified Public Accountants, the American Institute of Certified Public Accountants and the Denver Metro Executives.

Before joining Hein & Associates LLP, Unruh served as the CFO and CEO for a Denver-based exploration, production and drilling company. He assumed the role of managing partner for Hein & Associates LLP in 2003. Unruh had previously served as the firm's director of tax operations and continues as the partner-in-charge of the Denver office. He began his career with Peat, Marwick, Mitchell & Co., later moving to Coopers & Lybrand.

OGI: *Name one issue that you share with the industry. How can you work together to improve the situation?*

Unruh: The market for professional services has been redefined in the post-Enron era. New regulatory reporting requirements have dramatically increased the needs of public companies for audit and assurance services, making it difficult for public accounting firms to hire and train enough experienced staff to meet the demand. The oil and gas industry is keenly aware of the shortage of qualified accounting staff, not only when seeking public accounting services, but also in filling the ranks of

their own accounting and internal audit departments. Experienced industry personnel are difficult to find, and taken together with the expansion of the industry, we see an enormous and ongoing need for training to fulfill the need for qualified staff.

We believe that programs at the university level are one component of the solution in this area, and have supported oil and gas industry educational programs in several of our markets. For example, Hein & Associates LLP helped to establish an oil and gas accounting class at the University of Colorado, and we were joined in the effort by several local oil and gas companies. Company CEOs and CFOs worked with our partners and managers to provide content, lectures and workshops for students. The program was well received, and the university plans to greatly expand enrollment this fall. The success of projects like this one demonstrates the demand for industry-related education from accounting and business majors who look forward to a career in oil and gas. We hope that this trend will continue at the major universities throughout the nation with the support of the accounting profession and the energy industry.

***OGI:** Can you offer any solace to oil and gas companies as they comply with the increasing burden of financial reporting requirements?*

Unruh: Like it or not, the impact of sarbanes-ocley legislation is here to stay and, as these standards are adopted by state legislatures, it is making increasing business sense for most private companies to consider following the new mandates. Venture capitalists look favorably on companies that have begun to institute these reforms. Bankers, insurers and other business partners also appreciate, and may later demand, the added security of solid internal controls. Opportunities for fraud decrease, operational efficiencies improve, and the possibility of litigation on matters of "fiduciary and due care" is diminished. Strong corporate governance and controls increase the value of the organization at the time of sale, especially if the buyer is a public company.

We recommend that public companies recruit a strong and independent board of directors with a highly qualified financial expert to chair their audit committee. This is essential to create and maintain a culture that produces quality financial and management reporting.

New rules for contemporaneous hedge accounting offer another example of how compliance with reporting requirements can benefit your business process. Widely used as a device to mitigate the risks of price volatility, hedging can actually introduce unknown risks if applied without sufficient analytic rigor. Accounting rules for reporting hedge transactions are among the most complex ever written. Recently, the SEC and other bodies have significantly increased the amount of documentation required at the inception of the hedge to allow companies to achieve the desired accounting treatment. Although these new requirements may seem burdensome, we believe that sound decisions on hedging transactions have always required this level of discipline. Think of it as simply writing down the reasoning for your hedging decisions. Meeting the new requirements for hedge transactions allows you to avoid reporting the transaction, and its inherent volatility, on your income statement.

"We recommend that public companies recruit a strong and independent board of directors with a highly qualified financial expert to chair their audit committee."

***OGI:** In your opinion, what may be one of the most underutilized tax deductions available to oil and gas companies?*

Unruh: In 2004, the American Jobs Creation Act created a deduction (IRC Section 199) for income attributable to "domestic production activities." Most oil and gas companies (and their certified public accountants) are aware of the deduction; however, they may not be familiar with the rules and limitations. The IRS issued final regulations on May 24, 2006, providing clarification on the deduction. The deduction is calculated based on a percentage of the lesser of qualified production activity income and taxable income, subject to a W-2 limitation. The percentage gradually increases from 3% currently to 9% in 2010 and thereafter. Keep in mind that this deduction provides a permanent tax benefit, which reduces the effective tax rate for corporate taxpayers. We recommend that all oil and gas companies explore this opportunity for tax savings. ■

Helmerich & Payne Inc.
(NYSE: HP)

***Oil and Gas Investor:** Describe the strategy that drives your company.*

Helmerich: H&P has a differentiated strategy. It is driven by our ability to deliver greater value to our customers through ongoing improvements and leadership in drilling performance and safety. We provide and support customers with the most innovative and advanced rigs in the industry for the purpose of driving their total well costs down. They, in turn, provide us with premium day rates and unique growth opportunities, which improve our earnings and shareholder returns.

***OGI:** Where does the most promising business lie for the company, in the U.S. or internationally?*

Helmerich: The U.S. land market is currently the largest and most active drilling market in the world. It is where the majority of our assets are and where the focus of our ongoing growth is. Although lagging, international markets are becoming increasingly attractive. H&P's ongoing international operations are concentrated mostly in South America, but we are currently broadening our international footprint. We have operated in more than 20 countries around the world and will continue to search for strategic positioning opportunities that may allow for sustainable growth abroad.

***OGI:** Does the company have a backlog?*

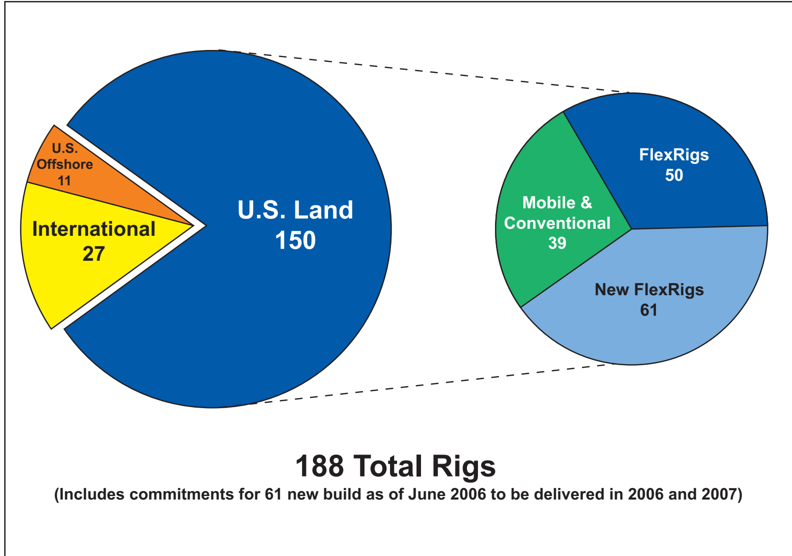
Helmerich: The market has recognized the value of the H&P brand and has reacted with very strong incremental demand for our services. Sixty-one newbuild FlexRig orders, which are based on firm long-term commitments, are expected to significantly increase H&P's earnings and represent a strong validation for our value proposition. We are currently in the process of deploying these 61 newbuild FlexRigs, the last of which is expected to be delivered in 2007. There continues to be a high level of market interest that may lead to additional new FlexRig construction. Additional orders would have delivery times of approximately one year.

***OGI:** Are there any plans to expand capacity at your fabrication facilities?*

Hans Helmerich has been president and CEO of Helmerich & Payne since 1989. From 1987 to 1989, he served as president, cheif operating officer and director; from 1985 to 1987, he served as VP in charge of the Exploration & Production Division. He started with the company in 1981, serving as the assistant to the president until 1985.

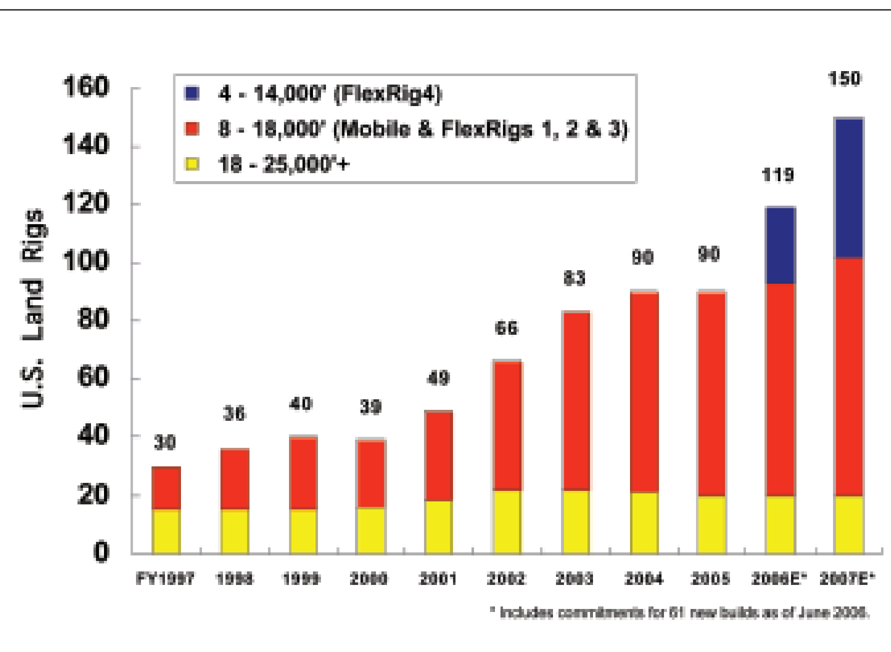
Helmerich & Payne is a contract drilling company with a market cap of $3 billion and 5,200 employees. Helmerich earned a B.S. from Dartmouth College in 1981 as well as a PMD from the Harvard Business School in 1985. Other directorships include being a board member for Atwood Oceanics Inc., and Cimarex Energy Co., a trustee for Northwestern Mutual, a board member of the Indian Nations Council–Boy Scouts of America, the Oklahoma Business Education Coalition, the Foundation of Tulsa Schools, the Tulsa Community Foundation, the Tulsa Metro Chamber, a past director of the Federal Reserve Bank of Kansas City and the Thomas Gilcrease Museum Association.

Hans Helmerich, President and CEO

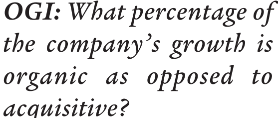


FlexRigs represent more than half of the fleet now.

Helmerich: At this point, we are making our best efforts to deliver on our original schedule, which is based on a sustainable cadence of four rigs per month. We are making every attempt to deploy rigs to our customers at that pace. We may expand fabrication capacity in the future if the market demand remains strong and if we find that we can efficiently and reliably sustain a higher level of growth.



H&Ps fleet includes rigs rated to more than 25,000 feet.



***OGI:** What percentage of the company's growth is organic as opposed to acquisitive?*

Helmerich: 100%. This is an integral part of our strategy and a strong competitive advantage in today's environment.

***OGI:** Which well or project will be most significant to the company this year? Why?*

Helmerich: Our FlexRig construction project. Orders for 61 newbuild FlexRig (as of June 2006) will increase H&P's 2005 global rig fleet by approximately 50% by mid-2007.

***OGI:** How much have you increased your day rates, and is that the end, or do you foresee drilling rates continuing to rise in 2006 or 2007?*

Helmerich: H&P's average day rates for all U.S. land rigs as reported on our last three Web cast conference calls were:

- $22,847 on April 27, 2006
- $21,622 on Jan. 26, 2006
- $19,551 on Nov. 16, 2005

We expect day rates to continue to increase, even though the rate of increase will likely slow down. Day rates corresponding to new build FlexRigs (that were contracted in 2005 and that are currently in the process of being deployed) are, on average, lower than current spot rates. This factor will be more than offset by the growth in total activity generated by our FlexRig construction program, which should generate substantial growth in earnings going forward.

"THE MARKET HAS RECOGNIZED THE VALUE OF THE H&P BRAND AND HAS REACTED WITH VERY STRONG INCREMENTAL DEMAND FOR OUR SERVICES."

***OGI:** Are there any additional comments or thoughts you would like to address?*

Helmerich: After a long period of consolidation and refurbishment of very old assets, there has been a clear shift in the market that has significantly enhanced our competitive position. Newbuilds, drilling efficiencies, safety and people have become the new value drivers in our sector, and H&P's strong advantages in those areas should allow the company to grow at a higher rate than the competition. ■

Hercules Offshore Inc. (NASDAQ: HERO)

***Oil and Gas Investor:** Describe your company's strategy.*

Stilley: Hercules Offshore is focused on providing reliable, safe and experienced offshore drilling and liftboat services to the oil and gas E&P industry. Our strategy for growing the company is primarily focused on acquisitions of shallow-water offshore drilling rigs and liftboats. As such, we have completed 11 separate transactions in the last two years. We are also actively pursuing expansion opportunities in international markets with characteristics similar to the shallow-water U.S. Gulf of Mexico, such as West Africa, the Middle East and the Asia-Pacific region. We will remain financially disciplined and strive to maintain an organizational structure and asset base that allows us to be an efficient, low-cost service provider in the industry.

***OGI:** Where does the most promising business lie for the company, in the U.S. or internationally?*

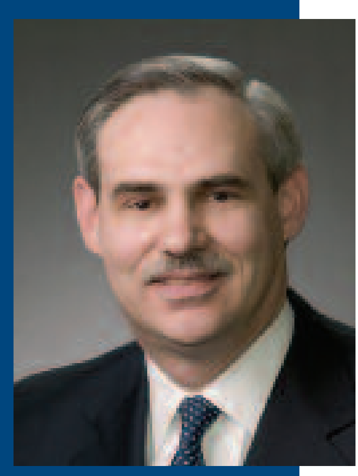
Stilley: As you know, with six jackups and 47 liftboats in operation in the U.S. Gulf of Mexico, it clearly represents our most significant market. Since our company was formed less than two years ago, we obviously like the business prospects in the U.S. Gulf of Mexico, or we would not have structured our business as such. The aging infrastructure in the U.S. Gulf of Mexico should continue to provide good opportunities for our liftboat services, while the reduced supply of jackup rigs participating in the U.S. Gulf of Mexico has tightened the shallow-water drilling market dramatically.

That said, a key component of our strategy is to expand internationally. From a business risk perspective, we realize the need for more geographic diversity. Furthermore, costs are lower in many international markets and business visibility is superior to that of the U.S. Gulf of Mexico.

Randall D. Stilley was named CEO and president of Hercules Offshore Inc. in October 2004. He is responsible for developing and executing the company's growth strategy. Stilley is a member of the board of directors of Hercules Offshore.

With nearly 30 years of experience in the oil services industry, Stilley has executive management, operations and technology expertise in working with oil and gas companies around the world. Prior to joining Hercules Offshore, he served as CEO and president of Seitel Inc., a Houston-based provider of seismic data and related geophysical services to the oil and gas industry. He also previously served as president of the Oilfield Services Division at Weatherford International Inc. and held numerous executive positions at Halliburton Co., including VP-Asia/Pacific & China Region and VP-Technology, Products & Services.

A native of Marshall, Texas, Stilley holds a degree in aerospace engineering from the University of Texas at Austin. During his career, Stilley, who is a registered professional engineer, has been active in the Society of Petroleum Engineers and in the Petroleum Equipment Suppliers Association's Gulf Coast and Far East regions. He is also a member of the Energy Program Steering Committee at the Houston Technology Center.



Randall D. Stilley, CEO and President

***OGI:** What percent of your revenues are domestic versus international, and how is that changing?*

Stilley: In 2005, less than 5% of our revenues were generated outside the U.S. With our current asset base, we expect that greater than 25% of our revenues will be generated internationally in 2007. As we continue to grow our business, I would expect this international component to increase over time.

***OGI:** Does the company have a backlog?*

Stilley: Our visibility has increased dramatically over the last year in both of our business segments. We currently have an average of 280 days backlog for our jackup fleet, up from about 60 days a year ago. The nature of the work that liftboats perform in the U.S. Gulf of Mexico is generally short-term, so there are few long-term contracts. However, we currently have excellent visibility in the business, despite the lack of long-term contracts.

Since hurricanes Katrina and Rita, our liftboat business has essentially been at full utilization as hurricane repair work is driving much of the business. We expect this repair work to last into 2007, at which time, we should experience strong pent up demand for well intervention-related work that liftboats typically perform.

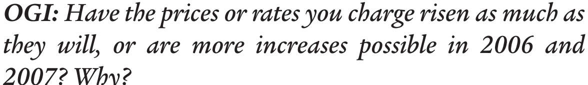
OGI: Are there any plans to expand capacity at your fabrication facilities?

Stilley: We operate rigs and liftboats, and we have increased our fleet size dramatically over the past year, growing from seven jackup rigs and 22 liftboats in June 2005 to nine jackup rigs and 51 liftboats currently. We will continue to focus our efforts on growing both businesses through acquisitions.

Hercules' fleet of liftboats, like the Whales Shark pictured here, has increased over the last year.

OGI: What percentage of the company's growth is organic as opposed to acquisitive?

Stilley: As you know, we have been very acquisitive, having completed 11 transactions in less than two years. But we have also added value through organic growth by completing significant refurbishment and upgrade projects on three of our drilling rigs.



OGI: Have the prices or rates you charge risen as much as they will, or are more increases possible in 2006 and 2007? Why?

Stilley: Day rates have increased substantially in both of our businesses. Day rates for our drilling rigs have increased from $36,000 to $46,000 a year ago to $66,000 to $90,000 currently. Day rates for our liftboats have increased by 60% to 90%, year over year. Given rising labor and insurance costs and a situation where demand for both drilling rigs and liftboats is outstripping supply, there may be further increases in 2006 and 2007. However, should U.S. natural gas prices continue to weaken, drilling economics may not support further increases in jackup day rates in the Gulf of Mexico.

Industry-wide, there are 60 to 65 new jackup drill rigs on order.

OGI: If you are a rig company, are you building new rigs? At what cost?

Stilley: We are not currently building any new drilling rigs. However, industry-wide there are 60 to 65 new jackup drilling rigs on order. If we were to order a new jackup today, the rig would cost approximately $180 million and would not be delivered until mid-2009. We believe our returns will be much greater throughout the business cycle by expanding through acquisitions rather than through newbuilds at this time.

OGI: Are you experiencing any personnel (crew) shortages? What are you doing to attract and retain people?

Stilley: I wouldn't characterize our personnel situation as a shortage, but I would say the situation is very tight. Wages for various offshore positions have increased significantly year over year due to the limited availability of skilled personnel. However, we're doing a number of things to attract and retain people. First, we strive to provide the safest possible working environment for our employees. Our safety record has been significantly better than the industry average since our company's inception. We also offer a very competitive benefits package to our employees, and our target wages are in the top quartile of the industry. This year we also instituted a retention bonus for key offshore positions. As a result, we have experienced very little turnover among our key employees. ■

Infinity Energy Resources Inc. (NASDAQ: IFNY)

Oil and Gas Investor: *Describe your company's strategy.*

Tuell: Infinity has two avenues of growth: exploration and production of natural gas and oil (E&P); and oilfield services. Our E&P growth strategy involves the acquisition of low cost, high potential properties, currently in the Fort Worth Basin and in the Rocky Mountains, and the exploration and development of and production from the acquired properties. Our E&P activities involve a mix of non-conventional gas and oil and conventional gas plays. Our oilfield service growth strategy involves the expansion of our leading position in Eastern Kansas/Northeast Oklahoma market through growth capital expenditures and acquisitions of similar, smaller competitors or operations in the same or adjacent geographical areas and through service line extensions. We employ free cash flow from our E&P and oilfield service operations, and our proceeds from borrowings under our senior secured notes facility and other sources to fund our E&P exploration and development efforts.

OGI: *Describe your core drilling and production areas.*

Tuell: Our core area for drilling and production is the Fort Worth Basin in Texas, targeting the Barnett Shale formation. We also produce oil and gas in the Rockies in the Wamsutter Arch area of the Green River Basin in Wyoming and from the fractured Niobrara Shale formation in the Sand Wash Basin in Colorado.

OGI: *Does the company anticipate expanding to any new core drilling and production areas this year?*

Tuell: The company does not plan to expand its drilling or production areas from the Fort Worth, Green River and Sand Wash Basins this year.

OGI: *What kind of basin or play makes the most sense to the company and why?*

Tuell: As stated in the business strategy, Infinity prefers to acquire early-stage projects or prospects and to evolve the prospect into exploration and, if successful, development drilling plays. Therefore, Infinity has attempted to enter into or grow within basins that have significant contiguous resource plays or offer attractive low- to medium-risk conventional opportunities. Examples of each would be the Barnett Shale play in the Fort Worth Basin and the fractured Niobrara Shale non-conventional formation in the Sand Wash Basin.

OGI: *Which one or two wells or projects could yield the greatest return for the company this year?*

James A. Tuell was named president and CEO of Infinity in June 2005 and has been a director of the company since April 2005. Prior to that, he was executive VP since March 2005. Since February 2004 and June 2004, Tuell has also served as president of Infinity Oil & Gas of Wyoming Inc. and Infinity Oil and Gas of Texas Inc., wholly owned subsidiaries of Infinity Energy Resources Inc. Prior to joining Infinity, he owned and operated an accounting and finance consultancy, which served Infinity and numerous other independent energy companies from July 2001 to February 2004. From 1996 through July 2001, Tuell served as controller and chief accounting officer of Basin Exploration Inc. From 1994 through 1996, he served as VP and controller of Gerrity Oil & Gas Corp. He was employed by the independent accounting firm of Price Waterhouse from 1981 through 1994, most recently as a senior audit manager. He earned a B.S. in accounting from the University of Denver and is a certified public accountant.

James A. Tuell, President and CEO

Tuell: The bulk of growth for Infinity will come from the Barnett Shale play in Texas and also from our oilfield service division, Consolidated Oil Well Services Inc., which may be sold as recently announced.

OGI: *This year, what is your projected budget, and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Tuell: Infinity has estimated capital expenditures of $47 million for 2006, which would be approximately 7% higher than the $44 million spent in 2005. The budget contemplates the drilling of 18 to 20 horizontal Barnett Shale wells and four to five vertical wells in the Fort Worth Basin of Texas. Infinity also anticipates spending approximately 10% of capital expenditures at its oilfield services arm.

OGI: *Do you foresee any acquisitions this year?*

Tuell: Infinity is continuously acquiring leases of land in Texas and the Rockies. There are no

current plans in the budget for any large-scale acquisitions.

OGI: ***Can your earnings momentum be sustained?***

Tuell: EBITDA (earnings before interest, income taxes, depreciation, depletion, amortization and accretion expenses, and other non-cash charges) has grown significantly from $5.2 million in a calendar year 2004 to $15.6 million for the annualized first quarter of 2006. We believe that continuous drilling in Texas, and some drilling in the Rockies when conditions permit, along with expansion capital expenditures at our oilfield services arm will allow for continued EBITDA growth.

OGI: ***Does the company hedge?***

Tuell: The company hedges a small portion of its oil and gas production, as required by its credit facility. The company has hedged more oil than gas in recent periods due to the historically high oil prices and due to declining gas prices during 2006.

OGI: ***What price deck do you use?***

Tuell: Infinity typically uses 12-month Nymex strip prices for oil and gas, adjusted for basis differentials, quality, transportation costs and energy. The typical overall adjustment from Henry Hub to our natural gas wellhead is expected to average less than $1 per thousand cubic foot equivalent, and from Cushing to our crude oil wellhead is expected to average only about $1 per barrel. Our projects on the margin tend to be economic down to fairly low levels of oil and gas prices.

OGI: ***Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?***

Tuell: The rapid growth of our oilfield service arm's financial and operational results, as well as the initial contribution to production from the Barnett Shale in Texas are the two biggest factors for success in 2005.

OGI: ***What is the greatest challenge facing your company?***

Tuell: As is typical with early-stage firms with E&P arms pursuing resource plays, we are capital constrained relative to what we spend versus what we could spend if granted easy access to attractively priced capital. Over time, as our results continue to build and improve, we expect capital on increasingly favorable terms to become more readily available to Infinity, and that will permit us to accelerate the exploration and development of production and reserve bases.

OGI: ***How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?***

Tuell: Directly, there was no impact to us as our operations are 100% onshore and away from the Gulf Coast. Indirectly, the hurricanes caused record high natural gas prices, which were then followed by rapidly declining natural gas prices (due primarily to a 100-year record warm winter and "over-production" due to the high natural gas prices of late 2005). The increase in gas prices did cause additional activity for our oilfield service arm, which has continued recently despite falling gas prices due to the long-term nature of our customer's primarily coalbed methane projects. We have passed along some rate increases to our customers on a region-by-region basis and we have added new equipment in 2006 that was ordered in 2005.

OGI: ***Do you have any closing thoughts or comments?***

Tuell: Not mentioned in the interview is our 1.4 million-acre concession offshore Nicaragua in the Caribbean Sea, which we think is a very promising and potentially large oil and gas prospect. We announced recently that we are exploring our strategic alternatives with respect to Nicaragua.

Our oilfield services arm, Consolidated, has been growing revenue at a 50% or better clip over the past few years, and we expect that high-margin business to continue to do that into the future. As recently announced, we have received bids and hired an advisor for the potential sale of this unit. Along with Nicaragua, we believe the services arm provides a lot of potential value for shareholders that is likely not being recognized in our stock price.

Infinity is very excited about the growth we anticipate experiencing over the next few years from an early stage E&P firm to a larger entity with significant production and reserve base. It is a great time to be in the oil and gas business, and the recent gas price weakness has not deterred our outlook or the market's outlook for the energy industry over the next few years as growing international and domestic demand for energy continues to rise. ■

A drilling rig in Routt County, Colorado.

KODIAK OIL & GAS CORP. (TORONTO VENTURE: KOG)

Oil and Gas Investor: *Describe your company's strategy.*

Peterson: Kodiak has focused its exploration efforts in two basins of the Rockies: Green River Basin of southwestern Wyoming for natural gas reserves; Williston Basin of eastern Montana and western North Dakota for oil reserves. The company prefers to operate its properties in each basin whenever practical with an approximate 50% working interest.

OGI: *Describe your core drilling and production areas.*

Peterson: In Wyoming, the Greater Green River Basin, including Rock Springs Uplift and Vermillion Basin. In North Dakota and Montana, the Williston Basin.

OGI: *Does the company anticipate expanding to any new core drilling and production areas this year?*

Peterson: No.

OGI: *What kind of basin or play makes the most sense to the company and why?*

Peterson: Kodiak has made an effort to balance its portfolio of projects between oil and natural gas. Risk and reward is carefully evaluated in all of our projects, and it is essential that most of our prospects have multiple drill sites in order to make the exploratory risk compensatory with the development opportunity.

OGI: *Which one or two wells or projects could yield the greatest return for the company this year?*

Peterson: Our largest current project is the Vermillion Basin Deep Gas play in Southwestern Wyoming. During 2005, Questar Exploration began work evaluating the Baxter Shale and Frontier and Dakota sandstones down to an approximate depth of 15,000 feet. Kodiak is the second-largest leasehold owner in the area with nearly 30,000 net acres. Based upon a 40-acre spacing pattern, the lease holdings have the potential for approximately 750 drilling locations. Current reserve estimates are in the 3- to 4-billion-cubic-foot-per-well-range.

OGI: *This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Peterson: We began the year with a budget of $30 million, with participation in 19 gross wells (10 net wells). Currently, we anticipate exiting 2006 having spent closer to $23 million, as we want to assure ourselves of capital for the Vermillion Basin as we move forward into 2007.

Our 2005 capital expenditures totaled $12 million with participation in 12 gross (5.8 net wells).

LYNN A. PETERSON has more than 25 years of industry experience. He has served as a director of Kodiak Oil & Gas Corp. since November 2001, and president and CEO since July 2002. Peterson was an owner of CP Resources LLC, an independent oil and gas company, since 1986. He was treasurer of Deca Energy Corp. from 1981 until 1986. Prior to that, he was a certified public accountant with Ernst and Whitney. He received a B.S. degree in accounting from the University of Northern Colorado in 1975.

Lynn A. Peterson, CEO and President

OGI: *Can your earnings momentum be sustained?*

Peterson: The first quarter of 2006 marked the first quarter of positive cash flow, and we expect this to continue throughout the year. We anticipate the second quarter will be comparable to the first quarter, and then we should start to see revenues increase during the third and fourth quarters as we begin to hook up wells that were drilled during the first, second and third quarters.

OGI: *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Peterson: Access to capital markets and rigs.

OGI: *What is the greatest challenge facing your company?*

Peterson: Maintaining control of drilling costs and acquisition of prospect acreage.

OGI: *Do you have any final comments or thoughts?*

Peterson: The company has made a great deal of progress from its formative years. We will participate in the drilling of our first wells in the Vermillion Basin during the fall of 2006. Based upon our results, 2007 and beyond could see the company transform into a completely different entity as we begin to exploit the potential of the Vermillion Basin with a steadily growing capital commitment. ■

MarkWest Energy Partners (AMEX: MWE)

Frank M. Semple, President and CEO

Frank M. Semple was appointed Nov. 1, 2003, president of both the company's general partner and MarkWest Hydrocarbon, as well as becoming CEO Jan. 1, 2004. Prior to his appointment, Semple served as chief operating officer of WilTel Communications, formerly Williams Communications. Prior to his tenure at WilTel Communications, he was the senior VP/general manager of Williams Natural Gas from 1995 to 1997.

During his tenure at Williams Communications, he served on the board of directors for PowerTel Communications and the Competitive Telecommunications Association (Comptel). He currently serves on the board of directors for the Tulsa Zoo and the Children's Medical Center. Semple holds a bachelor's degree in mechanical engineering from the United States Naval Academy.

***Oil and Gas Investor:** Describe your company's strategy.*

Semple: MarkWest Energy Partners L.P., a master limited partnership (MLP), is a midstream energy company primarily engaged in the gathering, processing and transportation of natural gas and refinery off-gas; the transportation, fractionation and storage of natural gas liquids; and the gather and transportation of crude oil. It is our strategy to continue to grow the partnership and its distributions by pursuing a multi-tiered and risk-weighted strategy to increase its asset base and service capability. The primary elements of this strategy include:

- increasing utilization of existing facilities;
- expand operations through incremental investment core areas;
- completing strategic, accretive acquisitions; and
- improving stability of cash flow with long-term, fee-based contracts.

***OGI:** Describe your core drilling and production areas.*

Semple: As a midstream company, we do not drill or produce reserves on our own. We do, however, gather and process gas reserves. Our core areas are located in East Texas, western Oklahoma and Appalachia.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Semple: We expect to deploy in excess of $50 million in capital in 2006. Key projects include completion of our Blocker field gathering project, operational enhancements to our Javelina processing facility and a pipeline extension project for our Starfish asset.

***OGI:** This year, what is your projected budget? How does that compare with last year?*

Semple: As mentioned above, we expect to deploy in excess of $50 million in capital. We deployed $70 million in 2005.

***OGI:** Do you foresee any acquisitions this year?*

Semple: We are constantly evaluating acquisition opportunities. We believe, however, organic growth projects provide a better opportunity for us in the short term.

***OGI:** Can your earnings momentum be sustained?*

Semple: We believe our earnings momentum can be sustained. We also trust that over the long term, we can achieve an annual 10% growth in distributable cash flow (DCF). DCF is the primary growth metric for MLPs.

***OGI:** Does the company hedge?*

Semple: Yes. MarkWest hedges on an ongoing basis. We hedge both natural gas and natural gas liquids.

***OGI:** What price deck do you use?*

Semple: We typically use the forward strip for our price check.

***OGI:** Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Semple: We made two significant acquisitions in 2005. The first was Starfish, which is an offshore gathering system in the Gulf of Mexico. The second was Javelina, which is an onshore off-gas processing facility located in Corpus Christi, Texas.

***OGI:** What is the greatest challenge facing your company?*

Semple: The greatest challenge facing MarkWest will be to find high quality organic growth acquisition opportunities that will sustain our DCF growth expectations. ■

Michael Baker Corp. (AMEX: BKR)

***Oil and Gas Investor:** Describe what drives your company.*

Fusilli: The Baker strategy is built around four key components: **Maximize** by pursuing and winning our customers' largest and most complex projects; **Optimize** by moving to contracts that are performance-based and carry a higher operating margin; **Innovate** by making greater use of technology and creativity to deliver our services; and **Leverage** by combining the skills and knowledge of both of our business segments—Energy and Engineering—to provide the lifecycle of services to our customers.

***OGI:** Where does the most promising business lie for the company, in the U.S. or internationally?*

Fusilli: Both, actually. In our Energy segment, the U.S. coalbed methane market is creating a significant opportunity for us, on top of our normal O&M activity in the Gulf of Mexico. Internationally, the substantial investments that oil and gas companies are making in several of our focus areas—North and West Africa, Venezuela, Asia, for example—are promising prospects for future growth. In our Engineering business, increased spending by the U.S. government in defense, homeland security, emergency management and transportation infrastructure hold significant promise for us.

***OGI:** What percent of your revenues are domestic?*

Fusilli: Presently, approximately 85% of our revenues come from domestic business, with the remainder being international. International is slowly becoming a larger piece of our business, and I expect that trend to continue over the next several years as our customers expand their business overseas.

***OGI:** Does the company have a backlog?*

Fusilli: Yes, approximately $1.4 billion.

***OGI:** What percent of the company's growth is organic?*

Fusilli: From 2000 to 2005, Baker's top line grew approximately 47%, all organic. Early in 2006, we made a small acquisition in our Engineering business to add a very specialized area of expertise in a growing state for us. We expect to be more acquisitive in the future, in both of our business segments, to expand our geographic reach as well as our service offerings.

***OGI:** Have the prices or rates you charge risen as much as they will, or are more increases possible in 2006 and 2007? Why?*

Fusilli: We have been able to work with our customers to increase rates on some of our contracts during the first half of 2006, and that process will continue for the remainder of this year and into next year, depending on the contract terms and conditions.

Donald P. Fusilli Jr. was elected president and CEO of Michael Baker Corp. on April 25, 2001. He joined the company in 1973 as an assistant engineer, obtained his law degree in 1979 and assumed the position of assistant general counsel. He later became general counsel and corporate secretary. He moved to Houston in 1994 as executive VP-administration of the energy segment, and was appointed executive VP and general manager in 1995. He graduated from Villanova University with a civil engineering degree in 1973 and holds a Juris Doctorate from Duquesne University School of Law.

Fusilli also attended the Advanced Management Program at Harvard University Business School. His professional affiliations include the National Society of Professional Engineers, Pennsylvania Society of Professional Engineers, Pennsylvania Bar Association and the American Bar Association.

Donald P. Fusilli Jr., President and CEO

***OGI:** Are you experiencing personnel shortages?*

Fusilli: Yes, Baker is experiencing many of the same personnel challenges as most other companies in our lines of business. To overcome this, we are looking in nontraditional areas for potential employees—the military, for example—for people skilled in the operation and maintenance of industrial-type facilities. In addition, Baker is unique in that we have our own in-house recruitment and training department, and we provide that service to our customers, and ourselves, on a worldwide basis.

***OGI:** Do you have any final comments?*

Fusilli: Yes...about safety. Operating oil and gas production facilities safely and in compliance with all applicable health, safety and environmental requirements is of paramount importance. Baker takes this responsibility very seriously, which is evidenced by our being selected for the 2005 National Safety Award of Excellence from the U.S. Minerals Management Service (MMS). ■

NATCO GROUP INC.
(NYSE: NTG)

John U. Clarke, Chairman and CEO

JOHN U. CLARKE is chairman and CEO of NATCO Group Inc. From May 2001 to December 2004, he was president of Concept Capital Group, a financial and strategic advisory firm he founded in 1995. Previously, he was a managing director of SCF Partners, a private equity investment firm. From 1997 to June 2000, he was with Dynegy Inc., last serving as executive VP. Prior to joining Dynegy, he was a managing director of Simmons & Co. International. From 1995 to 1997, he was president of Concept Capital Group. Clarke was executive VP and chief financial and administrative officer with Cabot Oil and Gas from 1993 to 1995. He was with Transco Energy from 1981 to 1993, last serving as senior VP and CFO.

***Oil and Gas Investor:** Describe the strategy that drives your company.*

Clarke: We are a technology driven company that provides separation and production equipment and automated controls to oil and gas operators globally. Our strategy is to remain the industry leader in providing process solutions to industry. This strategy is based upon a number of proprietary technologies and over 80 years of industry experience. We have the capability to provide a full array of process equipment and systems ranging from standard products to the most complex systems for application onshore or offshore anywhere in the world. We also provide after market services to our customers.

***OGI:** Last year about this time, you'd just started a restructuring plan designed to take advantage of marketplace technologies as they relate to separation equipment and process solutions. How is it going?*

Clarke: In early 2005, management embarked on a strategic repositioning of the company. We reorganized our business around our core competencies of oil and water technologies, gas technologies and automation and controls. This has further enhanced our ability to respond to the needs of our customers and the changing marketplace. At the same time, we took steps to reduce our costs and improve execution. These actions have been rewarded by increased sales to our customers and significant improvement in our financial results. The company is now very well positioned for growth through organic and external opportunities.

***OGI:** Where does the most promising business lie for the company, in the U.S. or internationally?*

Clarke: As we look to the future, we will continue to maintain a strong presence in the North American market while we expand globally. Historically, the significant majority of our revenues and earnings were sourced from North America where we operate from 36 branch locations and provide a full line of standard and traditional process equipment and related services. Today, more than one-half of our sales and earnings come from markets unrelated to the North American rig count. Our globalization initiatives are driven by significant market opportunities from our portfolio of technologies, particularly our carbon dioxide membrane technology in Southeast Asia, dehydration and desalting technologies in the Middle East, process requirements for Canadian oil sands and our broad process system design capabilities for topsides in the floating production, storage and offloading market.

***OGI:** What percent of your revenues are domestic versus international, and how is that changing?*

Clarke: Currently, about one-half of our revenue is derived from markets outside the U.S. and Canada. This percentage continues to grow as we expand our global presence in existing markets and penetrate new markets.

***OGI:** Does the company have a backlog? The backlog for North American operations at the end of 2004 was larger than 2003. How does this compare with 2005 and 2006 so far? How are international operations looking in terms of backlog?*

Clarke: As of June 30, 2006, our backlog was at a record high of $240 million, up 94% from the same time last year. The order backlog is strong for all three of our operating segments with each posting higher year over year numbers. As we have progressed our efforts in the global markets, we have seen a significant increase in international bookings,

which now represent a majority of our current backlog. However, this mix can change as a result of timing issues related to large project awards and their market location.

OGI: *Are there any plans to expand capacity at your fabrication facilities?*

Clarke: We support our equipment and systems sales through four primary manufacturing and fabrication centers located in Texas, Louisiana and Canada. We also use third-party sub-contractors located around the world in international projects. Our strategy for the past year has been to increase capacity utilization through more efficient operation of these facilities achieved by the implementation of lean manufacturing initiatives. In addition, we have leveraged our existing manufacturing capabilities by using sub-contractors, rather than adding fixed capacity, to satisfy the demands of our markets.

> "As we look to the future, we will continue to maintain a strong presence in the North American market while we expand globally."

OGI: *What percentage of the company's growth is organic as opposed to acquisitive?*

Clarke: Our focus for the last year has been on organic growth initiatives, while strengthening our financial position. We now have significant financial capacity and a very capable management team, but we have yet to close on an acquisition since we rolled out our strategy in early 2005. With current market conditions as strong as they are, expectations of value on the part of sellers appear quite high. If we choose to accelerate our growth via acquisitions, we will do so only in transactions that make good sense for our shareholders.

OGI: *How did the hurricanes impact your business?*

Clarke: Fortunately, none of our employees was lost or injured as a result of last year's hurricanes, although a number of our employees suffered significant property damage. Our facilities came through the storms largely unscathed. The response from our employee team was quite impressive in their dedication to getting our shops back up and running to serve our customers. As a result, we continue to benefit from repair and service work related to the two storms' damage.

OGI: *Have the prices or rates you charge risen as much as they are going to for now, or are more increases possible in 2006 and 2007? Why?*

Clarke: In North America, we continue to experience strong demand for production equipment as the drilling activities of operators remain high. As a result, we have seen improved prices and margins, particularly when we are able to satisfy the delivery and service requirements of our customers. Conditions for further improvement remain favorable given longer-term demand for natural gas in North America. Pricing for global projects remain competitive but improving, particularly where we can deliver a technology advantage to our customers.

OGI: *Are you experiencing personnel (crew) shortages? What are you doing to attract and retain people?*

Clarke: Perhaps the biggest challenge facing the industry is a shortage of qualified personnel to meet our current needs. At NATCO, we have remained competitive with wages and benefits. However, we also believe that we can attract and retain the personnel we require by making NATCO the preferred employer in our various markets. In addition to a paycheck, we offer a safe work place, a good working environment, the tools and materials necessary to do the job, training and development and the opportunity for advancement at a growing and prosperous company.

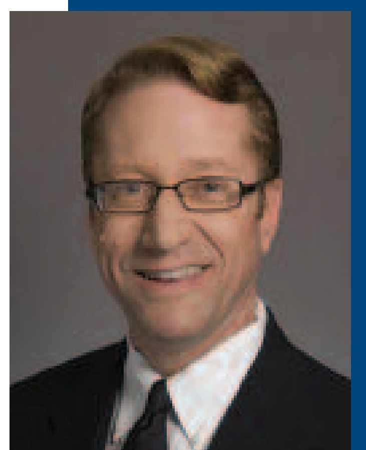
OGI: *Do you have any final thoughts or comments you'd like to share?*

Clarke: We continue to see a strong energy market for the foreseeable future both in North America and globally. Meeting the demand for energy worldwide necessarily will require further development of lesser quality crude and non-conventional production sources in more hostile environments and remote locations. We offer operators a chance to recover more hydrocarbons at a lower cost and with a high degree of reliability—all important factors in their consideration of a process systems supplier. ■

Natexis Bleichroeder Inc.

Roger Read joined Natexis Bleichroeder Inc. in 2003 in Houston and covers the oil services sector. From September 2002 to September 2003, he was based in Houston with Simmons & Co. International where he was a VP following contract drillers and offshore construction firms. From June 1999 to September 2002, primarily based in Aberdeen, Scotland, he was VP of European research, covering the European oil services sector.

Previously, he was with Halliburton in Dallas. Read has a master's degree in finance from Rice University and a bachelor's degree in accounting from Southern Methodist University.



John White, Analyst, E&P

John White, also based in Houston, joined the firm's energy team in 2005 to cover the E&P sector. Previously, he was at Next Generation Equity Research from July 2004 to August 2005, following E&P. From February 1998 to May 2004, he was a senior analyst in Fixed Income-High Yield at Harris Nesbitt, covering a diversified group of upstream energy companies. White's industry background includes experience in acquisitions and divestitures as well as E&P primarily with BP. He has a bachelor's degree in business from Oklahoma University.

Oil and Gas Investor: ***Tell us about Natexis Bleichroder's energy practice.***

Read: Natexis Bleichroeder Inc. offers in-depth equity research on the energy sector. From our Houston office, we provide coverage of the U.S.-dominated oil services and E&P sectors, plus selected independent refiners. Our New York-London team of three analysts has expertise in such areas as utilities, coal, power and alternative energy. In total, more than 50 stocks are covered in the U.S. and more than 60 international names are followed by our research efforts in Paris, Frankfurt and Vienna. Examples of some covered U.S. companies are Halliburton, Transocean, GlobalSantaFe, Valero, Petrohawk, Carrizo Oil, Endeavour International and Range Resources. Examples of our utility and coal coverage include El Paso, Williams, Dynegy, Peabody Coal, Consol Energy and Arch Coal. John White, myself and all our analysts make frequent visits to senior-level managements at companies under coverage and receive information furnished by an extensive network of global contacts in the industry.

OGI: What are your price decks for oil and gas for 2006 and 2007?

Read: Our natural gas price decks are $6.50 for 2006 and $7 for 2007. We recently revised both years down by about $1, reflecting record natural gas storage levels. Our oil price forecasts (WTI) are $67 and $70 per barrel for 2006 and 2007, respectively. Our bias for both years would be to the upside for oil though.

OGI: Do you think the recent up-tick in gas prices will reverse this fall?

Read: Barring extremely unusual weather patterns, we believe natural gas storage will fill before October 31, which will lead to shut-in natural gas production and natural gas price declines in late third-quarter or early fourth-quarter 2006. The recent upward price move is due to exceptionally hot weather, but record storage levels and the physical overhang remain the main drivers, in our opinion.

OGI: What has been the mood of investors you met with this summer? What are their concerns?

White: The main concern has been natural gas prices. There was a decrease in interest in the E&P sector beginning in early May. As gas storage began filling at historically rapid rates, spot gas prices started retreating in mid-April from $8 per million Btu and continued lower to around $6 per million Btu at the end of May. This resulted in the sector losing about 15% from mid-May through the end of the month. Since then, the stocks have been volatile, gaining back portions of the loss and then giving it right back over the late May-mid July timeframe.

Read: The main concerns for oil services investors are bifurcated between the North American and international markets. In North America, their main concerns have been related to weaker natural gas prices, combined with significant increases in drilling and service capacity, having a negative impact on both demand for services and services' pricing power. In the international markets it is fairly clear sailing, so the market is more interested in, and willing to pay a premium for, meaningful international exposure in the service sector.

OGI: *Do you think upstream equities have been over-sold in light of lower natural gas prices?*

Read: The recent rally in the energy sector has been helped by higher natural gas prices, which is reasonable for the near-term. However, we expect the gas storage overhang to lead to shut-in production and have a depressing effect on the natural gas price in the September/October timeframe. This will likely create a downdraft for the energy equities at that time.

OGI: *Roger, what are your favorite large-cap service and drilling names now?*

Read: We like Halliburton in the large-capitalization service sector and Transocean among the offshore drillers. Among the mid-cap names, we like Cameron and McDermott among others. We also believe that Nabors offers the best way to invest in the U.S. land rig market.

OGI: *John, what are your favorite mid- to small-cap E&P names?*

White: We favor W&T Offshore, Petrohawk and Range Resources. For all three, we like the management teams and the focus on a business model where each has demonstrated excellent results.

OGI: *John, you follow the various shale plays quite closely and have issued several reports on them. Based on that, which of the major plays has strong economics and looks to have legs?*

White: The Barnett shows strong economics, even using a $5 per million Btu gas price assumption. The main reason is predictability, due to the almost zero dry-hole risk and very low operational risk. In a gas price environment where operators began to prioritize drilling prospects between conventional prospects and Barnett Shale wells, we believe the core area of the Barnett Shale will remain a high priority for near-term drilling activity.

These strong economics are further illustrated by recent M&A activity. Devon Energy recently purchased privately held Chief Holdings, whose entire asset base is in the Barnett. The total purchase price is $2.2 billion for 617 billion cubic feet equivalent of proven reserves. Another large, recent Barnett transaction announced (on June 5) is Chesapeake Energy's purchase of properties from privately held partners Four Sevens Oil and Sinclair Oil. In this transaction, proven reserves were not disclosed. The total purchase price announced is $845 million. Chesapeake did supply its estimate of proven and unproven reserves of 870 billion cubic feet equivalent.

The Fayetteville shows all signs of proving itself as an attractive play. This play is relatively new compared with the Barnett and as such it is a bit more difficult to detail individual well economics, as the companies are still working on fine-tuning the drilling, completion and frac techniques.

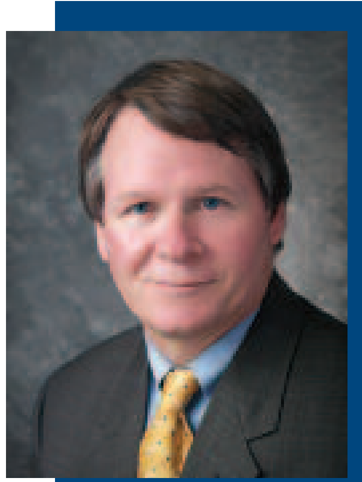
Based on Southwestern Energy's reserve and production projections, the finding and development costs (F&DC) appear favorable. On the first-quarter 2006 conference call, Southwestern estimated completed horizontal well costs, in general, of $1.8 million per well. It subsequently added in an 8-K filing with the SEC that the horizontal wells completed using a slickwater frac cost an average $2.1 million.

Using production and modeling data through May 22, Southwestern estimates that reserves from horizontal wells will be between 1.3- and 1.5 billion cubic feet. This would imply an approximate $1.30 per thousand cubic feet F&DC; however, not enough data is available for a precise calculation. The figures given include some non-recurring costs associated with a new play, we believe, that will likely be reduced. The figures also do not include acreage, seismic and other G&G costs. Nonetheless, based on this data from the most active operator in the play, we believe the economics are working well.

In the Fayetteville, the most noteworthy data point is the performance of recent slickwater frac completions on horizontal wells. During first-quarter 2006, Southwestern performed seven slickwater fracs and is reporting good results. The benefit observed so far is a flatter decline rate than wells completed with nitrogen foam fracs. ■

"The recent rally in the energy sector has been helped by higher natural gas prices, which is reasonable for the near-term. However, we expect the gas storage overhang to lead to shut-in production and have a depressing effect on the natural gas price..."

Netherland Sewell & Associates Inc.



C.H. Scott Rees III, President and CEO

C.H. Scott Rees III

C.H. Scott Rees III has been with Netherland, Sewell & Associates Inc. (NSAI) since 1988 and has been president and chief operating officer of the firm since 2002. Prior to NSAI, he was a supervising reservoir engineer with Exxon Co., U.S.A., where he worked primarily in the onshore and offshore Texas Gulf Coast region. Since joining NSAI, he has been involved in hundreds of projects both domestically and around the world, including Russia, Latin America, Mexico, North Sea, Australia and West Africa. Rees' extensive experience has given him an invaluable understanding of the important relationship that exists between the reserve evaluation consultant and the petroleum and financial industries. His areas of specific expertise include coalbed methane property evaluations, probabilistic analysis of exploration prospects and new discoveries, gas deliverability analysis, and application/interpretation of industry reserve definitions and guidelines.

***Oil and Gas Investor:* Describe your company's activities.**

Rees: Our firm started in 1961 in Dallas and now has offices in both Dallas and Houston. We have been providing petroleum-consulting services to a large number of energy clients for 45 years. These clients include independent producers, majors, national oil companies and financial institutions.

About half of our work is domestic and the other half is international. Since the mid-1980s, we've built a strong, integrated team of reservoir and operations engineers, geologists, geophysicists and petrophysicists, and have established expertise in several areas important to our clients like reservoir simulation, coalbed methane, gas storage and shale gas.

This integrated expertise has resulted in NSAI working on some of the most technically challenging projects in the world, from the Middle East to Africa, to Asia and North America.

***OGI:* In practical terms, what kind of analysis do you do for clients?**

Rees: Our primary service is to provide independent estimates of reserves and future revenue for a given set of properties. For example, when a company gets ready to finance a major project or to go public, we may be selected to certify the underlying proved oil and gas reserves to verify the value of the assets. More and more clients are requesting that we certify their unproven reserves and even their contingent and prospective resources.

We perform a wide range of services. For example, we may be asked to evaluate a major acquisition or divestiture, certify reserves that will support the financing of a major new international pipeline, or evaluate gas reserves that would support financial commitments for new liquefied natural gas projects.

***OGI:* What does reserves certification entail?**

Rees: Normally it involves a field-wide study of the basic well-level data, such as well logs, seismic data, pressure tests and operating costs, to prepare projections of production to ensure the oil and gas reserves and deliverability are adequate to support the financing commitment required for the project, or to satisfy SEC regulations about reporting proved reserves at year-end.

***OGI:* For the benefit of investors new to the energy sector, can you define the different reserve categories for us?**

Rees: Certainly. One of the difficulties public E&P companies struggle with is that they are allowed by the SEC rules to only disclose their proved reserves in their public filings, although they often base business decisions on the expected or most likely case, which includes proved plus probable reserves.

Proved reserves are defined as volumes that can be estimated with a high degree of certainty and can be produced under current economic conditions and operating methods. Using definitions of the Society of Petroleum Engineers (SPE), when probabilistic estimation methods are used, proved volumes have a 90% probability that the volumes recovered will meet or exceed the estimate. As you can tell, these definitions are somewhat conservative and may not fully value an oil and gas property.

Proved plus probable (also known as 2P) volumes are what you expect will be produced, given what you know about the field or project, and using current technology or minor advances in current technology.

Possible reserves have a higher degree of uncertainty as to what's really in the ground, and they could require a larger improvement in technology or commodity price to justify their recovery. When combined with proved and probable reserves, the total is referred to as 3P reserves.

Contingent resources are volumes that could be present, but you don't have enough technology or economic data to yet determine if they will be economic to recover. You may have some resources in a remote area that are technically very strong, you know they are present, but you don't yet have a contract or delivery system in place to produce and sell the hydrocarbons. Or this category could be used for a project in the early stages of appraisal.

OGI:* *What do investors typically miss or need to know about these categories?

Rees: Ultimately, the real key to an E&P company's potential for growth is not just the existing proved reserves, which are depleting as they are produced, but more important, the way in which they add proved reserves each year. These added reserves usually come from one of the higher risk categories, so it can be important for an investor to know what volumes and related activities are in the unproven reserve or resource categories.

The key questions to ask are, "Are the companies reinvesting their cash flow in the most economically attractive projects, considering both risk and return? What are the proved reserves the company is adding each year for the money being spent, simply what is the return on investment?" The investor needs to feel comfortable that those reserves are real, that the reserves calculations are done properly every year and that they are done consistently from company to company. Often, these are the reasons a third-party consultant, such as NSAI, is involved in the annual reserve process—our "certification" can often add credibility to a company's reserve disclosure. In fact, given the increased understanding of the reserve/resource definitions by investors and the importance of the unproved volumes, we have an increasing number of clients asking us to estimate these unproved volumes.

OGI:* *Does Netherland Sewell do reserves estimates or audits?

Rees: We do both, however I should probably explain that even an audit involves our independent estimate of reserves. Most of our engagements entail an independent evaluation of all the properties to be financed, set forth in public documents, bought or sold. An independent evaluation includes evaluation of the basic well data as well the client's own interpretation and estimates in order to prepare our own estimates of annual production volumes, reserves and cash flow. In many cases this includes the preparation of our independent set of geological maps to properly estimate reserves. In some cases, typically where the financial community doesn't require a full independent evaluation or when the property portfolio is diverse, a company may ask for us to perform an audit of their estimates. Using the standard 80/20 rule (80% of the value lies in 20% of the properties), we can independently evaluate the top 80% of the value, compare our estimates to the client's and, if close, issue an audit letter. These letters usually include the client's estimates and includes wording such as "in our opinion, the estimates of proved reserves and future revenue are, in the aggregate, reasonable." Because of the Sarbanes-Oxley reporting requirements and the reserve write-down problems so publicized over the past few years, the companies' boards of directors have realized that a second set of eyes is a very good idea. So, the larger companies that previously may not have wanted an audit now do. We have been very busy. The SOX requirements and the desire for increased transparency in the reserve process have made third-party checking more important than ever before.

OGI:* *What do you make of the surge in interest in unconventional gas resources?

Rees: Interesting but understandable. The old definition was that an unconventional reservoir was any formation that required a hydraulic fracture, such as the tight gas of South and East Texas, the Rockies and Appalachia. Coalbed methane (CBM) has recently come to the forefront with the success of CBM plays in the early 1990s in the San Juan, Black Warrior, and Raton basins and in the late 1990s in Powder River Basin. CBM is truly unconventional in that the gas is trapped at the molecular level in the coal, and then basin-centered gas accumulations, like the Pinedale and Jonah areas in Wyoming, were added to the unconventional resource universe; these are unconventional in the sense that gas is trapped at abnormal pressures in very low permeability rock without an apparent downdip water leg.

Then you have the third area of shale plays, where gas is contained in what historically was considered an unproductive low permeability source rock. It's very exciting for me, living in Dallas, to see what has happened with the Barnett Shale play right in our backyard. To become one of the biggest plays in the States—-that took a lot of courage and persistence on the part of Mitchell Energy (now Devon Energy) and others, and now it's going like gangbusters.

What is similar about each of these new unconventional plays are the large areas, the apparent repeatability of results within each play and, once demonstrated, the ability for a layman to understand the play. This allows an investor to see, sometimes more clearly than with a conventional play, the potential upside or leverage if the project is successful. Of course, success breeds interest. Look at how much these unconventional plays are producing: The Barnett is making about 1.5 billion cubic feet a day; Pinedale/Jonah is too, and the Powder River Basin is making close to 1 billion cubic feet a day. I wish I knew where the next play like that is.... ■

Newfield Exploration Co. (NYSE: NFX)

Stephen C. Campbell, VP of Investor Relations

Stephen C. Campbell is Newfield's VP of investor relations. Campbell joined Newfield in 1999 and prior to his current position, he served as manager of investor relations. Prior to 1999, Campbell worked in investor relations for Anadarko Petroleum Corp. He is a member of the Petroleum Investor Relations Association, the National Investor Relations Institute, the Public Relations Society of America and the Texas Public Relations Association. He is a graduate of Texas A&M University.

***Oil and Gas Investor:** Describe your company's strategy.*

Campbell: The elements of our growth strategy have remained substantially unchanged since our founding and consist of:

- balancing our efforts among exploration, the acquisition of proved reserves and the development of proved properties;
- growing reserves through the drilling of a balanced risk/reward portfolio;
- focusing on select geographic areas;
- controlling operations and costs;
- using advanced technologies; and
- attracting and retaining a quality workforce through equity ownership and other performance-based incentives.

***OGI:** Describe your core drilling and production areas.*

Campbell: The reserves targeted by our drilling program are distributed throughout the risk/reward spectrum. Our traditional shelf plays and low-risk drilling opportunities in the Rocky Mountains, Mid-continent and South Texas are complemented with higher potential plays in the Gulf of Mexico's deep and ultra-deep shelf and deepwater and in international waters.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Campbell: We have a business development team seeking new opportunities. We look to expand our operations in existing focus areas and are constantly considering new regions that may offer value-adding opportunities.

In the Arkoma Basin's Woodford Shale play, we are increasing our pace of drilling. Recent horizontal wells have exceeded expectations on initial production, and we are moving from a six-rig program to a 13-rig program by year-end 2006.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Campbell: The key is balance. We believe in the drilling of a balanced portfolio of opportunities. This balance comes through geographic location as well as risk/reward. Newfield has successfully diversified its asset base over the last several years and reserves and production are now balanced between on and offshore areas. We are drilling more than 400 low-risk resource wells in 2006, as well as exposing shareholders to large potential exploration plays in deep shelf, deepwater and internationally. This balance is key to our future growth and success.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Campbell: 2006 is a big year for our Woodford Shale play. Our increased drilling efforts will help to prove the extent and productivity of the Woodford across our 115,000 net-acre position. Results to date are encouraging, and we plan to drill about 75 wells this year, of which 60 will be horizontal wells.

Our production growth in 2007 is estimated at more than 20%. This growth comes from in-hand development projects. Our largest developments are in the U.K. North Sea, Malaysia and deepwater Gulf of Mexico. In addition, drilling in South Texas is expected to increase our production from this region by 5% to 8%.

***OGI:** This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Campbell: Our capital budget for 2006 is $1.9 billion, excluding $180 million allocated for hurricane repairs in the Gulf of Mexico (of which we expect the majority to be covered by insurance). We have not budgeted any money for potential acquisitions. The largest area of investment will be the Mid-continent where we allocated over $500 million. About $375 million has been allocated to the Gulf of Mexico (including deepwater and Treasure Island),

$350 million to the onshore Gulf Coast, $155 million to the Rocky Mountains and $300 million to international projects. We plan to drill more than 600 wells in 2006, about 80% of which are lower risk wells in the Uinta Basin or the Mid-continent. About $350 million has been earmarked for exploration activities.

Onshore Gulf Coast—In 2006, we will balance development drilling of lower risk opportunities with some higher risk, higher impact exploration tests. We plan to drill about 100 wells.

Mid–continent—We expect to drill about 300 wells. The majority of the planned drilling is associated with our gas mining initiatives.

Rocky Mountains—Our primary capital program in the Monument Butte field consists of drilling shallow, lower risk wells and water injection wells, waterflood optimization activities and investment in field infrastructure. We plan to drill about 200 wells in the field during 2006. We also plan to drill four to six deep-gas exploratory wells to test for potential beneath our Monument Butte field.

Gulf of Mexico—We expect to drill about 25 to 30 wells in 2006, including 15 to 20 in the traditional shelf, three to four in the deep shelf, one in the ultra-deep Treasure Project and three to five in deepwater.

International—In 2006, we expect to drill 10 to 12 shallow-water wells in Malaysia and one deepwater exploration well. In the North Sea, we plan to drill two development wells in our Grove field and one or two exploration wells. Our drilling program in the Bohai Bay will focus on development of our two commercial fields.

We invested about $1.2 billion in 2005.

OGI: *Do you foresee any acquisitions this year?*

Campbell: We are constantly looking for attractive acquisitions; however, our growth is coming from in-hand development projects.

OGI: *Can your earnings momentum be sustained?*

Campbell: This is primarily dependent on commodity prices. However, the strength of our production growth will significantly increase our cash flow from operations in 2007.

OGI: *Does the company hedge?*

Campbell: We are an active hedger of oil and gas, believing that this is an effective risk management tool. We hedge to ensure cash flow to fund our capital budget as well as to underpin economics in acquisitions.

OGI: *What price deck do you use?*

Newfield operates onshore and offshore the U.S. and in the North Sea, Malaysia and China.

Campbell: We do not release our price decks, which obviously vary by geographic region.

OGI: *How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?*

Campbell: We deferred approximately 23 billion cubic feet equivalent in 2005 and an additional 15 billion cubic feet equivelant in 2006 associated with hurricanes. We have restored more than 95% of our production in the Gulf of Mexico.

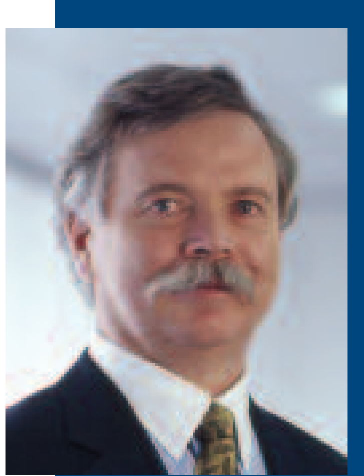
OGI: *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Campbell: Diversification. Since the mid-1990s, we have worked to add onshore and international areas, lengthening our reserve life and providing a stable base for future growth. The ability to issue a multi-year growth forecast is new to the Newfield story and is a direct result of our diversification of the asset base.

OGI: *What is the greatest challenge facing your company today?*

Campbell: The greatest issue facing our industry today is access to new exploration areas and people. The primary production basins in the U.S. are very mature, and we need access to new acreage to meet future energy demands in this country. People are also a challenge. Our industry needs new geoscience entrants as well as new service company professionals to meet increasing activity levels. ■

Nexen Inc. (NYSE: NXY; Toronto: NXY)



Charlie Fischer, President and CEO

Charlie Fischer has been Nexen's president and CEO since June 1, 2001. Formerly, he was executive VP and chief operating officer responsible for Nexen's conventional oil and gas business in Western Canada, the U.S. Gulf Coast and all international locations, as well as oil sands, marketing and information systems activities worldwide. He joined Nexen in 1994 following service with Dome Petroleum Ltd., Hudson's Bay Oil and Gas, Bow Valley Industries Ltd., TransCanada Pipelines and Encor Inc.

***Oil and Gas Investor:** Describe your company's strategy.*

Fischer: Our goal is to grow long-term value for shareholders by creating per-share growth in cash flow, reserves and production on a debt-adjusted basis. The areas where we operate provide an optimal combination of prospectivity, fiscal returns and growth opportunities. Commodity price cycles provide opportunities to enhance value. We are prepared to buy or sell assets and accelerate or slow down activities depending on the evolving commodity price environment. Financial flexibility and liquidity is key to pursuing such opportunities. We also exploit technology as it can provide access to new resources, increase recovery factors on existing reserves and lower finding, development and production costs. To summarize, we grow our business profitably and sustainably by engaging resourceful people, capitalizing on superior assets and innovation, and operating in a socially responsible manner.

***OGI:** Describe your core drilling and production areas.*

Fischer: In the U.K. North Sea, we own a 43.2% operated interest in the Buzzard development, which is the largest development in the area in the last decade. The project is scheduled to come on stream late this year.

In the Gulf of Mexico, we have both shelf and deepwater production and an active exploration program. In 2005, we had a discovery at Knotty Head that has the potential to be world class.

In Canada, we are active in the Athabasca oil sands. In addition to our interest in Syncrude, we have an estimated 5 billion barrels of recoverable resource in the oil sands. We are applying proprietary, breakthrough technology to upgrade bitumen into high-quality light sweet crude at our Long Lake project. We expect this project to have a significant cost advantage over competing projects. Elsewhere, we've commenced development of the first commercial coalbed methane project in the Mannville coals.

In Yemen, our legacy assets are providing significant free cash flow to fund our ongoing capital programs. Offshore Nigeria, we have a significant discovery at Usan and are awaiting approval of the preliminary field development plan.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Fischer: We are always looking for new opportunities. Unfortunately, with the extremely competitive environment, increasing costs and tougher fiscal terms in some jurisdictions, returns are being eroded. We have patience and confidence, which enables us to build our portfolio when and where it makes sense.

***OGI:** What kind of play makes the most sense to the company?*

Fischer: I believe it is important to have a diverse portfolio of assets. Our annuity-type resource plays provide stable growth for decades, complementing our development projects and longer cycle-time exploration opportunities.

***OGI:** Which one or two projects could yield the greatest return for the company this year?*

Fischer: The next 18 months is an exciting time as we bring Buzzard on stream late this year followed by Long Lake in 2007. At peak rates, Buzzard should add approximately 85,000 barrels of oil equivalent per day to our net production and generate between $1.6 and $1.7 billion of annual pre-tax cash flow, in a US$50 per barrel oil price environment. Long Lake will add 30,000 barrels per day to our production and generate cash flow between $400- and $500 million per year, in the same price environment, once fully on stream.

***OGI:** This year, what is your projected budget, and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Fischer: In 2005, we invested more than $2.6 billion in capital expenditures. In 2006, we are managing our largest program ever, investing approximately $3 billion. Almost half of this is focused on our major development projects at Buzzard and Long Lake. We plan to

drill 20 high-potential wells and are already seeing results with two successful wells at Alaminos Canyon Block 856 in the Gulf of Mexico.

***OGI:* Do you foresee any acquisitions this year?**

Fischer: Again, we are always looking for opportunities but given our suite of assets, we do not need to buy. We will build capacity where the opportunities are the greatest rather than chasing them in overheated markets.

***OGI:* Can your earnings momentum be sustained?**

Fischer: For several years, we've been investing in large, multi-year development projects. By late 2006, we will have invested approximately $5 billion in projects that are not yet delivering production and cash flow but soon will be. By the end of 2007, we expect our production after royalties to grow approximately 50% over current volumes, as we bring production on stream from Syncrude Stage 3, Buzzard and Long Lake. These projects have attractive fiscal terms and will result in significant growth in both net income and cash flow per share in 2007.

***OGI:* Does the company hedge?**

Fischer: We have spent a lot of time investigating the pros and cons of hedging and believe the cost of selling forward is unknown and often too high. We recently purchased $50 crude oil puts on just over 100,000 barrels per day in 2007. We view these puts as cost-effective insurance in the event oil prices fall drastically.

***OGI:* What price deck do you use?**

Fischer: For our 2006 budget, we have used a WTI oil price of US$55 per barrel. I don't want to comment on our specific long-term pricing, but will say that it is lower than our 2006 assumption.

***OGI:* How did the hurricanes impact your business?**

Fischer: The hurricanes caused significant damage to two of our facilities, delayed our drilling program and damaged third-party pipeline infrastructure. Approximately 4,000 barrels of oil equivalent per day (10%) of our Gulf of Mexico production remains shut-in. We expect to have this back on stream in the latter part of this year once pipeline repairs are complete. The impact of the storms has also contributed to an overall reduction in the drilling fleet, which in turn has contributed to higher costs for services.

***OGI:* Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?**

Fischer: In 2005, we did what we set out to do. We met our production targets despite Canadian asset dispositions and hurricane disruptions, reduced net debt by selling Canadian assets and a portion of our chemicals business, achieved exploration success and kept our major development projects on time and on budget.

***OGI:* What is the greatest challenge facing your company?**

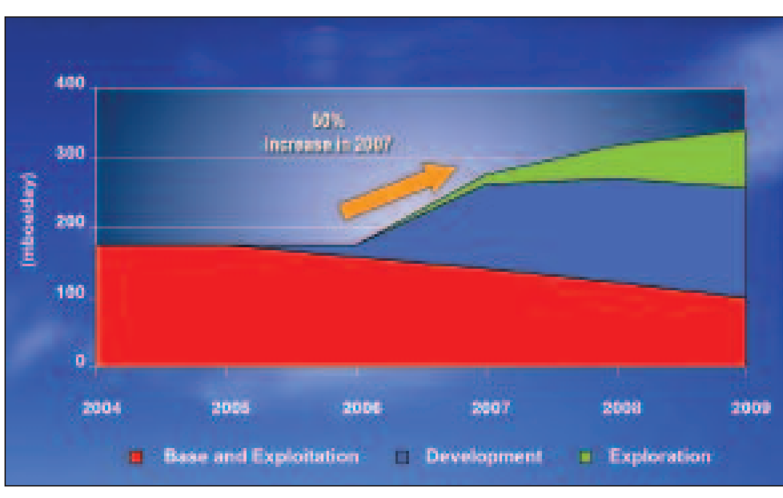
Fischer: I believe it is the competitive environment. While a lot of people are focusing on the shortage of rigs in the Gulf of Mexico, I don't see this as the biggest challenge as it is short term. Instead, I believe it is access to resources, and attracting and retaining quality people. Both of these are needed to build a sustainable business.

***OGI:* You announced a big discovery in the Gulf of Mexico at Knotty Head. Tell us more about it, and what are your next plans there? Did the hurricanes affect this at all?**

Fischer: Knotty Head is our first sub-salt discovery and the deepest well ever drilled in the Gulf of Mexico. We have drilled the discovery well and a sidetrack, and based on these results, our estimate of the recoverable resource is between 200- and 500 million barrels of oil equivalent. Additional appraisal work is being planned to further define the prospect, determine ultimate reserves and formulate an optimal development plan. Hurricanes delayed the drilling of the initial well as the storms forced us to come off the well four times.

***OGI:* Do you have any final comments or thoughts?**

Fischer: I am very excited about Nexen's future because we have an outstanding portfolio of assets. We are only a few months away from bringing on significant production at Buzzard followed by Long Lake in the second half of next year. To ensure steady growth in the years ahead, we have our two large discoveries in Knotty Head and Usan, and we control a vast undeveloped resource in the oil sands. ■



Nexen's production after royalties is to grow 50% in 2007.

NGAS Resources Inc. (NASDAQ: NGAS)

William S. Daugherty, President and CEO

William S. Daugherty has served as director, president and CEO of NGAS Resources since September 1993.

Daugherty founded Daugherty Petroleum in 1984. He is past president of the Kentucky Oil and Gas Association and the Kentucky Independent Petroleum Producers Association. He also serves as the Kentucky governor's official representative to the Interstate Oil and Gas Compact Commission and is on the board of directors of the Independent Petroleum Association of America. Daugherty holds a B.S. degree from Berea College.

Oil and Gas Investor: *Describe your company's strategy.*

Daugherty: NGAS seeks to achieve capital appreciation through growth in our natural gas production, reserves, cash flow and earnings. Achieving these objectives is multi-faceted and each is aimed at positioning us to capitalize on natural gas development opportunities.

Drilling Operations—Over the next few years, we plan to focus our drilling resources in the southern portion of the Appalachian Basin, where we have identified over 1,100 drilling locations. During 2006, we plan to drill up to 195 wells.

Acquisition of Additional Drilling Prospects—We intend to expand our substantial inventory of drilling prospects with properties that meet our criteria for building predictable, long-lived reserves. We plan to continue leasing properties in the Appalachian Basin, while also diversifying our inventory of drilling prospects in other basins.

Disciplined Approach to Drilling—Blanket pay zones, repeatable targets and long-lived reserves are the keys to our drilling philosophy. Our disciplined approach helps reduce drilling risks, as reflected in our success rate. Historically, over 98% of our wells have been completed as producers.

Extension of Gas-Gathering Systems—We construct and operate gas-gathering facilities to connect our wells to interstate pipelines with access to major gas markets. Our gas-gathering facilities span over 450 miles, including a 116-mile transportation pipeline recently acquired from Duke Energy. Our 100% ownership of these systems gives us control over third-party access, providing competitive advantages in acquiring and developing nearby acreage.

Purchase of Producing Properties—Acquisitions have been a key component of our growth strategy and provide a means for accelerating our growth. Our acquisition criteria include reserve life, profit enhancement potential, existing infrastructure and geographic concentration.

OGI: *Describe your core drilling and production areas.*

Daugherty: We focus on low-risk development drilling primarily in the southern portion of the Appalachian Basin. Our niche is low risk, large prospects with nearby proven production located close to pipelines that had not been previously drilled primarily due to coal mining operations. We own interests in over 900 wells.

OGI: *Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Daugherty: In the past year, we acquired a 20,000-lease position and drilled 31 wells in the New Albany Shale play in Kentucky. Also, in late 2005, we acquired CBM assets located in the Arkoma Basin totaling an estimated 7 billion cubic feet of proved natural gas reserves, 4.3 billion cubic feet of which are developed. We plan to drill 40 wells this year in these plays.

OGI: *What kind of basin or play makes the most sense to the company and why?*

Daugherty: Our core area is the Appalachian Basin, with its long-lived asset base with repeatable drilling opportunities and over 70.2 trillion cubic feet of undiscovered gas resources. However, we recognize that strategic opportunities in basins outside our core area will enable us to continue increasing production and proved reserves.

OGI: *Which one or two wells or projects could yield the greatest return for the company this year?*

Daugherty: The Leatherwood field is a project that will have the most positive impact for us. We have identified about 600 drilling locations there and have constructed our main gathering line into the area. We expect that over the next two or three years, the majority of our drilling will be in the Leatherwood field, including 80 wells during 2006. From our recent success, we are very excited about this property.

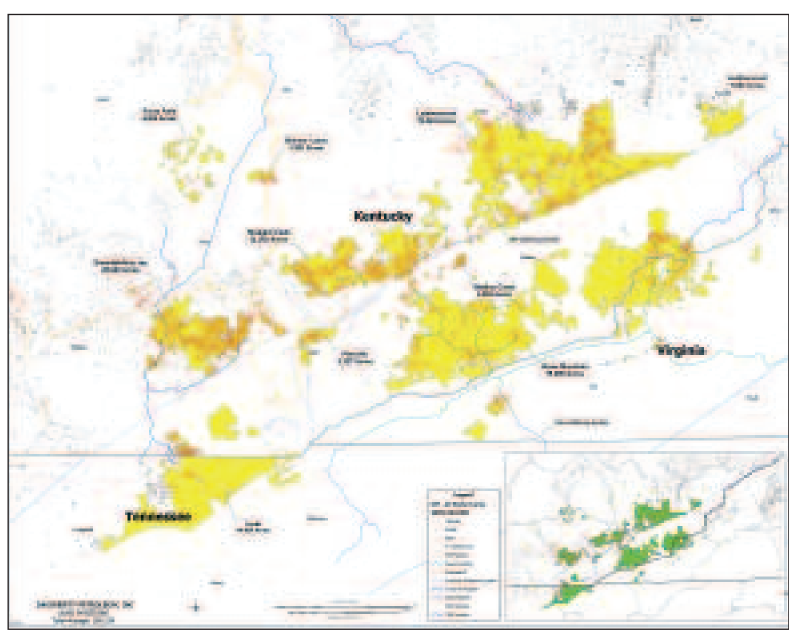
OGI: *This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does*

that compare with last year?

Daugherty: For the current year, we have a capital expenditure budget of approximately $60 million, including $18 million for the Duke pipeline acquisition. We expect the majority of our remaining budget to be utilized for drilling activities. Capital expenditures for 2005 totaled $43.3 million with $11.7 million utilized for pipeline additions, $11.4 million for the Arkoma Basin acquisition and the balance of $20.2 million relating to drilling activities.

OGI:* *Do you foresee any acquisitions this year?

Daugherty: Acquisitions have been, and are expected to be, a key component of our growth plans. As mentioned previously, we made two acquisitions last year, and in late 2004, we acquired $27 million of energy assets from Stone Mountain Energy in the Appalachian Basin. We continue to review strategic acquisitions to complement our existing assets, as well as seeking opportunities in other basins outside our core area.



NGAS holds 265,224 acres in Appalachia.

OGI:* *Can your earnings momentum be sustained?

Daugherty: Yes, given our increased production, transition to a cost-plus drilling program structure and realization of economies of scale from recent acquisitions and overall operations growth.

OGI:* *Does the company hedge?

Daugherty: We do not utilize financial hedges or other derivative instruments; however, we have 45% of our gas currently marketed on physical delivery contracts averaging $10.35 per thousand cubic foot for approximately one year.

OGI:* *What price deck do you use?

Daugherty: Our typical price is calculated from Henry Hub or the Appalachian markets. For our non-contract Appalachian production, we receive a $0.40 premium, plus a 15% to 20% boost in pricing because of a Btu sales adjustment.

OGI:* *Absent the very high oil and gas prices of 2005, what other factor or event has the most impact or led to the most success for you last year?

Daugherty: We have begun to transition toward more of a production-based company, and we were particularly pleased with the growth we experienced last year. In 2005, production increased 112% over the prior year, while oil and gas revenue rose 186%. Production volumes in the first quarter advanced 67% over the corresponding period in 2005.

We are changing from a turnkey cost structure in the majority of our drilling programs to a cost-plus structure. In addition, we are looking to substantially increase our interest in the wells we are drilling in our core area to approximately 75%.

OGI:* *What is the greatest challenge facing your company ?

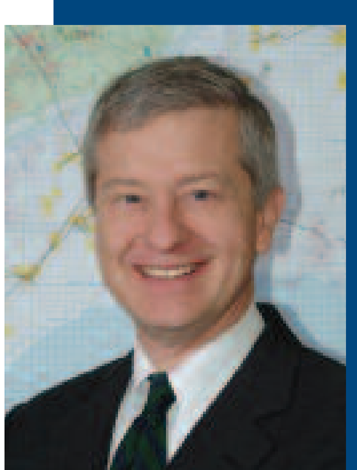
Daugherty: Our biggest challenge is to work with the coal companies that have mining operations on some of our Appalachian Basin properties. We review their strip and deep mining plans to determine what areas are available for development. We have drilling equipment contracted and are in good shape with our other service suppliers and do not expect any drilling and completion delays related to equipment availability.

OGI:* *Do you have any final comments or thoughts?

Daugherty: A key differentiating factor and a competitive advantage for NGAS, as well as a significant asset for us, is our 450 miles of pipeline and gathering systems. A major project was the expansion of our 23-mile, 8-inch steel pipeline to our Leatherwood field, which was completed in late 2005. As of June, we've connected 92 of the 150 wells drilled in Leatherwood. We augmented our pipeline system with the first quarter 2006 acquisition from Duke Energy. This system spans parts of southeastern Kentucky and southwestern Virginia, and ties into Duke Energy's East Tennessee Natural Gas interstate pipeline system.

We are excited about our growth opportunities for 2006. We expect to continue development of our core reserve base and production capabilities in the Appalachian Basin while exploring strategic opportunities outside of our core area. We feel as though we have positioned NGAS for continued growth. ■

NGP Capital Resources Co. (NASDAQ: NGPC)



John H. Homier, President and CEO

John H. Homier is president and CEO of NGP Capital Resources Co. He has over 25 years of corporate finance, engineering, credit analysis, business development and management experience in the energy sector. His areas of emphasis include mezzanine investments, project and structured finance, economic evaluation and financial risk management.

From 1994 through 2002, he developed and managed mezzanine oil and gas investment programs for Continental Bank, Bank of America and Deutsche Bank. Before joining Continental Bank, he worked as a petroleum engineer with Exxon U.S.A. and served in the Civil Engineer Corps of the U. S. Navy. He has an MBA from the University of Southern California and B.S. and M.S. degrees in engineering from Oklahoma State University and the University of California, Berkeley, respectively. He is a registered professional engineer and a CFA charter holder.

***Oil and Gas Investor:** Describe your company's strategy.*

Homier: To get started, let me give you some background on our history, what we do, and how we are organized.

We are, of course, a publicly held financial services company organized in mid-2004 with a charter to invest primarily in small- to mid-sized private and public energy companies. As you can tell from our name, we are an affiliate of NGP Energy Capital Management. NGPC leverages Natural Gas Partners' very successful franchise that focuses on private equity investments in the energy industry.

NGPC's primary objective is to generate both current income and capital appreciation primarily by making debt investments that often have equity components, what we call equity kickers, associated with them. Having said that, we can also make investments that have a more equity like flavor such as preferred equity and/or project equity investments.

NGP Capital Resources Co. is classified as a business development company (BDC), under the Investment Company Act of 1940. Additionally, for tax purposes, we are treated as a regulated investment company (RIC). The BDC format was created to stimulate investment in smaller companies that otherwise have limited access to capital. As owners of a publicly traded BDC, NGPC's shareholders participate through a liquid investment in providing financing to the small- to mid-sized energy companies that constitute our client base. Another benefit of the BDC/RIC structure for our shareholders is that we generally do not pay corporate federal income tax so long as we abide by several requirements, including annual distribution of at least 90% of our otherwise taxable income.

The key focus areas for our targeted investments are the domestic E&P and midstream businesses. We also look broadly across the energy spectrum at investment opportunities in businesses such as coal, power, electricity, energy services and alternative energy.

We provide customized financing solutions for our clients. We have the capability of investing at multiple levels of a company's balance sheet, providing senior debt, subordinated debt, mezzanine capital, and, as I mentioned earlier, preferred and project equity, or any of these in combination.

***OGI:** Describe the areas in which the companies you finance operate.*

Homier: The focus area for the clients and energy assets that we finance is principally North America. We currently have investments with companies whose focus areas are in the Gulf of Mexico, along the Texas and Louisiana Gulf coasts, in the Permian Basin and Mid-continent, the Rocky Mountains and in California. But we are not restricted to the U.S. and North America and will consider investments in other areas as well.

***OGI:** How do you anticipate expanding your business?*

Homier: Being less than two years old, we are continuing to expand our business. Our total assets under management are approximately $250 million. Since our IPO in November 2004, we have built our portfolio of targeted investments to approximately $175 million committed and available for our clients. Of that, approximately $150 million is currently outstanding. We are looking forward to employing all of our assets under management in targeted investments in small- to mid-sized energy companies in the near future and then assessing further expansion of the overall portfolio.

NGP Capital Resources has been involved in 11 deals for energy companies.

OGI: *What type of investments make the most sense?*

Homier: We are classic mezzanine players. By that, I mean that we are looking for investments that go beyond the scope of simply senior bank debt. Let me give you an example in an E&P context. While banks primarily focus on what proved developed producing reserves are today, we are looking for investments where we can apply our engineering expertise to evaluate what proved developed producing reserves will be after a well articulated and appropriately funded development program.

Our ideal investments are those that we can characterize as engineering plays. Again, in an E&P context, this could include development activities to bring non-producing reserves into production, debottleneck surface production facilities, reduce lifting costs, or consolidate and rationalize G&A expenses. We have less interest in investments that could be characterized as pure price plays or rank exploration plays.

We can invest over a broad range of the mezzanine risk spectrum. What we endeavor to do in our investments is appropriately balance risk and return. In some cases, a high single-digit coupon is appropriate for the development risk inherent in a given financing. In other cases, we may be looking for a high teens to low twenties overall return in compensation for the development risk that we see. Either of these investments, or anything in between, can make sense for us as long as we feel that the risk and return are appropriately proportioned.

OGI: *What is the return on your investment portfolio?*

Homier: As of March 31, 2006, the weighted average yield on our targeted portfolio investments was approximately 13%. This is exclusive of capital gains. Funds not yet deployed in targeted investments are held in corporate notes, U.S. Treasury Bills and cash equivalents having an over-all yield of approximately 4.5%.

OGI: *How are your transactions typically structured?*

Homier: Our transactions are typically structured as loans, often with an equity kicker. The equity kicker, if appropriate for the transaction, can take the form of an overriding royalty interest, warrants or a conversion right. Alternatively, we may make a direct equity investment in a company. The goal is to achieve an overall return based on coupon, which in some cases may be paid-in-kind, and the equity kicker that is appropriate for the development risk that we see in the financing.

OGI: *What is your investment philosophy?*

Homier: I'd have to say that we start with good management teams who bring proven track records and very often regional, asset, or technical expertise to the transaction. We then evaluate the development potential of the assets of the project, which typically secure our financing. Add to that hedging strategies to limit downside risk and preserve upside potential. And finally, we maintain active involvement and dynamic strategies and tactics for each investment as the development project proceeds.

OGI: *Can your earnings momentum be sustained?*

Homier: As a start-up company, we are pleased that we have been able to go from a standing start in November 2004 and provide our shareholders with a total dividend of $0.66 per share in our first full year of operations in 2005. This equates to a yield of approximately 4.4% on our initial issue price of $15 per share. As we have continued to make targeted investments, we have continued to grow the quarterly dividend.

OGI: *Does the company hedge?*

Homier: Generally, our client companies hedge a portion of their production as a condition of our financing. They may utilize commodity swaps or collars for up to 50% to 75% of their proved developed producing reserves. For heavily development-oriented projects, they may also buy out of the money commodity floors. The goal is to secure enough cash flow during the first one to three years of the financing to ensure that the development we anticipate can be brought to fruition even in the face of adverse price volatility. Given that, NGPC does not directly hedge its derivative commodity exposure from our client companies.

OGI: *What price deck do you use?*

Homier: We evaluate our investments using a variety of price scenarios. These range from a current Nymex-based scenario, through a suite of fundamentally based scenarios, to a suite of cases that embody near-term downward price volatility. Our goal is to understand the sensitivity of our individual investments to commodity price movements and then to structure the investment in a way—using commodity derivatives, development timing, advance rate, and so on—that ensures satisfactory performance even in a confluence of adverse events.

OGI: *How did the hurricanes impact your business?*

Homier: The hurricanes in 2005 had timing impact on our clients that operate in the Gulf of Mexico. Although none suffered significant direct damage, their development operations were slowed by the intense competition for equipment that followed. The good news is that the worst that we had to contend with was delay in some of our clients' development plans.

OGI: *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Homier: Our people. We have a seasoned and dedicated staff of energy professionals. The senior members of our team have decades of experience in the energy finance business. And the junior members of our team also bring a wealth of direct and indirect energy experience to the enterprise. Also, we have the engineering expertise internally to look at the development oriented assets that we finance and assess the validity of the value creation proposition for those assets.

Altogether, our team gives us a tremendous edge in being able to rapidly look at, evaluate, structure and close transactions for our clients.

OGI: *What is the greatest challenge facing your company?*

Homier: We have come through our first building year and have consolidated the basic infrastructure that we need to be a fully functioning public company. During that time, we built our staff from very modest beginnings to a staff of investment, accounting and support personnel that is now 19 people. We created our first credit facility, created all processes and procedures for financial reporting and Sarbanes-Oxley compliance and expanded our marketing efforts and penetration. Additionally, as I mentioned earlier, we paid a dividend of $0.66 to our shareholders in that first year of operation.

Our challenge for the next year or so is to build on that good start, continue to expand our marketing effort and to continue to build our core portfolio of good companies that have good risk/return characteristics for our shareholders.

OGI: *Do you have any final comments or thoughts you'd like to share?*

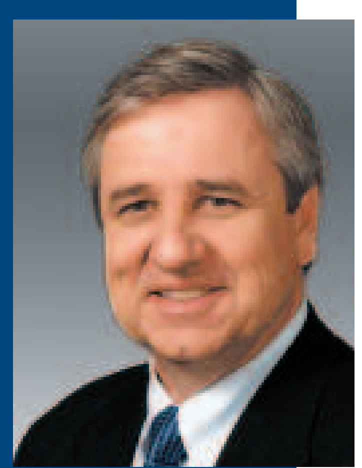
Homier: A final point to make is that the public company nature of NGPC makes us a permanent source of capital for the mezzanine energy finance market. This is a market segment that has seen many capital providers come and go over the years for reasons unrelated to mezzanine finance business itself. The permanence of our capital will help us provide a stable source of financing for our clients while allowing our shareholders to participate in yield and total return investments that they very likely might not be able to access on their own. ■

PARALLEL PETROLEUM CORP. (NASDAQ: PLLL)

Oil and Gas Investor: Describe your company's strategy.

Oldham: Parallel has an "acquire-and-exploit strategy" whereby we have acquired a number of properties, primarily in the Permian Basin of West Texas and then with our engineering expertise, we're exploiting the undeveloped upside related to those assets. We have also added two resource gas plays: the Wolfcamp in New Mexico and the Barnett Shale in North Texas.

LARRY OLDHAM, president and CEO, is a founder of Parallel Petroleum, and has served as an officer and director since the company was formed in 1979. Before Parallel's formation, Oldham was employed by Dorchester Gas Corp. from 1976 to 1979 and KPMG Peat Marwick, LLP during 1975 and 1976. Oldham became president of Parallel in October 1994 and served as executive VP before that time. He received a Bachelor of Business Administration degree in Accounting from West Texas State University in 1975.



Larry Oldham, President and CEO

OGI: Describe your core drilling and production areas.

Oldham: Currently, we are concentrated in the Permian Basin of West Texas. We also have a nice asset base in the Barnett Shale in the Fort Worth Basin and in the Wolfcamp in New Mexico, both of which are horizontal resource gas plays. We have a couple of higher risk projects, one in the Cotton Valley of East Texas and one in Utah/Colorado, which we really haven't talked very much about because they are in the early stages.

OGI: Does the company anticipate expanding to any new core drilling and production areas this year? Where?

Oldham: We do not. We plan to remain focused on our existing core areas of operation.

OGI: What kind of basin or play makes the most sense to the company and why?

Oldham: The Permian Basin of West Texas is one of our primary focuses because of its long-life oil properties with secondary recovery potential. These properties are a great fit to our portfolio primarily because of our technical staff's waterflood and infill drilling expertise. Our other focus is resource plays, as in the Barnett Shale and Wolfcamp, which are more technology driven through the use of horizontal drilling and fracture stimulation. Our technical staff is doing a great job in these areas as well.

OGI: Which one or two wells or projects could yield the greatest return for the company this year?

Oldham: Both the Barnett Shale and Wolfcamp projects could yield great returns for the company this year. Due to timing, the Barnett Shale return will probably exceed the return in the Wolfcamp this year. Due to ownership, acreage and potential, management believes that the New Mexico Wolfcamp could yield the most significant return in the long-term.

OGI: This year, what is your projected budget, and how many wells do you anticipate drilling with that budget? How does that compare with last year?

Oldham: This year's budget is $103.7 million, excluding approximately $30 million for acquisitions. This is a significant increase over last year's budget of approximately $45 million. We plan to complete 147 well operations with that budget, of which approximately 130 wells will be new drills, and 17 wells will be involved in workovers. More than 50% of this year's capital expenditure budget is designated for our resource projects in the Fort Worth Basin Barnett Shale and New Mexico Wolfcamp. Approximately $28.6 million is earmarked for our West Texas Permian Basin projects, and approximately $8.5 million is reserved for our projects that are onshore the Gulf Coast of South Texas and our exploration projects in the Cotton Valley Reef and Utah/Colorado.

OGI: Do you foresee any acquisitions this year?

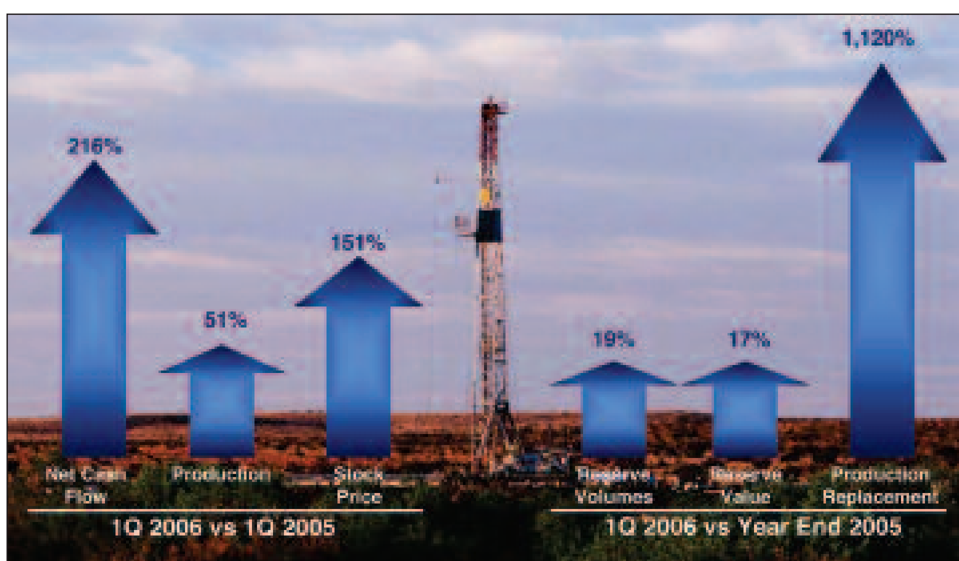
Oldham: We are always pleased to make acquisitions in our core areas. This year we have made two acquisitions in our core areas in a total of approximately $30 million.

OGI: Can your earnings momentum be sustained?

Oldham: Yes, our earnings momentum can be sustained due to increased production volumes.

OGI: Does the company hedge?

Oldham: Yes, we hedge, primarily for banking



Parallel's first quarter 2006 results.

purposes. Most of our hedges are on oil volumes, and we have some of our gas volumes hedged also.

***OGI:** What price deck do you use?*

Oldham: Our basic price deck is $50 oil and $6.50 gas.

***OGI:** How did the hurricanes impact your business?*

Oldham: The higher oil and gas prices that resulted from the hurricanes obviously had a positive impact on our business.

***OGI:** Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Oldham: We finally made a Wilcox discovery in South Texas in 2005. The Wilcox gas wells that resulted from the discovery had an impact on our success last year. Horizontal drilling and fracture stimulation technology in our resource gas plays also had a major impact on our success in 2005 and is making a significant contribution to our continued success in 2006.

***OGI:** What is the greatest challenge facing your company?*

Oldham: Execution and timing are the greatest challenges facing our company today.

***OGI:** You have made several key acquisitions in the past year. How have they changed the company?*

Oldham: Our Harris San Andres and Carm-Ann Andres/N. Means Queen acquisitions were our most recent key acquisitions in the Permian Basin of West Texas. They immediately contributed to cash flow and earnings and have low-risk, high rate-of-return, development-drilling opportunities.

***OGI:** What do you think of the high prices?*

Oldham: Higher oil and gas prices have positively affected our industry by causing increased drilling and development activity.

***OGI:** Do you have any final comments or thoughts?*

Oldham: During 2005, Parallel's proved reserves increased 17%, our production increased 29%, and our stock price increased 216% over the prior year. During the first quarter of 2006, our production increased 51% over the first quarter of 2005, and we expect both production and reserves to grow during the remainder of 2006. ■

This Barnett Shale picture shows Parallel's simultaneous drilling frac plugs on two recently "simu-frac'd" wells utilizing coiled tubing units and downhole motors. Downtown Fort Worth, Texas, is shown in the background.

Petrie Parkman & Co.

***Oil and Gas Investor:** What should oil and gas investors know about future prices?*

Petrie: This is a cycle unlike any of the recent past cycles, and while volatility will still be a real factor, we shouldn't confuse a commodity retracement with the idea that this cycle is going to be terribly analogous to what happened in the early 1980s. In that case, price spikes resulted in a decline in demand that ultimately put OPEC members and companies in this business in the penalty box, if you will, for a decade or more.

In the current case, oil and gas prices are likely to remain materially higher than has been factored into expectations by the public marketplace and, to a degree, by the industry. Another way to think of it is that we're probably in something like a $50- to $70-per-barrel oil-price environment 80% of the time in the balance of this decade, and, in large part, the other 20% of the time we're likely to be above $70. The main way we would test down to $50 and lower would come about by a further spike in prices somewhere north of $85 and perhaps north of $100.

So that's a very challenging environment in which to develop strategies. The capacity of the industry to develop new supply has inherent limitations, so you have more dollars of investment prepared to crowd into this sector than can be committed to the sector in a financially disciplined way in the near to intermediate term. Thus, one of the big challenges is dealing with oilfield inflation and deteriorating quality of services in the pursuit of new resource development.

***OGI:** What percentage of U.S. E&P companies would be in trouble at oil prices below $50?*

Petrie: Frankly, E&P companies are in much better financial condition today. The last time we had prices test the low end of the range after a long period of upward price movement, companies had become overlevered; that's not typically the case today. Three years from now, if companies have levered up after embracing these new, higher prices, that conclusion may be different, but that's not the case today.

However, if we get a downside test and we've locked into the higher costs of developing oil and gas, as we are doing now, then clearly activity will come down, but I don't see a downside test until we get further upside moves in oil prices.

There is an interesting book just published called *A Thousand Barrels a Second* by Peter Tertzakian. It's a very readable and common sense discussion of what the author refers to as the coming oil breakpoint. What comes out is that, at 86 million barrels a day, a little higher than what we're actually producing today, the world is consuming 1,000 barrels a second. It's an interesting way to underscore the voluminous rate of oil consumption now occurring.

When you combine that with the geopolitical outlook we see today and the looming issue of resource maturity, whereby there is more and more accumulating evidence that if we're not at a peak oil condition today we're probably not more than five or 10 years away from it—and more likely five than 10—you're left with the conclusion that high prices are going to be with us, and even when we get that downside test, it's going to be surprisingly self-limiting. If we were to test down to $50 or a little lower, I think we would find that self-correcting aspects

Thomas A. Petrie, Chairman and CEO

Tom Petrie is chairman, president and chief executive of Denver- and Houston-based investment-banking firm Petrie Parkman & Co., which he co-founded in 1989. He was a managing director and senior oil analyst for The First Boston Corp. beginning in 1977, and previously was a vice president, senior oil analyst and director with Wainwright Securities in New York City; a petroleum research analyst for Colonial Management Associates in Boston; and a captain in the U.S. Army, serving in Germany and Vietnam.

During his career, he has been an active advisor on more than $140 billion of energy-related mergers and acquisitions. He is an expert on petroleum valuation, M&A trends and energy policy. For eight consecutive years, he was ranked the No. 1 oil analyst in the exploration/independent sector by *Institutional Investor* magazine.

He received his bachelor's degree in 1967 from the U.S. Military Academy at West Point and his MSBA from Boston University (overseas program) in 1969. In December 2005, he received an honorary doctorate in engineering from the Colorado School of Mines.

He is also a chartered financial analyst.

would kick in quickly, partly because, at such price levels, both national and independent oil companies would stop drilling in a lot of areas and partly because OPEC's ability to be a governor, if you will, or a balancing factor at lower prices is probably the best it's been in 40 years.

OGI:* *Which investment do you like more: gas or oil?

Petrie: Right now, because there is so much pessimism about natural gas, the contrarian in me would like to put more emphasis on gas than oil because gas is not subject to quite the insecurity premium that we're seeing built into oil prices. The geopolitical make-up understandably is causing oil prices to be very, very strong, with recent new highs north of $75 oil. Clearly the combination of concerns about Iran, Iraq, the second-order effects of the challenges involving Korea and how that might affect our dealings with Iran, all enter into the current sense of insecurity. And, when you want to take time off, you can contemplate all that is going on in Nigeria and Venezuela.

Today's consensus argues that gas prices may well test the low $5-per-million-Btu range before they work higher. If you asked me a year ago whether you could have $75 oil and $5 gas, i.e. a 15-to-1 ratio, I would have said that seems a little extreme. But in the very near term, we maybe can and maybe will have it that way. We're already at a 12 or 13 ratio, which is way outside the normal relationship.

OGI:* *What's a good E&P investment today?

Petrie: A very well positioned company—what our analyst Larry Busnardo has recommended—is Quicksilver Resources (NYSE: KWK). This is not to say it's unique, but it certainly has a strategy that is the kind of positioning you want to have. It has a lot of visibility not just over the balance of this decade but arguably over the next two decades in terms of development of the resource it has captured in the Barnett Shale and also in Canada, and to a degree with some of the interests it has in Michigan as well.

Quicksilver is a very interesting company that is selling today in the mid-$30s, and it is arguable that its net asset value as it exploits this resource base could very well exceed twice that level. It has many of the attributes, if you will, that were attractive in the recent sale of Chief Resources. That's the kind of company one really wants to have in one's portfolio as a play on the future of resource development in North America.

OGI:* *What else should E&P investors know?

Petrie: Energy is going to be center stage in the mind of the market certainly for the next three or four years, and it's going to be that way in no small part because the problems are not going to go away. If anything, they are going to continue to build.

Nigeria is a big question mark as to its social and economic stability in the next several years. Venezuela is clearly under the spell of its populist leader, Hugo Chavez, and he has a very serious agenda that involves selling less oil at a higher price and challenging not just the U.S. but much of Western thinking about the appropriate nature of resource development in Third World countries.

We don't know how it's going to play out with respect to Iran's nuclear ambitions, but we know so far that it's a pretty difficult problem, and it probably just became more so by virtue of some of the moves of North Korea to challenge the U.S. and its allies on this issue in Asia.

So when you put all of those things together and you combine it with this demand growth, which is still strong, I believe that with high oil prices and, in time, higher gas prices, we're creating cumulative drag on economic activity. It is true that cumulative drag slows economic growth; it doesn't put us into a recession. It takes a real shock to the system to do that. That shock may come eventually from a combination of higher interest rates, and the fear of even higher interest rates, along with the fear and reality of high energy prices. Until that has played out more, and it probably will in 2007 and 2008, this is an area where basically the conventional energy players have a major role to play.

I mentioned the book *A Thousand Barrels A Second*. It's a pretty objective and common sense analysis of what are our alternatives, and the basic answer is that the alternatives much ballyhooed in Congress, involving solar, wind and biomass, are really not very great alternatives in the near to intermediate term. None of these really moves the needle in terms of providing reasonable energy diversity and true energy security as a percent of total demand.

The energy sources that do make a difference—predominantly nuclear power and clean coal—have big lead times, so we're going to be in this fix that we're in for a fairly long time. We could make it worse with bad policy-making in Washington. It's hard to make it much better with good policy-making out of Washington. But the most important event that has to happen is more conservation and more development of resources that buy us time to make sensible adjustments. Liquefied natural gas infrastructure build-out is an important part of that buying-time process, as is the concurrent all-out effort being made by the whole upstream sector to increase production. ■

PetroFalcon (Toronto: PFC)

***Oil and Gas Investor:** Describe your company's strategy.*

Cottman: PetroFalcon's long-term strategy is to build a large independent operating company in Venezuela. In general, we strive to minimize geological risk. We have acquired the biggest acreage position of any company in the country (other than Petróleos de Venezuela, S.A., PDVSA, the state oil company). We have over 800,000 acres adjacent to the Paraguaná Refining Complex (PRC), the world's largest refinery. The acreage position was purposefully assembled in close proximity to major oil and gas pipelines that supply the PRC. The current acreage position includes producing fields, as well as a number of high-quality, ready-to-drill prospects. In addition, the company is working on acquisitions of producing assets and natural gas licenses. Our acquisition, development and exploration initiatives are consistent with our goal of making PetroFalcon a significant player in Venezuela's oil and gas market.

***OGI:** Describe your core drilling and production areas.*

Cottman: PetroFalcon has four producing fields in the Falcón Basin of northwestern Venezuela. These fields are low-risk Eocene- and Miocene-age producing formations at depths ranging from 1,000 feet to approximately 8,000 feet. These fields produce high-gravity crude oil, which commands a market price premium, and both free and associated natural gas. The area has well-developed services and oil and gas pipelines for timely well hookup and delivery of production. There are a number of well-defined prospects on our property that have either tested or logged oil and gas pay but were never developed. By using proven, modern drilling and completion methods, PetroFalcon is able to develop these previously uneconomic locations with superior per-well economics.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Cottman: While we have a considerable inventory of development and exploration locations to drill, the company continues to look at opportunities in offshore Venezuela and the country's eastern basins. Our wholly owned operating subsidiary, Vinccler Oil and Gas, holds an exclusive option on a 250,000-acre offshore block in the Gulf of Venezuela with two large structures that could amount to 2 trillion cubic feet of resource potential. We are negotiating for another onshore gas license in one of the last undrilled basins in the country.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Cottman: PetroFalcon has a two-pronged approach to our business. Firstly, we focus on known hydrocarbon accumulations. There are many low-risk development opportunities in Venezuela that previously went undeveloped due to either low oil and gas prices or the lack of a commercial market, specifically for natural gas production. In both cases, the company can now make the necessary investment to bring on production quickly. Secondly, we also look for prospects that can expose investors to meaningful upside. These include exploration prospects both onshore and offshore.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Clarence Cottman has more than 25 years of oil and gas experience working at both major and independent energy firms.

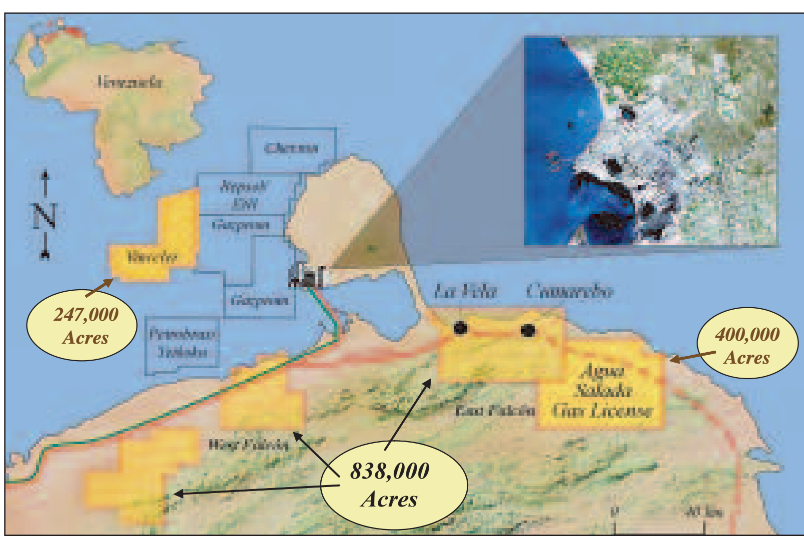
He began his career at Sun Co. in the company's E&P subsidiaries. Cottman's experience was focused on identifying oil and gas opportunities and securing investment capital and partners. As an executive officer of Benton Oil and Gas Co., he was responsible for identifying, evaluating, negotiating and developing the company's domestic and international oil and gas projects.

In 1991, Cottman negotiated one of the earliest joint venture agreements involving a Western partner to develop a new oil and gas field in Russia. He arranged the first non-recourse Russian oilfield financing with the EBRD and in 2005, arranged a US$36 million financing from the IFC for properties in Venezuela. In 1992, Cottman negotiated the first direct investment in Venezuela's upstream oil and gas sector since nationalization in 1976 with the signing of the SMU Operating Service Agreement. He has most recently led the acquisition of new oil and gas properties in Venezuela and the conversion of the existing contracts to the new hydrocarbon legal structure.

Cottman holds a bachelor's degree from the Rochester Institute of Technology and an MBA from the University of Rhode Island.

Clarence Cottman, CFO and Director

Cottman: This year, we will be bringing onstream additional shut-in oil and gas production at our Cumarebo field and focusing on development drilling at the La Vela field. While we are not advocates of well-watching, we have two prospects, La Cruz and Los Moroches, which could have significant impact to PetroFalcon. La Cruz is an exploration prospect with 100 million barrels of oil equivalent potential. Los Moroches is a previously discovered field with about 20 million barrels of potential. We anticipate spud dates for La Cruz and Los Moroches in early 2007. Longer-term, our offshore Gulf of Venezuela play is the most significant.



PetroFalcon is the largest acreage holder in Venezuela (after the state oil company, PDVSA) with more than 800,000 acres adjacent to the Paraguaná Refining Complex. The current acreage position in East and West Falcón includes producing fields, as well as a number of high-quality, ready-to-drill prospects. PetroFalcon's main upside is in the possibility of getting two gas licenses—the Castilletes Gulf of Venezuela offshore block and the onshore Agua Salada area.

OGI:* *This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?

Cottman: The company's capital budget for 2006 is approximately US$20 million, which represents our 40% share of the total US$44 million to be spent on the property. In 2005, the company's capital budget was US$31 million, but that was before we formed a joint venture with PDVSA. More importantly, while we focused on infrastructure in 2005, most of the 2006 capital will go to drilling. Over the next four years, the total development budget for the property is approximately US$170 million, of which PetroFalcon's share will be US$68 million. This investment is expected to raise production to over 24,000 barrels of oil equivalent per day by 2008, with PetroFalcon owning a 40% working interest.

OGI:* *Do you foresee any acquisitions this year?

Cottman: We recently completed the acquisition of the West Falcón Block from Samson International, and we are working on several other potential acquisitions. Of course, we will be careful not to over-pay for acquisitions in the current global commodity price environment.

OGI:* *What price deck do you use?

Cottman: We believe higher prices are here for some time, but we want our projects to be economic at $50 per barrel WTI. Gas prices are low (though economic) in Venezuela, so we run a flat $1.50 per thousand cubic foot. However, there will be some pricing upside as the Venezuelan gas market evolves.

OGI:* *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?

Cottman: The 2005 renegotiation of existing contracts in Venezuela really slowed down our growth, especially our planned drilling campaign. We believe the uncertainty surrounding the contractual changes is behind us, and we look forward to proceeding with our development and exploration plans together with PDVSA in 2006 and beyond.

OGI:* *What is the greatest challenge facing your company?

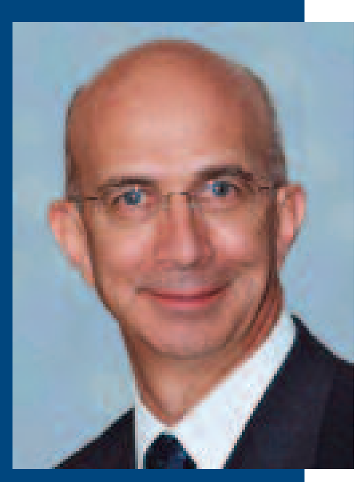
Cottman: Like most energy producers today, rising drilling rig rates and service costs are our biggest challenges. However, we will continue to manage our costs effectively.

OGI:* *Do you have any final comments or thoughts you'd like to share?

Cottman: PetroFalcon is fortunate to have a great technical and operating team, as well as a highly experienced senior management and solid long-term partners in PDVSA and the World Bank, which owns 6% of PetroFalcon. Management owns 30% of the company and has over 100 years of combined experience in the country. We have a long-term vision for building PetroFalcon into a large independent operating company in Venezuela, and we have the local expertise and relationships to get the job done. ■

Petroleum Development Corp. (NASDAQ: PETD)

Steven R. Williams was elected chairman and CEO of Petroleum Development Corp. (PDC) in January 2004. He has served as president and director of PDC since March 1983. Prior to joining the company, he worked for Exxon until 1979 and attended Stanford Graduate School of Business, graduating in 1981. Williams then worked with Texas Oil and Gas until July 1982, when he joined as manager of operations for Exco Enterprises, an oil and gas investment company.



Steven R. Williams, Chairman and CEO

***Oil and Gas Investor:** Describe your company's strategy.*

Williams: Increase shareholder value by exploiting the best available opportunities for exploration and development drilling, purchase of producing properties, acquisitions or complementary businesses, partnership operations and stock repurchases.

***OGI:** Describe your core drilling and production areas.*

Williams: About 80% of PDC's production is now located in our Rocky Mountain Region, which includes Colorado, Kansas, North Dakota and Wyoming. All of the company's current drilling activities are also located in the same area. The company also has production operations in the Appalachian Basin and in Michigan.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Williams: The company currently plans to continue to actively develop its western properties as its primary activity. Other opportunities will be considered if they meet PDC's economic criteria, build on the company's experience and fit with the existing operations.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Williams: Having originated in the Appalachian Basin, PDC has a long history of operations in tight, shallow natural gas plays. The basin centered plays where PDC currently focuses its efforts are excellent examples of the kinds of operations that match PDC's capabilities and risk preference. Content to "hit singles" rather than "swinging for the fence," the company has delivered industry-leading growth over the past decade with a consistency and low level of risk matched by few peers. With increasing production and higher prices, the company has begun to add a component of exploratory drilling with the potential to add meaningfully to the company's reserves and future value. The gas-rich Rockies with its huge undeveloped reserves and numerous exploratory opportunities is a good match for PDC's experience, risk tolerance and resources, and it's likely to remain the foundation of the company's operations for a number of years.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year? Which project(s) is the most significant?*

Williams: The company's ongoing operations in Wattenberg field in the DJ Basin and Grand Valley in the Piceance Basin will continue in 2006 and 2007 as the heart of the company's development activities. Ongoing exploratory efforts in the Bakken Shale and Nesson Formation in North Dakota are adding a significant oil component to the company's operations.

***OGI:** This year, what is your projected budget, and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Williams: PDC's capital budget for 2006 is $139 million, up from $106 million in 2005. In addition to company investments, the company also manages drilling operations for investment partnerships it forms and markets. The total number of wells drilled in 2006 is anticipated to be approximately 200, with approximately 100 net wells to PDC's interest.

***OGI:** Do you foresee any acquisitions this year?*

Williams: PDC is an acquirer of opportunity, taking advantage of acquisitions when economic and operating characteristics meet the company's investment criteria. The company is active in seeking and evaluating candidates. The company has a strong balance sheet and cash flow, so it has the financial wherewithal to complete appropriate transactions.

***OGI:** Can your earnings momentum be sustained?*

Williams: The company anticipates production

PDC's active Piceance Basin drilling program balances oil and gas activities in rugged terrain with careful environmental considerations. PDC drilled its 100th well here in 2005 and now operates 128 Piceance gas producers.

increases of 10% to 15% or more in 2006. Higher operating and administrative costs will partially offset the gains from production, but the controlling factor is likely to be oil and gas prices. The company uses derivatives to partially protect against potential energy price decreases, but remains exposed to both increased and lower energy prices to a substantial degree.

***OGI:** Does the company hedge?*

Williams: We typically use collars and/or calls and puts to provide some downside protection while retaining most upside potential. Generally, no more than one-third of our production has an upside limit, while up to two-thirds may have downside protection. All derivative positions are disclosed when they are set.

***OGI:** What price deck do you use?*

Williams: We generally use Nymex futures adjusted for the area the gas or oil is located unless conditions dictate a different approach.

***OGI:** How did the hurricanes impact your business? Have you raised your rates? Are you building new equipment?*

Williams: We have no offshore or Gulf of Mexico facilities, so only the price impacts were of significance to us.

***OGI:** Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Williams: The increasing recognition of the value of undeveloped acreage in Colorado and North Dakota has revalued the company's strong acreage positions in those areas. PDC has a strong acreage position in Grand Valley field in the Piceance Basin, as well as in areas of North Dakota where the Bakken Shale and the Nesson Formation are being developed.

***OGI:** What is the greatest challenge facing your company today?*

Williams: Finding qualified professional people to fill openings in technical and financial areas is a great challenge and increasingly difficult and expensive. In the Rocky Mountain region in particular, the competition for high-quality candidates is intense, but even in the East, there is a lot of activity and resulting competition for employees. One of the service companies had an ad on television for new employees in West Virginia, something I can't even remember seeing in the 25 years I have lived there.

***OGI:** How many exploration wells do you plan this year? Where are they?*

Williams: We could drill four to eight exploratory wells in 2006. Most are likely to be in North Dakota in the Bakken Shale and Nesson Formation, although we could drill in other areas if the right opportunity presents itself.

***OGI:** How does your budget for 2006 compare to 2007?*

Williams: The capital budget has increased by 39%. We have also seen significant increases in the operating budget due to increasing staffing levels and higher competitive pay levels.

***OGI:** Do you have any final comments or thoughts you'd like to share?*

Williams: PDC's dedicated professionals have made the company the success it has been, and they continue to apply their talent and energy to making PDC an even greater success in the future. ■

PetroQuest Energy Inc. (NASDAQ: PQUE)

Oil and Gas Investor: Describe your company's strategy.

Goodson: Grow reserves and production at the lowest possible cost and best returns. We strive to maintain balance among our three core operating areas, which are the Arkoma Basin, East Texas and Gulf Coast Basin.

OGI: Describe your core drilling and production areas.

Goodson: As stated above, we operate in both the long-lived/resource play type areas of East Texas and Arkoma as well as the conventional high cash-flow area of the Gulf Coast. We feel like the balance of these areas is very favorable for growing an E&P company.

OGI: Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?

Goodson: We have not gone into this year striving to get into another basin, however we always look at new opportunities. I don't think you will see us get into any international plays or the deep waters of the Gulf of Mexico.

In 1998, American Explorer LLC merged with PetroQuest Energy Inc., and **Charles T. Goodson** became its president and CEO. He also serves as the company's chairman. In 1995, he co-founded and become a partner of American Explorer LLC.

Goodson began his career in the oil and gas industry in 1977 with Mobil Oil Corp. in New Orleans as a landman.

In 1985, he became a co-founder, owner and president of American Explorer Inc., an E&P company in Lafayette, La.

Charles T. Goodson, Chairman, CEO and President

OGI: Which one or two wells or projects could yield the greatest return for the company this year? Which project is the most significant to the company this year?

Goodson: I think the Pelican Point and English Turn discoveries will ultimately yield the highest economic returns for the company in the years to come. However, the development of the Woodford Shale is probably the most significant event for the company during the next 12 to 24 months.

OGI: This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?

Goodson: Our current drilling capex budget is approximately $145- to $160 million and we anticipate drilling approximately 135 wells. That compares with roughly $110 million spent on drilling 86 wells during 2005.

OGI: Do you foresee any acquisitions this year?

Goodson: We are constantly looking for acquisitions, especially in our long-lived areas. We have been acquisitive over the last several years, however we anticipate even being more aggressive in the future. We have made some changes within the organization to allow us to evaluate and capture more deals in the future.

OGI: Can your earnings momentum be sustained?

Goodson: We feel like we are doing everything we can to continue to grow production and reserves. Commodity prices and third-party costs obviously drive our profitability, and we hope we can continue to generate higher earnings.

OGI: Does the company hedge?

Goodson: Yes, we typically hedge between 40% and 50% of our production.

OGI: What price deck do you use?

Goodson: We run our models using a Nymex price cut back by 10% to 15% and adjusted for historical differentials.

OGI: How did the hurricanes impact your business? Have you raised your rates? Are you building new equipment?

Goodson: The hurricanes obviously deferred a significant amount of production due to our Gulf Coast presence, but the rise in commodity prices pretty much kept our revenues in line with where we had forecasted. Our current production rate is well above the pre-storm amount as we have continued success in all of our basins and we have restored just about all of the shut-in production. We have repaired most of our damages, but we have not had to build any new structures.

OGI: Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?

Petroquest shares have consistently performed for more than three years.

Goodson: The hurricanes were the events that had the most impact on the company. We learned a lot about our organization and how resilient our employees are in both a professional and personal environment. I am proud at how our employees stepped up in such a tragic time.

OGI:* *What is the greatest challenge facing your company?

Goodson: The greatest challenge in today's market is to keep great employees, and I feel like we have done an outstanding job of hiring and retaining stellar people.

OGI:* *Can you update us on your Pelican Point discovery?

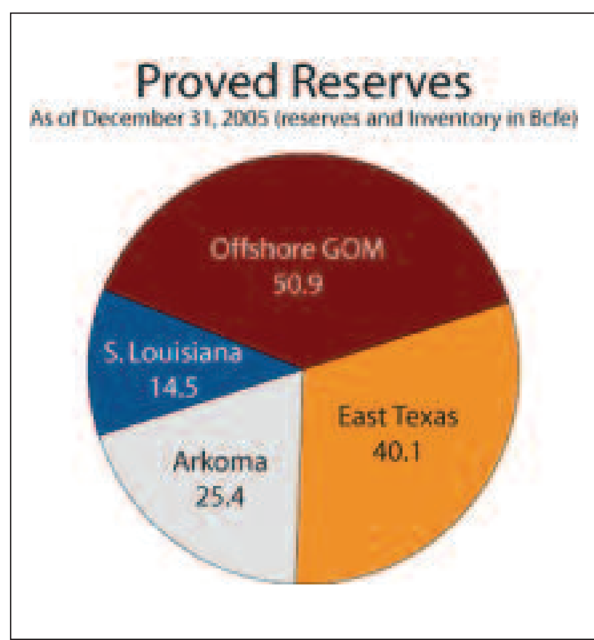
Goodson: [At press time] Pelican Point is scheduled to begin producing during July and the second well in the development of the field should be drilled later this summer.

OGI:* *What other exploratory wells are planned this year?

Goodson: We have about 10 exploratory wells scheduled this year in the Gulf Coast, and we have already had additional significant discoveries at our English Turn and Grayhawk prospects.

OGI:* *Do you have any final comments or thoughts?

Goodson: With the purchase by Anadarko of Kerr-McGee and Western Gas Resources, the market should realize the benefit of high cash flow properties in the Gulf Coast and the predictability of the long-life plays. This combination of high rate of return Gulf Coast properties along with years, if not decades, of exposure to long life natural gas reserves and production in the Mid-continent, seems to make for a good business plan. This appears to be true whether you are a large or small company. I think the Anadarko purchases certainly validate the changes to our business plan put in place in 2003. The new business plan has resulted in continued upper quartile growth and should allow us to continue a high growth rate for the foreseeable future. This growth has been achieved by keeping our drilling capital around our internally generated cash flow and maintaining a reserve mix heavily weighted toward the proved developed category. ■



The company's assets are balanced onshore and offshore.

Petro Resources Corp. (Pink Sheets: PRCT)

***Oil and Gas Investor:** Describe your strategy.*

Hall: Petro Resources embraces a slightly different approach and strategy than most of our peers. Our basic strategy is that of a non-operator who participates in exploratory drilling prospects with operators who have a high level or expertise in particular areas, basins or geological environments.

For example, we have been able to partner with Hall-Houston Exploration in the Gulf of Mexico. The Hall-Houston technical team has an excellent 20-year track record of finding reserves in the Gulf.

Likewise, we have partnered with Approach Resources, a privately owned company headquartered in Fort Worth, Texas, in a Canyon Sand project in Texas and a New Albany Shale play in Kentucky. Approach Resources also has a lengthy and distinguished track record and is recognized for their expertise in tight-sand formation production.

***OGI:** Describe your core drilling and production areas.*

Hall: Petro Resources is currently drilling or has production in the Gulf of Mexico, Gulf Coast, South Texas, West Texas and Southern Louisiana.

We have amassed more than 200,000 gross acres of lease holdings in the Gulf of Mexico, Texas, Utah, Colorado, Kentucky and Louisiana.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year?*

Hall: We are currently evaluating an exploratory acreage acquisition in Montana and several producing property acquisitions located in Texas.

"We have amassed more than 200,000 gross acres of lease holdings in the Gulf of Mexico, Texas, Utah, Colorado, Kentucky and Louisiana."

Wayne P. Hall is chairman, president and CEO of Petro Resources Corp. Hall served as senior advisor to Energy Partners Ltd. from January 2002 until the end of 2003. Prior to joining Energy Partners, he was president of Hall-Houston Oil Co. from its inception in 1983. Hall received a B.S. in chemistry from Southwest Texas State University. Prior to joining Hall-Houston Oil Co., he serviced in various executive and administrative positions with independent energy companies.

Wayne P. Hall, Chairman, President and CEO

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Hall: We plan to invest 25% to 40% of our capital in Gulf of Mexico projects. Gulf of Mexico projects will provide us with moderate life reserves, high production rates and high levels of cash flow.

The balance of our capital budget will be employed in several resource-type projects and basins, which will generally provide longer life reserves, proved undeveloped locations and stable production rates. These types of reserves and production provide a natural complement to those associated with the Gulf of Mexico.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Hall: We are participating in a middle Wilcox well in South Texas that, if successful, could lead to a field discovery of 100 billion cubic feet equivalent (Bcfe). We are also participating in a Rodessa wildcat in East Texas with unrisked potential of 50 Bcfe. If successful, these projects could be on stream prior to the end of 2006.

In the longer term, we believe that our participation in the Gulf of Mexico with Hall-Houston Exploration will have the most significant impact on the company over the next three years and beyond.

***OGI:* This year, what is your projected budget and how many wells do you anticipate drilling with that budget?**

Hall: We anticipate that we will spend approximately $10 million in exploratory drilling during the remainder of 2006. Approximately $6 million will be spent on 20 onshore wells and approximately $4 million will be spent on 11 Gulf of Mexico wells.

***OGI:* Do you foresee any acquisitions this year?**

Hall: Our plans include one or more onshore reserve acquisitions during the remainder of 2006. Subject to the availability of capital, we would like to acquire $25 million to $50 million of long-lived reserves more heavily weighted toward oil production.

PetroResources is involved in many U.S. plays.

***OGI:* Can your earnings momentum be sustained?**

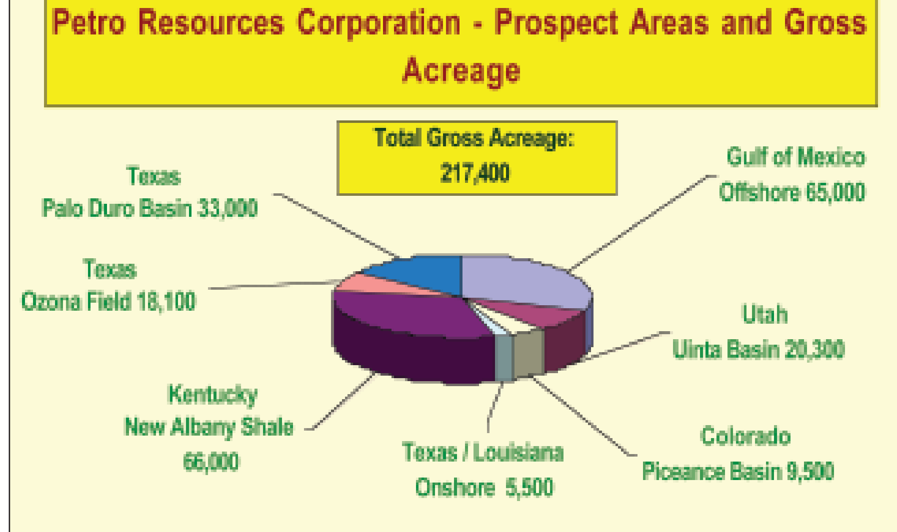
Hall: As a late 2005 start-up concentrating on exploratory drilling, our earnings to date are modest. However, we have a substantial acreage position and should be drilling a large number of wells during the remainder of 2006 and beyond. I anticipate that if we are able to replicate the track records of our partners in their drilling efforts coupled with our low overhead structure, we should be able to show a substantial growth in our earnings going forward.

***OGI:* What factors or events had the most impact or led to the most success for you to date?**

Hall: We are gratified to have raised $14 million in two private placements with more than 80% being invested by institutional investors.

We have also been able to assemble an excellent board of directors to oversee the growth of the company. The members have collectively more than 175 years of experience with backgrounds in geology and geophysics, petroleum engineering, investment banking, stock analysis, legal and accounting.

Another primary factor contributing to our success is the development of our industry relationships. In addition to partnering with Hall-Houston Exploration and Approach Resources, we are cultivating additional industry relationships in both Denver and Houston.



Nearyl 70% of acreage is onshore.

***OGI:* What is the greatest challenge facing your company?**

Hall: Our greatest challenge is to be able to raise the capital necessary to fund the quality opportunities available to us from our various industry relationships.

***OGI:* Do you have any final comments or thoughts you'd like to add?**

Hall: I would like to thank both EnerCom for inviting us to participate in this prestigious conference and *Oil and Gas Investor* for this interview. I would also invite your readers to visit our Web site at *www.petroresourcescorp.com* for more details and further updates. ■

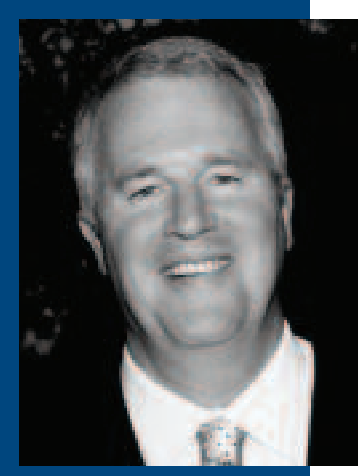
Quest Resource Corp. (NASDAQ: QRCP)

Oil and Gas Investor: *Describe your company's strategy.*

Cash: Our goal is to create stockholder value by investing capital to increase reserves, production and cash flow. We intend to accomplish this goal by focusing on the following key strategies for our future growth:

- accelerate the drilling and development of our acreage position in the Cherokee Basin;
- accumulate additional acreage in the Cherokee Basin in areas where management believes the most attractive development opportunities exist;
- pursue selected strategic acquisitions in the Cherokee Basin that would add attractive development opportunities and critical gas-gathering infrastructure;
- expand our gas-gathering system throughout the Cherokee Basin in order to accommodate the development of a wider acreage footprint;
- maintain operational control over our assets whenever possible;
- limit our reliance on third-party contractors with respect to the completion, stimulation and connection of our wells;
- maintain a low-cost and efficient operating environment through the use of remote data monitoring technology;
- seek our opportunities to apply our expertise with unconventional resource development in other basins; and
- be highly selective when using shareholder capital to execute our growth strategies.

Jerry D. Cash has been active in the oil and gas exploration and development business for over 25 years. He has been the chairman of the board since November 2002 and has been CEO since September 2004. From November 2002 until September 2004, he was co-CEO, and from November 2002 until June 2004, he was CFO. Cash worked from 1980 to 1986 for Bodard & Hale Drilling Co. while pursuing a petroleum engineering degree. During this period, Cash drilled several hundred wells throughout Oklahoma. In 1987, he formed STP Inc. and directed that company in the successful identification and realization of numerous oil, gas and coalbed methane exploration projects. A long-time resident of Oklahoma, Cash maintains an active role in several charitable organizations.



Jerry D. Cash, Chairman and CEO

OGI: *Describe your core drilling and production areas.*

Cash: Quest Resource is the largest operator in the Cherokee Basin. As of June 30, 2006, we owned more than 500,000 net acres, produced gas from more than 1,200 wells into our 100%-owned 1,200 plus-mile gas-gathering system. We have well data from more than 100,000 wells drilled in the 12-county region that we are focused on in the Cherokee Basin. Our goal is to control more than 1 million acres in what we consider the most prospective portion of the Cherokee Basin. From our internal studies of logs and well tickets, we've determined, and our independent reservoir-engineering firm Cawley Gillespie concurs, the basin has approximately 1 million cubic feet of gas per acre. Our average working interest here is 99%. During the previous three years, our finance and development costs averaged $1.42 per thousand cubic feet equivalent. Our future development costs on our proven undeveloped reserve base is $1.36 per thousand cubic feet equivalent. Total proved reserves at as of April 1 2006, as reported by the company June 14, 2006, are 187.6 billion cubic feet equivalent, up 40% from year-end 2005 reported total proved reserves of 134.3 billion cubic feet equivalent.

Production from the Cherokee Basin is long-lived. Our present R/P ratio is 16.3 years. Located in Southeastern Kansas and Northeastern Oklahoma, it is geologically situated between the Forest City Basin to the north, the Arkoma Basin to the south, the Ozarka Dome to the east and the Nemaha Ridge to the west. Structurally, the Bourbon Arch separates the Cherokee Basin from the Forest City Basin. The Cherokee Basin is a mature production area with respect to conventional reservoirs such as the Bartlesville sandstones and the Mississippian limestone, which was developed in the early 1990s.

The Cherokee Basin is part of the Western Interior Coal Region of the central U.S. The coal seams we target for development are Pennsylvania (Desmoinesian-Cherokee Group) in age and are found at depths between 300 feet and 1,400 feet. The principal formations we target include the Mulky,

Weir-Pittsburgh and the Riverton. These coal seams are blanket type deposits, which extend across large areas of the basin. Each of these seams generally range from 2-feet to 5-feet thick. Additional minor, but often productive, coal seams such as the Summit, Bevier, Fleming and Rowe are found at varying locations throughout the basin. These seams range in thickness from 1 foot to 2 feet. The coal seams found in the Cherokee Basin are primarily high-volatile A and B bituminous grade with excellent permeability and gas saturations ranging from 150 to 380 standard cubic feet per ton.

We develop our coalbed methane reserves in the Cherokee Basin on 160-acre spacing. Our wells generally reach total depth in 1.5 days and our historical cost is approximately $97,000 to drill and complete. Additionally, infrastructure historical costs are approximately $66,000 per well. We perforate and frac the multiple coal seams present in each well. Our typical Cherokee Basin multi-seam CBM well has gross reserves of 160 million cubic feet. Our general production profile for a CBM well averages an initial 15,000 cubic feet per day to 20,000 cubic feet per day (net), steadily rising for the first 10 months while water is pumped off and the formation pressure is lowered. A period of relatively flat production of 55,000 cubic feet per day to 60,000 cubic feet per day (net) follows the initial de-watering period for a period of eight to 10 months. After 16 to 18 months, production begins to decline at an annual rate of 12% to 14%. The standard economic life is about 15 years. Our completed wells rely on very basic industry technology and are relatively unchallenging.

Our development activities in the Cherokee Basin also include an active program to re-complete CBM wells that produce from a single coal seam to wells that produce from multiple coal seams. We began our well re-completions in November 2004 and re-completed to date approximately 134 well bores in Kansas and an additional 47 in Oklahoma. Presently, we have an additional 125 wells awaiting re-completion to multi-seam producers. The re-completion strategy is to add four to five additional pay zones to each well bore, in a two-stage process at an average historical cost of approximately $20,000 per well. Adding new zones to a well has a brief negative effect on production by first taking the well offline to perform the work and then by introducing a second de-watering phase of the newly completed formations. However, in the long term, the impact of the multi-seam re-completions will be positive as a result of an increase in the rate of production and the ultimate recoverable reserves available per well.

Wells are equipped with small pumping units to facilitate the de-watering of the producing coal seams. Generally, upon initial production, a single coal seam will produce 50 barrels of water per day. A multi-seam completion produces about 150 barrels of water per day. Eventually, water production subsides to 30 barrels of water per day to 50 barrels of water per day. Produced water is disposed through injection wells we drill into the Arbuckle formation, which sits below the primary coal productive zones. One disposal well will generally handle the water produced from 25 to 30 producing wells.

***OGI:* Does the company anticipate expanding to any new core drilling areas this year?**

Cash: The company has no definite plans today, but opportunities are reviewed when available. With any acquisition, management will leverage its prior experience developing large, unconventional resource plays.

***OGI:* What kind of basin or play makes the most sense to the company and why?**

Cash:

- *Low geological risk*—The coal seams from which we produce CBM are notable for their consistent thickness and gas content. In addition, extensive drilling dating back 60 to 80 years for the development of oil reserves in the Cherokee Basin gives us access to substantial information related to the coal seams we target. Over 100,000 well bores have penetrated the Cherokee Basins since the 1920s. Data available from the drilling records of these wells allows us to determine the aerial extent, thickness and relative permeability of the coal seams we target for development, which greatly reduces our dry hole risk.
- *High rate of drilling success*—Over 99% of the approximately 1,000 CBM wells that have been drilled on our acreage have been completed as economic producers.
- *Expertise in Cherokee Basin geology*—We have spent several years conducting technical research on historical data related to the development of the Cherokee Basin. From this analysis, we believe we have determined where the most attractive opportunities for the CBM development exist within the basin.
- *Large acreage position and inventory of drilling sites*—We have the right to develop more than 500,000 net CBM acres in the Cherokee Basin. Presently, our acreage is only 39% developed and offers approximately 1,800 potential CBM drilling locations.
- *Availability of significant quantities of low cost acreage*—Presently, several hundred thousand

acres of unleased CBM acreage are available in the Cherokee Basin. Generally, this acreage can be leased for an amount far less than acreage in other basins. These circumstances afford us the opportunity to pursue significant organic growth by adding large amounts of undeveloped acreage and CBM drilling locations at a reasonable cost.

- *Competitive advantage of our gas-gathering system*—Our gas-gathering system provides us with a competitive advantage with respect to third parties seeking to lease acreage that is readily served by our system. The volume take allowance for gas-gathering systems in the Cherokee Basin has historically been 30% before royalties. This not only makes development economics less attractive for third-party operators to lease land served by our system, it also makes us the most attractive lessee for landowners. The vast geographic extent of our gas-gathering system together with our large land position makes it unattractive for third parties to lease proximate acreage and build duplicate gas gathering facilities.
- *Attractive geological characteristics of Cherokee Basin CBM*—Compared with other basins in the U.S. where CBM is produced, CBM production in the Cherokee Basin has distinct economic advantages. First, the coal seams in the Cherokee Basin are relatively more permeable and thus tend to produce at a faster rate. This results in a shorter reserve life, the need to drill fewer wells, a faster payout period and a higher present value of reserves. Second, Cherokee Basin coal seams produce relatively less water than coal seams in other basins. Cherokee basin CBM wells produce gas immediately, have a shorter de-watering period, and produce less water overall than CBM wells in other basins. This results in lower operating costs and more attractive rates of return.
- *Predictable results of our CBM wells*—Our CBM wells have highly consistent behavior in terms of recoverable reserves, production rates and decline curves, which results in lower development risk.
- *Low finding and development costs*—Our finding and development costs have averaged $1.42 per thousand cubic feet over the last three years, which are lower than the industry average. Our finding and development costs are low due to low geological risk, high drilling success rates, shallow drilling depths and low cost completions associated with developing our CBM acreage.
- *Low production costs*—Our production costs are lower than the industry average due to several factors, including: relatively low water production, geographic concentration of assets, the use of remote well site monitoring systems to maximize production and reduce labor force requirements, and our internal well service capability.
- *Concentrated ownership and operational control*—We own 100% of the working interest in over 95% of the wells in which we have ownership. As a result of our ownership position, we operate substantially all of the wells in which we own as economic interest.
- *Long-lived reserves*—We believe our reserve life index of 16.3 years is higher than the exploration and production industry average. We believe this long reserve life reduces the reinvestment risk associated with our asset base.
- *Marketing flexibility*—Our gas-gathering system is able to access several interstate pipelines, providing access to major gas demand centers in the central U.S.

***OGI:** This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Cash: Our 2006 budget is $150 million, which will be split 55% for drilling, 40% for pipeline and other infrastructure assets, and 5% for leasehold acquisitions. As of June 30, we drilled 372 wells, connected 329 wells and re-completed 83 wells as multi-seam producers. We're ahead of our 500-mile target for pipeline installation. We expect to have installed five quarters worth of pipeline before year's end, providing us with a comfortable cushion to meet our expanded drilling program. Our plan is to add more than 100,000 acres of leasehold. This acreage will be added to our drilling needs. Our 2006 capex program is funded from cash on hand, cash flow from operations and the company's $275 million credit facility.

In 2005, we expended $47.4 million: 99 wells were drilled, 233 wells were connected, 205 wells were re-completed and 120 miles of pipeline was installed.

***OGI:** Do you foresee any acquisitions this year?*

Cash: At present, we're actively acquiring leasehold acreage to support our drilling program. In addition, we're adding greenfield acreage that we hope will offer us new play concepts to drill and produce in the not-so-distant future. We will be more forthcoming with this information once we've assimilated the desired amount of acreage in these targeted regions. Regarding acquiring a large

Operational Data — QUEST — 4

	5-Nov	5-Dec	6-Jan	6-Feb	6-Mar	6-Apr	6-May	6-Jun	Total
Production Wells Drilled	22	51	41	44	75	55	55	48	410
Production Wells Connected	2	16	48	48	55	41	57	72	347
Production Wells Recompleted	21	6	2	16	21	17	16	11	109
SWD Wells Drilled	1	1	1	2	2	2	1	1	11
Pipeline Installed (miles)	6.85	27.8	21.2	39.6	40.1	59	34	53.5	282.25
Gross Volumes Transported (mcf) (1)	1,208,027	1,084,911	1,164,544	1,073,118	1,242,578	1,271,804	1,342,481	1,366,955 (2)	9,853,818
Net Acres Leased	1,348.55	1,851.48	4,276.74	4,215.22	6,288.34	5,451.29	15,707.52	13,158.41	52,471.67

(1) Includes approximately 3,000 to 4,000 mcf/daily of natural gas that is transported on our gathering pipeline system for third parties.
(2) preliminary estimates.

Ticker: QRCP www.qrcp.net

producing package, we have no definite plans today, but opportunities are reviewed when available.

OGI: *Can your earnings momentum be sustained?*

Cash: Our current swap at $4.489 per thousand cubic feet on 15.382 million cubic feet daily expires Dec. 31, 2006. We recently added new floors ($8) and ceilings of ($8.63/$9.02) on 4.783 million cubic feet per day for 2007 production and on 4.1 million cubic feet per day for 2008 production. These new contracts do factor in basis differentials; therefore these will be our realized product prices in the associated periods. Through our drilling program, we're realizing an increase in our proved developed producing (PDP) reserve base. As the PDP category increases, we will seek to hedge as much of this reserve category as we can. So, with the expiration of the old swap and the rise in our reserve and production base, we believe earnings and cash flow should improve. Bloomberg's assimilated estimate for cash flow per share in 2006 is $1.08 and $4.30 in 2007.

OGI: *Does the company hedge?*

Cash: Yes.

OGI: *What price deck do you use?*

Cash: Three-year Nymex strip, adjusted for basis of approximately $1 per thousand cubic feet sold.

OGI: *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Cash: We closed a private placement in November 2005 of approximately $200 million of equity, closed on new credit facilities of $200 million in November 2005 and worked to get listed on the Nasdaq National Market, which was completed during the first quarter of 2006.

OGI: *What is the greatest challenge you face?*

Cash: E&P companies are facing a shrinking pool of qualified technical and field personnel, rising service costs and at times a shortage of reliable services. We're no different when it comes to labor and materials. However, at one of the very few vertically integrated independents, our completion and production crews are in the field without fail working for our own account. This kind of field-level control—from acreage to marketing—is unique and is generating strong margins with lower than average costs per unit produced. Our all-in cash costs, including overhead, are roughly $3 per thousand cubic feet, a very strong indication of the benefit we enjoy from having our own crews working 24/7 to increase our daily production.

OGI: *Do you have any final comments or thoughts you'd like to share?*

Cash: Quest offers a unique idea for investors—we control all key components for the extraction, production and delivery of natural gas in a world class basin. Our long-term goal is to control more than 1 million acres in the Cherokee Basin, which we believe from engineering and geologic study and production history could likely contain more than 1 trillion cubic feet of gas net to Quest. We are forecasting double-digit production growth in 2006 and 2007, and at our present drilling and connection pace, expect we will achieve our targets.

As reported in our press release June 14, 2006, analysis is underway to evaluate the potential to create an MLP of Quest's pipeline assets held by Bluestem Pipeline LLC, a 100%-held subsidiary of Quest. The company makes no assurances that such a transaction will take place. Further, this note does not constitute an offer of any securities for sale. ■

QUESTAR CORP. (NYSE: STR)

***Oil and Gas Investor:* Describe your company's strategy.**

Stanley: Questar is a natural gas-focused energy company with core operations in the Rockies and Mid-continent regions of the U.S. We find, develop, produce, gather, process, transport, store and distribute natural gas. Our company's strategy is what we call the three Rs—Returns, Risk and the Rockies. We manage our business with a focus on returns because we believe returns on invested capital drive shareholder value. There are numerous risks in our business, including geologic, drilling and commercial risks. We evaluate every capital investment decision while taking into account the wide variety of risks that can impact returns and we do everything we can to manage risk. The third R—the Rockies, is one region in North America that has seen growth in natural gas production over just about any period you choose. Our company got its start in the Rockies back in the 1920s, and each of our businesses is well positioned to capitalize on the strong fundamentals for growth that characterize the Rockies region.

CHARLES B. STANLEY is executive VP and a director of Questar Corp., and is president and CEO of Questar Market Resources. Prior to joining Questar in January 2002, he held various technical and management positions with El Paso Corp., Coastal Corp., Maxus Energy Corp. and BP.

Charles B. Stanley, Executive VP and Director

***OGI:* Describe your core drilling and production areas.**

Stanley: We're a Rockies-focused company. We have two E&P companies—Questar E&P and Wexpro. Questar E&P is one of North America's fastest growing independent natural gas producers. Over the past decade, we've grown reserves at a compound annual growth rate (CAGR) of 16.9% and production at a CAGR of 10.4%. Questar E&P has achieved that growth with a five year average all-sources finance and development (F&D) cost of $1.08 per thousand cubic feet equivalent and a 2005 total cost structure of $2.83 per thousand cubic feet equivalent—a cost structure that ranks us sixth best out of a universe of over 45 E&P companies recently studied by Credit Suisse in their 2006 E&P sector handbook. Our other E&P company, Wexpro, is unique in the industry. Wexpro develops and produces natural gas on behalf of our utility. Under terms of a life-of-reserves contract, Wexpro passes through all of its costs and earns a 19% to 20% unlevered after-tax return on its investment in successful development wells and related facilities. It delivers its gas to our utility on a cost of service basis and generates a commodity price insensitive earnings stream that we've been growing at a 13% CAGR. At year-end 2005, about 1.7 trillion cubic feet equivalent of Questar E&P and Wexpro's combined 2 trillion cubic foot equivalent of proved reserves were in the Rockies, and we produced about 117 billion cubic feet equivalent (Bcfe) last year. Questar E&P and Wexpro's main areas of focus are Wyoming's Greater Green River Basin and the Uinta Basin of eastern Utah. Questar E&P also has a significant presence in the Mid-continent region, where year-end 2005 proved reserves were 301 Bcfe and production totaled 39 Bcfe last year.

***OGI:* Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?**

Stanley: Questar E&P has several exciting new projects currently in the evaluation phase to expand our core areas in the Rockies. We're evaluating results from a deeper pool wildcat well drilled to test the potential of the Rock Springs and Hilliard formations at depths from 16,000 to 19,500 feet on our Pinedale Anticline leasehold in western Wyoming. This well reached total depth late in 2005, and testing was suspended until May of 2006. We have a new play in the Vermillion Basin of southwestern Wyoming and northwest Colorado on the cusp of full-scale development. This play targets Dakota and Frontier tight-gas sands and a thick over-pressured shale section in the Baxter Formation. We've assembled over 146,000 net acres, and this year we plan to drill about a dozen new wells to further delineate the play limits and gather data on individual well performance and reserves. Early results are encouraging, and we've recently drilled two 16,000-foot wildcat and several delineation wells on our Uinta Basin acreage to test the thick over-pressured Mancos Formation shale sequence. The Mancos is age-equivalent to the Baxter and Hilliard formations. Early results from these wells suggest we could have a new shale gas play in the Uinta Basin, where we currently have over 120,000 net acres.

Questar drills multiple wells from a single pad on the Pinedale Anticline in western Wyoming.

OGI: ***What kind of basin or play makes the most sense to the company and why?***

Stanley: We are best at unconventional resource plays where we can leverage our core strengths in drilling, completion and operating efficiency. We have a large inventory of resource plays, and high caliber of people with a proven track record of achieving efficiency gains in what lately has been a very tough operating environment for E&P companies.

OGI: ***Which one or two wells or projects could yield the greatest return for the company this year?***

Stanley: We are driving earnings and production growth with our Pinedale project in western Wyoming. Pinedale is a world class gas accumulation. At year-end 2005, we had 144 producing wells and 780 Bcfe of net proved reserves on our acreage. With 10-acre density, we have over 800 remaining locations to drill. On average, Pinedale wells have F&D costs of less than $1.00 per thousand cubic feet equivalent and very low (about $0.10 per thousand cubic feet equivalent) operating costs, so cash margins, earnings and returns from Pinedale are excellent under a broad range of commodity prices. This year, we will complete 45 to 48 wells at Pinedale, and we're working on ways to increase the pace of development in the future.

OGI: ***This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?***

Stanley: Questar Corp.'s capital budget for 2006 is $827 million, with $604 million allocated to the Market Resources group. This compares with a capital budget of $716 million in 2005, of which Market Resources' share was $573 million. We anticipate drilling or participating in about 500 gross wells in 2006, approximately the same number as in 2005.

OGI: ***Do you see any acquisitions this year?***

Stanley: While we do not plan acquisitions, we are always looking for opportunities that fit our business strategy and meet our investment criteria.

OGI: ***Can your earnings momentum be sustained?***

Stanley: Our earnings growth is driven by production volumes, commodity prices and cost structure. We are well positioned over the reasonably foreseeable future to deliver high single-digit to low double-digit production growth with the drill bit. We can't predict what commodity prices will do, but the broad fundamentals for natural gas in North America are bullish. Natural gas prices will be volatile. To manage both price risk and volatility, we will aggressively hedge our production to lock in acceptable returns, cash flows and earnings, and will maintain our relentless focus on cost structure. In addition, we have a 5- to 10-year identified inventory of development locations at Wexpro, which should drive high single-digit to low double-digit earnings growth. Our midstream field services company, Gas Management, is well positioned to capitalize on growing Rockies production.

OGI: ***Does the company hedge?***

Stanley: Yes, we hedge production to lock in acceptable returns, cash flows and earnings.

OGI: ***What price deck do you use?***

Stanley: We expect investment opportunities to earn a risked 15% unlevered after-tax return at a $5 per thousand cubic feet equivalent Nymex gas price.

OGI: ***Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?***

Stanley: Our ability to deliver 10% year-over-year production growth, with the drill bit, while maintaining an industry-leading cost structure.

OGI: ***What are your company's greatest challenges?***

Stanley: Availability, quality and price of drilling, and completion services are the greatest challenges facing Questar today. ■

Range Resources Corp. (NYSE: RRC)

***Oil and Gas Investor:** Describe your company's strategy.*

Pinkerton: Our strategy is to grow production and reserves at top quartile finding and development costs. Our goal is to consistently grow through the drill bit and to complement that with opportunistic acquisitions in our core areas where we have technical and operational expertise.

***OGI:** Describe your core drilling and production areas.*

Pinkerton: We have three core operating divisions: Southwest, Appalachia and Gulf Coast. Our Southwestern division conducts operations in the Permian Basin of West Texas and eastern New Mexico, the East Texas Basin, the Fort Worth Basin and in the Texas Panhandle and the Anadarko Basin of western Oklahoma. Our Appalachian division has 2 million gross acres in Pennsylvania, Ohio, Virginia, West Virginia and New York. The Gulf Coast division operates onshore in south Texas, Louisiana and Mississippi, and we own a small group of offshore properties in the shallow water of the Gulf of Mexico.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Pinkerton: We currently plan to remain focused in the areas where we presently have operations. With 3 million gross acres and more than 8,000 projects in inventory, we have ample growth opportunities in our existing core areas.

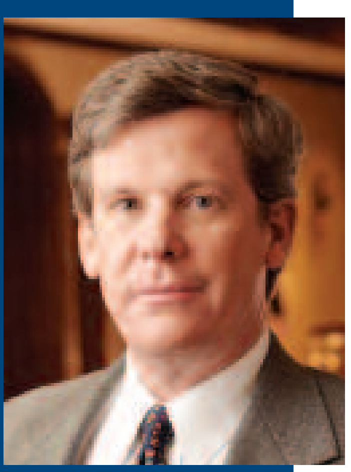
***OGI:** What kind of basin or play makes the most sense to the company and why?*

Pinkerton: We are focused on long-life, repeatable, onshore plays that offer good rates of return and solid margins. We prefer to drill in areas with stacked pay and proven horizons in order to reduce our dry hole risk.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Pinkerton: We are very excited about our recent acquisition of Stroud Energy and the high-quality acreage this adds in the heart of the North Texas Barnett Shale play. This is a proven play, and it will have an immediate impact on the company's production growth. Including the Barnett Shale, Range now owns in excess of 350,000 acres in five shale plays. Assuming success, these plays could be highly repeatable, with substantial upside potential for the company. Another area that is already having an impact, and will continue to do so, is the Nora field in Virginia where roughly 2,700 coal-bed methane locations remain to be drilled, assuming 60-acre spacing. These long-lived, low-decline reserves are yielding excellent rates of return and have finding costs of less than $1 per thousand cubic feet.

John Pinkerton joined Range Resources as a director in 1988 and was appointed president in 1990. Previously, he was senior VP of Snyder Oil Corp. Prior to joining SOCO in 1980, Pinkerton was with Arthur Andersen. He received his Bachelor of Arts degree in Business Administration from Texas Christian University and a Master of Arts degree in Business Administration from the University of Texas.



John Pinkerton, President

***OGI:** This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Pinkerton: Our 2006 capital budget in currently $551 million, reflecting the projected expenditures associated with the recently acquired Stroud properties. These expenditures include the drilling of 1,053 wells. This compares with 841 wells drilled in 2005.

***OGI:** Do you foresee any acquisitions this year?*

Pinkerton: We review acquisition opportunities on a continuous basis, but it is difficult to predict when the next one will take place. The good news is that, given our solid organic drill bit growth along with our recent purchase of Stroud, we can continue to remain disciplined and wait for acquisitions that offer strong rates of return, good growth potential and significant upside.

***OGI:** Can your earnings momentum be sustained?*

Pinkerton: Yes, we believe the company is on track to continue reporting growth in earnings. Our production continues to grow, and our hedging program has locked-in strong future prices. Given the recent Stroud acquisition, Range has increased its production growth target in 2006 from 11% to 15%, while our production growth target in 2007 has increased from 10% to 15%.

***OGI:** Does the company hedge?*

Pinkerton: Yes. With the volatility of oil and nat-

ural gas prices, we feel that hedging a portion of our production makes sense. For example, we added natural gas swaps for 2007 and 2008 at over $9 per thousand Btu. We use a combination of collars and swaps. The goal of our hedging program is to lock in attractive prices, thus enabling us to generate a predictable stream of cash flow.

***OGI:** What price deck do you use?*

Pinkerton: For capital allocation decisions in our budgeting for drilling, exploration and acquisitions, we use a variety of price decks. For our drilling projects, we use flat pricing that is below current market prices to ensure we achieve attractive returns for our shareholders.

***OGI:** How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?*

Pinkerton: The impact of the hurricanes on Range was minimal. We have a modest number of non-operated properties in the Gulf of Mexico that sustained some damage, and pipeline curtailments caused temporary shut-ins at some of our onshore facilities. Virtually all production has now been restored. Over the past several years, we have intentionally refocused our efforts in the Gulf Coast region from the shorter life offshore projects to longer life onshore projects. Currently, production from the offshore properties represented only 5% of the company's total production.

***OGI:** Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

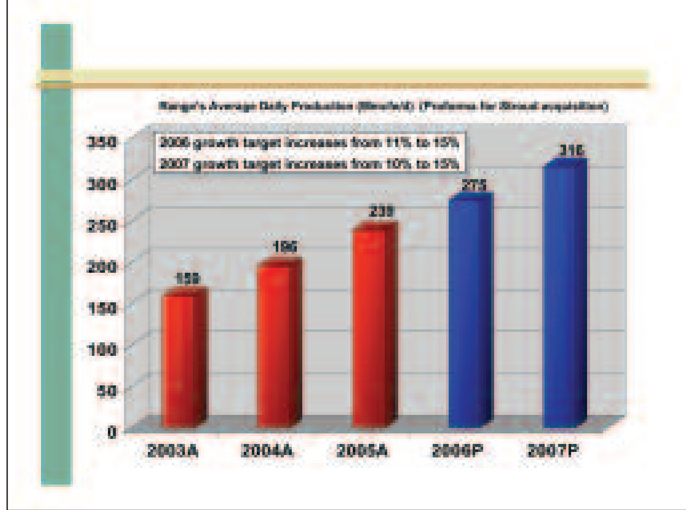
Pinkerton: The greatest impact on Range's growth in 2005 was a 22% increase in production. While production in the Gulf Coast division declined, production in other divisions more than offset the decrease. Success was driven by our drilling program in Nora field of Virginia, as well as successful exploratory drilling in the Mid-continent, redevelopment efforts in West Texas and successful drilling on newly acquired properties in New Mexico. The great majority of the production growth was achieved through our drilling effort.

***OGI:** What is the greatest challenge facing your company ?*

Pinkerton: Probably the greatest challenge for Range and throughout the industry right now is the ability to attract and retain high-quality personnel, particularly technical staff. At Range, we are fortunate to have a very low turnover rate. We attribute this to our efforts to build an organization where people are valued and high performance is rewarded. Since 1990, we have granted every employee annual stock equity awards based upon individual contribution. These awards vest over time, providing incentive for employees to stay with the company and foster our success. In addition, we face the challenge of tight demand for rigs and services and inflationary service costs. Nevertheless, with careful planning and scheduling, we remain on track in 2006 to complete our drilling program.

***OGI:** You recently acquired Stroud Energy Inc. Why, and what does it do to enhance your company?*

Pinkerton: We see the Stroud acquisition as an attractive opportunity to increase our acreage in the proven core and expanding core areas of the Barnett Shale play in the Fort Worth Basin. In addition to purchasing quality acreage and production, we are retaining essentially all of the Stroud employees. This is a great opportunity to build our technical staff with top-notch personnel experienced in the shale play operations.



With its recent acquisition of Stroud Energy, Range has raised its guidance for production growth to 15% for both 2006 and 2007.

***OGI:** Do you have any final comments or thoughts you'd like to share?*

Pinkerton: At Range, we continue to "stick to the basics" by growing production and reserves, keeping finding costs low, continuing to add to our existing drilling inventory and hiring the best we can find in the industry. This strategy has worked well for us in the past, and we expect growth to continue for many years to come.

We are uniquely positioned to materially add shareholder value over the next several years. With a drilling inventory of over 8,000 projects, a leasehold position in excess of 3 million acres and a number of very attractive emerging plays, we look forward to the future with great excitement. ■

Rivington Capital Advisors

***Oil and Gas Investor:** What is your outlook for the fundamentals and commodity-price direction of the oil and gas industry through the balance of 2006?*

Logan: We try not to forecast commodity prices beyond what the futures markets tell us.

The capital markets—both public and private—have generally used prices that are at a discount to the futures curve. For example, sell-side equity analysts are using crude oil prices between $65 and $68 for the remainder of 2006, and between $62 and $65 for 2007, whereas the forward strip is well above $75 for the same time period.

***OGI:** In what ways is this outlook likely to impact your level of activity going forward?*

Logan: Because of the divergence of asset-sale metrics and where the financial markets are willing to make investments, many of our customers are faced with a rather difficult decision on whether to take the high valuation today—sell—or to accept a lower valuation today on the belief that the upside and management's execution will create an even greater valuation later—raise capital.

***OGI:** What kinds of companies do you help and why focus on this particular group?*

Logan: Rivington Capital is a boutique investment-banking firm focusing almost exclusively on the small and mid-cap independent producer. The majority of our clients are privately held and quite often controlled by a small group of shareholders. We have a value-added approach and believe our contribution can be greatest to the small and mid-cap companies looking to access the capital markets.

We focus exclusively on the small and mid-caps—companies with gross asset value ranging between $10- to $250 million—because we see very few competitors offering services to companies of this size. By providing our clients with market intelligence and the expertise from having done dozens of transactions of this type, we try to position our clients to get the best possible deal, in as short a timeframe as possible.

***OGI:** When clients approach you, what are they doing with their capital, and do you see spending trends emerging?*

Logan: The traditional "acquire-and-exploit" model has relaxed somewhat in the last three years. Because increased competition for assets has forced most management teams to at least consider exploration with some portion of their capital budget, we are seeing more exploration projects pursued by small exploration and production companies.

Scott A. Logan has more than eight years of experience in various banking roles within the oil and gas industry. Prior to co-founding Rivington Capital Advisors LLC with Chris Wagner in 2002, Logan worked in various roles with the energy groups of McDonald Investments, Fleet Bank, BankBoston and ING Barings, where he started his career. He graduated from Southern Methodist University with a B.A. in history, and from the University of Denver with an M.S. in finance.

Rivington Capital Advisors LLC is an independent investment-banking firm specializing in private capital and M&A transactions for the small and mid-cap energy sectors. Since its inception, the firm has successfully closed more than 30 transactions having a total transaction value exceeding $2 billion. An affiliate company, Rivington Financial Services LLC, was recently formed to provide outsource accounting solutions to small and medium-sized exploration and production companies.

***OGI:** Do you help clients access more debt or equity?*

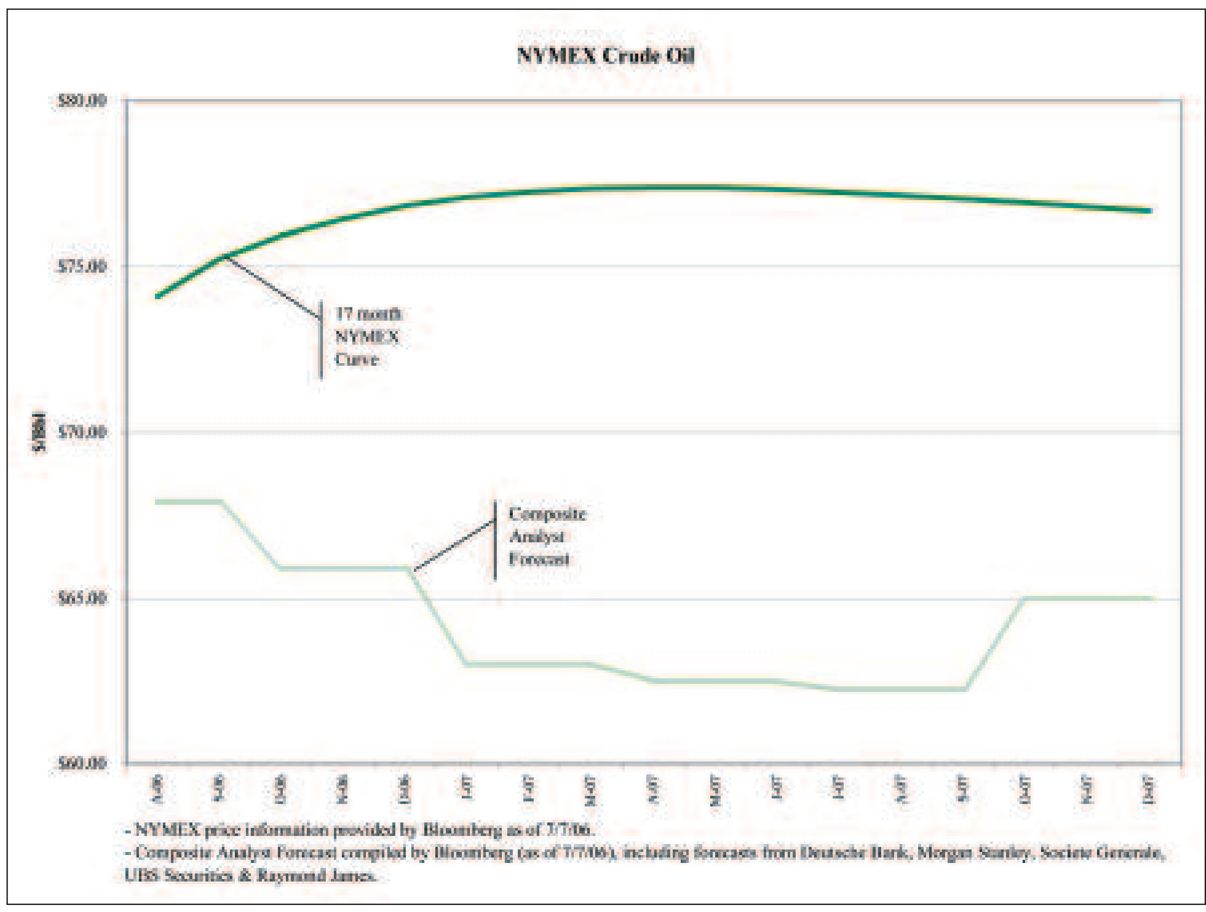
Logan: In the last 24 months, we have seen more clients pursuing debt or mezzanine structures versus traditional equity. Given the current commodity-price environment and lower interest rates, the debt and mezzanine markets can offer an attractive financing alternative to equity.

***OGI:** What interesting deal have you done recently?*

Logan: We recently closed a transaction where our client was looking to raise highly structured equity, a redeemable preferred with warrants, but ended up selling unsecured notes with detachable warrants. The abundance of capital and historically high commodity prices has made the debt market fairly competitive with equity. We had previously done several transactions with this client, and were able to quickly focus on a structure that the shareholders would be comfortable with and that the market would embrace.

***OGI:** What's the most innovative financing product or value-added service your firm has provided the oil and gas industry within the past year?*

Logan: We have provided an outsource CFO role to some of our clients over the last few years. As part of that role, we assist the company with day-to-day



Sell-side equity analysts are using crude oil prices between $65 and $68 for the remainder of 2006, and between $62 and $65 for 2007, whereas the forward strip is well above $75 for the same time period.

financial issues, such as financial reporting, interaction with capital partners, reviewing hedge strategies, and we provide a certain level of market intelligence for the management team. Additionally, an affiliated company provides outsource accounting services and support for independent oil and gas firms.

OGI: *What advice would you give to a company gearing up to begin capital hunting?*

“Our greatest challenge will be to expand our revenue and client base given the level of competition in the sector.”

Logan: Because a capital transaction is essentially a partnership, it is best to know your partner's strengths, weaknesses and track record before you enter into a long-term arrangement with them. It can be very difficult and expensive to unwind most of these arrangements once they have closed.

OGI: *What kinds of projects are particularly attractive to the firm now? Which are taboo?*

Logan: Most of the traditional business strategies in the upstream sector are appealing to the capital markets and capable of attracting capital. Historically, exploration has been difficult to finance, and while the markets have become much more receptive to this in the last 24 months, it is still not attracting the level of capital that we are seeing for other types of transactions.

OGI: *What is the firm's greatest challenge right now?*

Logan: Our greatest challenge will be to expand our revenue and client base given the level of competition in the sector. We have recently added new staff and are considering opening an office in Houston toward that end. ■

Rosetta Resources (NASDAQ: ROSE)

B.A. "Bill" Berilgen is president and CEO of Rosetta Resources Inc. He previously served as president of Calpine Natural Gas since 1999. He was president and CEO of Sheridan Energy, a publicly traded oil and gas company from 1997 to 1999, when Sheridan was sold to Calpine Corp. Berilgen previously worked as VP of operations for Forest Oil and has also held positions with Aminoil, ANR Production Co. and Mobil during his 35-year career in exploration production. He holds a bachelor's degree in petroleum engineering and a master's degree in industrial engineering, both from the University of Oklahoma.

***Oil and Gas Investor:** Describe your company's strategy.*

Berilgen: Our strategy is to increase stockholder value by profitably increasing our reserves, production, cash flow and earnings using a balanced program of: developing existing properties; exploring undeveloped properties; completing strategic acquisitions; and maintaining financial flexibility. The following are key elements of our strategy:

- Further development of the significant remaining upside potential of our properties.
- Exploration growth focused in the niche areas in which we have technological and operational advantages.
- Target opportunities where we believe our reservoir management and operational expertise will enhance the value and performance of acquired properties.
- Maintain the technological expertise that helped us to achieve a historical drilling success rate of over 80%.
- Strive to minimize our operating costs by concentrating our assets within specific geographic areas.
- Actively manage our exposure to commodity price risk in the marketing of our oil and natural gas production.

***OGI:** Describe your core drilling and production areas.*

Berilgen: We own a geographically diversified asset base comprised of long-lived reserves along with shorter-lived, higher-return reserves. Approximately 96% of our reserves are natural gas, and almost all of our assets are located in the Sacramento Basin of California, South Texas, the Gulf of Mexico and the Rocky Mountains. We believe this geographic and production profile diversity will enhance the stability of our cash flows while providing us with a large number of development and exploration opportunities, as well as support for additional acquisitions.

We have identified over 500 drillable, low- to moderate-risk opportunities, providing us with multiple years of drilling inventory, and we expect to drill approximately one-third of these locations during 2006. We have a large and diversified portfolio of what we designate as development and exploration prospects. We will manage our exploratory risks and expenditures by selectively reducing our capital exposure in certain high-risk projects by partnering with others in our industry.

We operate approximately 90% of our estimated proved reserves, which allows us to more effectively manage expenses and control the timing of capital allocation of our development and exploration activities.

> "We own a geographically diversified asset base comprised of long-lived reserves along with shorter-lived, higher-return reserves."

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year?*

Berilgen: There are no plans to expand into new core areas this year. During 2006, we will continue to focus our efforts in the Sacramento Basin and South Texas. We will continue to build our presence in the Rocky Mountains and seek low-risk opportunities in Texas state waters and the Gulf of Mexico. Absent unique acquisition opportunities, there are no plans to expand into new core areas this year.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Berilgen: We will continue to focus our activities on opportunities where we believe our geosciences and reservoir management and operational expertise provide us with technological and operational advantages.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Berilgen: In the Sacramento Basin, we will continue to drill previously identified locations, which historically

Hedge Position (Million Btu per day)

	2006	2007	2008	2009
Fixed Price Swaps				
PG&E – City Gate	23,760	18,860	15,600	12,975
Houston Ship Channel	14,868	12,208	10,693	9,216
Tennessee Zone 0	6,372	5,232	4,583	3,950
TOTAL	45,000	36,300	30,876	26,141
Average Price	$7.92	$7.62	$7.30	$6.99
Collars				
PG&E City Gate	3,000	–	–	–
Houston Ship Channel	7,000	–	–	–
TOTAL	10,000	–	–	–
Average Price				
Floor	$8.83	–	–	–
Ceiling	$14.00	–	–	–

have led to additional drilling locations. In addition, we have targeted the deep Winter's formation, which, if successful, could establish a new deep gas play at Rio Vista. Expansion of the play to the southern portions of the Rio Vista formation will also have a significant impact.

In South Texas, we have had encouraging initial success in drilling Lobo locations, which we believe could allow us to upgrade our typical well from 1.25 billion cubic feet of reserves to in excess of 2 billion cubic feet per well. We also believe that our technical work will allow us to create additional Lobo locations.

We are very encouraged by the success we have had in drilling horizontal Perdido wells. Early results indicate that we are in a play where we can expect to see initial producing rates in excess of 15 million a day. Although these rates decline rapidly, the typical reserve range per well is 4- to 5 billion cubic feet.

OGI: *This year, what is your projected budget, and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Berilgen: Our capital budget for 2006 is just under $200 million. For the second half of 2005, when Rosetta became a public entity, our capital budget was $67 million. We plan to drill 188 wells in our 2006 program.

OGI: *Do you foresee any acquisitions this year?*

Berilgen: We will make niche acquisitions from time to time, focusing on areas where we have technological and operational advantages. We will evaluate large acquisition opportunities and will pursue these transactions on an opportunistic basis.

OGI: *Can your earnings momentum be sustained?*

Berilgen: We believe our 2006 earnings momentum will carry over into 2007, 2008 and beyond based on our large inventory of low-risk development opportunities combined with the benefits provided by our hedge program and our focus on cost control.

OGI: *Does the company hedge?*

Berilgen: The company has a philosophy of hedging to protect against downward price fluctuations. The current hedges in place are shown in the accompanying table.

OGI: *What price deck do you use?*

Berilgen: We use a risked forward curve based on Nymex prices.

OGI: *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Berilgen: The year 2005 was unique for Rosetta. In July, we closed our transaction with Calpine in which we established Rosetta as a standalone, independent oil and gas company. We followed that closing with a successful supplemental equity offering and syndication of our bank facilities. These events led to Rosetta registering 50 million shares of common stock with the SEC, and the company became Nasdaq listed under the trading symbol ROSE.

OGI: *What is the greatest challenge facing your company?*

Berilgen: The most significant challenges that we face today are potential equipment delays, service company quality control issues and the Calpine bankruptcy cloud, which should be resolved soon.

OGI: *Is there anything else you'd like to address that has not already been mentioned?*

Berilgen: Rosetta is a unique company with high-quality assets that have a built in inventory of low-risk drilling opportunities that will last for several years. ■

Solana Resources Ltd.
(Toronto Venture: SOR, London AIM: SORL)

***Oil and Gas Investor:** Describe your company's strategy.*

Newton:

- A focused exploration strategy based on maintaining an evolving Colombian-based portfolio with higher-risk, higher-return balanced by medium to smaller targets with a commensurately lower level of risk.
- All prospects are located near under-utilized infrastructure, meaning that discoveries can be brought on stream in a matter of months.
- Expand operations to other Latin American countries that offer similar investment opportunities.

***OGI:** Describe your core drilling and production areas.*

Newton: The E&P assets owned by Solana can be summarized as follows:

Production:
- Operator – Guepaje field – Gas
- Participation in Guayuyaco field (Putumayo) – Oil

Appraisal:
- 1 X prospect in Middle Magdalena Valley (VMM)

Exploration:
- 5 X blocks in Los Llanos Basin
- 2 X blocks in Catatumbo Basin
- 1 X block in Putumayo
- 1 X prospect in Catatumbo
- 1 X prospect in Middle Magdalena Valley (VMM)
- 1 X prospect in Putumayo

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year?*

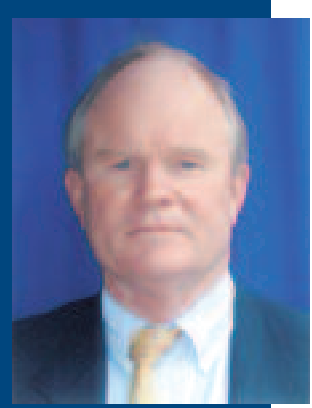
Newton: While the company is open to consider new prospects, specifically with the potential for near-term production, the primary focus will be to consolidate the operations on the contracted blocks and comply with all commitments.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Newton: Solana has been focused on four basins in Colombia: Catatumbo, VMM, Putumayo and Los Llanos.

The blocks and prospects in the Middle Magdalena Valley and Catatumbo have the potential to yield large (more than 100 million barrels of oil) discoveries in areas with significant under-utilization infrastructure, specifically pipelines. While under-utilization pipelines also characterize the Putumayo and the Llanos blocks and prospects, the relatively lower risk, smaller reserves (between 5- and 10 million barrels of oil) are normally associated with high well deliverability, resulting in significant cash generation.

Stephen T. Newton has been president of Solana since May 2002. He was appointed a member of the board of directors in November 2004. Previously, Newton served as president and general manager for Alberta Energy Co, (now EnCana) in Ecuador and Colombia from 1999 to 2001. From 1975 to 1999, Newton worked for Occidental Petroleum Corp, serving in Cities Service from 1974 to 1986, engineering manager in Peru from 1986 to 1988, operations manager in Peru from 1988 to 1990, the VP of operations in Colombia from 1990 to 1991, the regional operations manager of Latin America from 1991 to 1992, the president and general manager in Colombia from 1992 to 1997, and the VP for worldwide engineering and technical services from 1997 to 1999. Newton received a B.E. in mining and petroleum engineering from the University of Queensland in Brisbane, Australia. He then earned his M.Sc. in petroleum engineering from the Imperial College at the University of London. He also took an executive management course at UCLA. Newton is fluent in both English and Spanish.



Stephen T. Newton, President and Director

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Newton: Along the lines of the previous question, while all the projects are part of an overall plan to develop short-term cash flow while exposing the company to potentially large discoveries, the Putumayo and the Catatumbo, both scheduled to be drilled in the next six months, have significant potential.

***OGI:** This year, what is your projected budget, and how many wells do you anticipate drilling with that budget?*

Newton: Within the next year, Solana will be drilling/participating in the drilling of more than 13 wells with a total budget above US$35 million. ■

St. Mary Land & Exploration Co. (NYSE: SM)

Mark A. Hellerstein, Chairman and CEO

Mark A. Hellerstein is chairman and CEO of St. Mary Land & Exploration Co. He joined the company in September 1991 as executive VP and CFO. He served as president of the company from May 1992 through June 2006, as CEO since May 1994 and as a director since September 1992. Hellerstein was elected chairman in September 2002. He graduated Magna Cum Laude from the University of Colorado in 1974 and received the Elijah Watt Sells Gold Medal Award for the highest score in the U.S. on the November 1974 CPA exam.

St. Mary has provided its shareholders a 23% compounded return since going public in 1992. In 2002, the company was the Fastest Growing Company in Colorado, according to the *Denver Business Journal* and Ernst & Young. In 2002, 2004 and 2005, St. Mary was one of *Fortune* magazine's 100 Fastest Growing Companies in America. In 2004 and 2005, St. Mary was ranked among *Forbes* magazine's 200 Best Small Companies in America. *Colorado Biz Magazine* honored St. Mary as its "2005 Top Colorado Company" in the Energy and Natural Resources category. Finally in 2005 and 2006, *Business Week* ranked St. Mary among its "100 Hot Growing Companies."

***Oil and Gas Investor:** Describe your company's strategy.*

Hellerstein: We believe the way to grow our stock price is to grow net asset value per share, which is done by growing reserves and production economically. We have a longstanding objective of replacing 200% of our production over time, which equates to a 10% to 15% growth rate in production and reserves. We have established four regional offices in five regions. These offices have outstanding technical teams, which are empowered to find and implement low- to moderate-risk growth opportunities in multi-play basins through acquisition, exploration and exploitation, within a framework of economic discipline. Historically, we have supplemented our organic growth with significant contributions from acquisitions. As the acquisition market was becoming overheated, we shifted our attention to larger resource plays in each of our regions. Today, we have a good inventory of resource plays at varying points in the development cycle, which provides us an outstanding foundation to grow from. Last year, we replaced 256% of our production. If acquisitions were removed, we replaced 199%.

***OGI:** Describe your core drilling and production areas.*

Hellerstein: Our largest region is the Rockies, which has a very large presence in the Williston Basin where we have operated since 1991 as well as interests in the Powder River, Green River, Big Horn and Wind River basins in Wyoming. We have had a large presence in Oklahoma for well over 30 years, which has been a long-term source of organic growth. We also have operations in the ArkLaTex and Gulf Coast regions as well as the Permian Basin.

***OGI:** Does the company anticipate expanding into any new core drilling and production areas this year? If so, where?*

Hellerstein: We will continue to grow in our existing core regions and do not expect to pursue other areas at this time.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Hellerstein: We believe entering any play or basin should begin with outstanding technical capability, a specific knowledge of the basin and empowered people. This gives us the competitive advantage to succeed. We like to leverage off of the capabilities we have developed over time. Because the acquisition market has become more difficult, it is very important to focus on plays that have running room associated with them to provide inventory for the future.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year? Which project is the most significant to the company this year?*

Hellerstein: We will be learning a great deal about our resource plays at Centrahoma, Hanging Woman Basin and Terryville this year. At Centrahoma in southeast Oklahoma, we are targeting the Woodford shale, Cromwell sandstone and Wapanucka limestone using horizontal technology. We plan to drill 19 wells in 2006 at Centrahoma. Hanging Woman Basin is a coalbed natural gas play. We are in the very early stage of development and plan to drill 140 wells this year. Finally, Terryville is a Cotton Valley play in northern Louisiana where success in the first quarter of this year has set up significant development opportunity.

***OGI:** This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Hellerstein: Our budget for 2006 is $577 million, which compares with $421 million in 2005. Four hundred seventy-seven million of our budget is allocated for drilling activities with $172 million in the Midcontinent focused on the Atoka play at Northeast Mayfield and Centrahoma; $168 million in the Rockies focused on the Middle Bakken and Madison plays in the Williston, as well as our CBNG program, Hanging Woman. Seventy-one million is budgeted in the Gulf Coast where we will be testing approximately 13 3-D-based direct hydrocarbon indicator prospects and $66 million in the ArkLaTex allocated to development at Elm Grove, Spider and Terryville.

***OGI:** Do you foresee any acquisitions this year?*

Hellerstein: We are always looking for acquisition opportunities and have budgeted $100 million for acquisitions. Our balance sheet could accommodate a much larger amount. On the other hand, our discipline will limit the amount to acquisition ideas that meet our economic and technical criteria. The acquisition market has become more competitive, but we continue to be successful in niche opportunities where we can answer the question, "Why is this acquisition worth more to us than to someone else?" This answer can be a geologic idea, operational fit or creative deal structure.

***OGI:** Can your earnings momentum be sustained?*

Hellerstein: Sustaining earnings growth in a business where prices and costs are volatile and the underlying asset base is depleting remains a challenge today just as it was when we went public in 1992. We believe that in a commodity business, we must consistently be a top-tier performer relative to our peers. Prices and costs will move around, but demand for oil and gas will likely remain strong in the foreseeable future. If we are a top-tier performer, we should provide a good return to our shareholders. According to J.S. Herold, St. Mary has provided a 17% return on capital employed over the last five years, one of the highest among its peers.

***OGI:** Does the company hedge?*

Hellerstein: St. Mary will hedge all of its acquisitions for at least two years and will also make opportunistic hedges. Today, our gas is hedged 37% for the remainder of 2006 and 34% for 2007 while our oil production is hedged 58% for the remainder of 2006 and 44% for 2007.

***OGI:** What price deck do you use?*

Hellerstein: For acquisitions, we use the current strip pricing at the time of evaluation. For drilling opportunities, we set a price deck of $7 per thousand cubic feet and $50 per barrel Nymex for our budget process. With gas prices softening during the year, at the time of committing to an AFE, we will make sure there is a positive return based on the current spot price and a return that meets our total rate-of-return requirements using strip pricing.

***OGI:** How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?*

Hellerstein: We have a small portion of production on the Gulf Coast and offshore. Most of the hurricane impact related to onshore wells shut-in awaiting pipeline and facility repair. Overall, the impact was not large.

***OGI:** Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Hellerstein: Continued outstanding performance of our Paggi-Broussard No. 1 well at the Constitution field (approximately 35 million cubic feet per day and 1,500 BOCD); excellent development results at the Middle Bakken play in Montana; and excellent development results at Elm Grove in northern Louisiana as well as advancing early stage resource plays at Hanging Woman; Centrahoma and NE Mayfield were the most significant highlights for 2005.

***OGI:** What is the greatest challenge facing your company today?*

Hellerstein: Our challenge has always been to grow production and reserves economically. For us, we have set 200% reserve replacement as our objective. Although oil and gas prices are high relative to several years ago, costs have escalated dramatically and the acquisition market has become very competitive. To succeed in this environment requires a competitive edge in virtually every phase of the business. Developing these competitive advantages in every discipline is both our goal and our challenge.

***OGI:** Your company has recently appointed Tony Best as the new president and COO. How will this change affect the company?*

Hellerstein: Tony has not only had very successful careers at Arco and Pure in senior management positions, but he comes to use with specific play ideas that will hopefully add to our inventory. Additionally, Tony's experience in larger organizations will be important as we continue to grow the company. We are very pleased to have him aboard. ■

Storm Cat Energy (AMEX: SCU; Toronto Venture: SME)

Scott Zimmerman, President

Scott Zimmerman is president and CEO of Storm Cat Energy. He joined the company after serving as VP of operations and engineering for Evergreen Resources until its sale to Pioneer Resources in September 2004. Previously, as J.M. Huber's VP of the energy sector, Zimmerman spent 20 years specializing in CBMG exploration and development in the Rocky Mountain region, with emphasis on the San Juan and Powder River basins. Prior to J.M. Huber, Zimmerman was the senior production and reservoir engineer with Amoco Production Co. He received a B.S. in petroleum engineering from Texas Tech University in 1979 and is a member of the Society of Petroleum Engineers.

***Oil and Gas Investor:** Describe your company's strategy.*

Zimmerman: Storm Cat is a rapidly growing exploration company focusing on developing unconventional natural gas reserves globally. Our mission is to create value for our shareholders by applying strong technical expertise and strategies that will unlock substantial natural gas resources in areas where production and cash flow can be achieved quickly and efficiently.

***OGI:** Describe your core drilling and production areas.*

Zimmerman: Storm Cat Energy Corp. is focused on developing unconventional resource plays. Currently, our four main areas that we are exploiting and developing are:

- Powder River Basin, where we have four drillings rigs operating;
- Southeast British Columbia on our Elk Valley Mist Mountain coal bed natural gas project where we have one rig operating;
- Central Alberta, where we are developing the Mannville coal; and
- Arkoma Basin, where we have an acreage position in Western Arkansas targeting the Fayetteville Shale.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year?*

Zimmerman: We are always looking to expand to additional core areas if it fits within our business model.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Zimmerman: We have an excellent technical team that has a wealth of experience in developing unconventional resources, so we look for opportunities that can leverage on that experience. Our main focus to date has concentrated on coal bed natural gas and shale plays.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Zimmerman: The two main focus areas in 2006 are developing our acreage position in the Powder River Basin, Wyoming, where we will drill over 100 wells this year, and our Elk Valley prospect in Southeast British Columbia.

The Powder River Basin provides Storm Cat cash flow, bankable reserves and a strong foundation that enables us to take on riskier projects.

Our Elk Valley prospect has tremendous potential, which could yield the company over half trillion cubic feet of net reserves.

***OGI:** This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Zimmerman: Our Capex budget for 2006 is currently set at $36 million dollars as compared with our 2005 budget of $25 million dollars. We expect to drill over 130 wells in 2006 as compared with 46 wells in 2005. The bulk of our budget is split between the Powder River Basin and the Elk Valley prospect in British Columbia.

***OGI:** Do you foresee any acquisitions this year?*

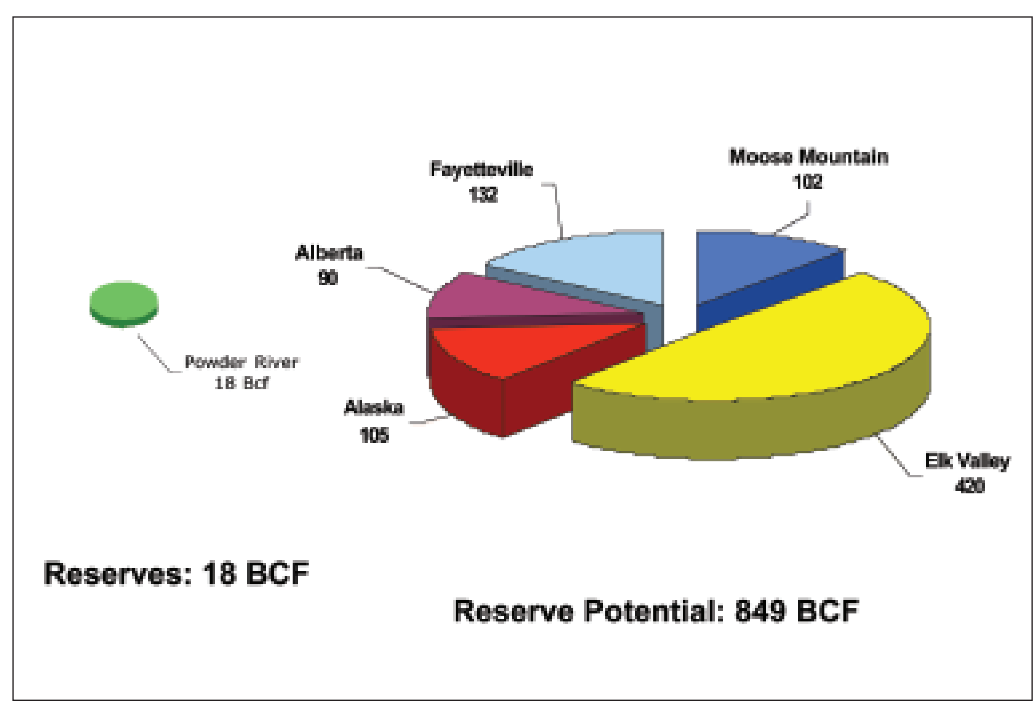
Zimmerman: We are always looking for acquisitions that fit within our business model, which is to acquire properties that are largely undeveloped where our technical team has a competitive advantage in developing.

We also enter into joint venture and farm-in arrangements within our core areas. We have discovered that many E&P firms are interested in tapping into our technical expertise by using us as their "outsourced" experts in jointly developing their undeveloped acreage.

OGI: Can your earnings momentum be sustained?

Zimmerman: Storm Cat's portfolio of assets contains many drilling and development opportunities. Continued development of our current assets will assure that our production and earnings continue to grow over the next 3 to 5 years.

Using our current asset base and assuming that we are successful in our drilling program, EBITDA is projected to be $2.2 million in 2006, $21.0 million in 2007 and $62.5 million in 2008.



Net P1+P2 reserve potential.

OGI: Does the company hedge?

Zimmerman: Our philosophy is to put hedges in place to protect cash flow that covers operational and interest expenses. We do not believe in gaming future gas prices to make a profit. Our policy is never to hedge more than 80% of our production.

Currently, Storm Cat has forward sold approximately 35% of production through October 2006 at an average price of $8.90 CIG.

OGI: What price deck do you use?

Zimmerman: We begin with the Nymex 3-year strip price and make adjustments for differentials and Btu content. We also run our economics using constant pricing lower than the Nymex 3-year strip average for a conservative look at the economics of a prospect.

In addition to pricing, we run our forecasts using risked and unrisked production profiles; we risk our acreage and factor in deductions for transportation and fuel used in compression.

We never risk adjust our development or exploration capital.

OGI: How did the hurricanes impact your business?

Zimmerman: Our business focuses on the Rockies so the only impact on Storm Cat would be a positive price spike.

OGI: Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?

Zimmerman: [Last year] was our first full year as a functional operating company. Putting together a world class technical team was, in my opinion, the greatest feat that we have achieved in 2005. We also built a portfolio of assets in both the U.S. and Canada that provides a platform for growth over the next 3 to 5 years. We have positive cash flow and a strong balance sheet.

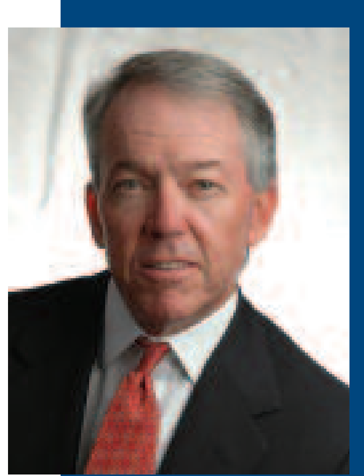
OGI: What is the greatest challenge facing your company?

Zimmerman: The greatest challenge to Storm Cat Energy Corp. is, as to most companies, controlling costs and getting access to the services needed to do our work. We have mitigated both of these risks due to our strong relationship with Baker Energy that I have developed over the past several years. Baker Energy serves as our contract operator in the Powder River providing qualified field operational personnel and procurement services for rigs. EnCana provides that same benefit through our farm-in joint venture in Elk Valley. EnCana procures the rigs and services at their costs and passes invoicing through to Storm Cat.

OGI: Do you have any final comments or thoughts?

Zimmerman: Storm Cat has a management and technical team that collectively has 170-plus man-years of successful experience working in our focus area of unconventional resource development. Our assets consist of a well-blended portfolio of low- to moderate-risk development opportunities, production and cash flow. We have all worked together before and have collectively banded together again for the next success. ■

Superior Energy Services (NYSE: SPN)



Terence Hall, Chairman and CEO

Terence Hall is chairman and CEO of Superior Energy Services Inc., which he founded in the late 1980s and took public in 1995. The company is a highly diversified provider of primarily production related services, rentals and liftboats, which operates in nine countries, employs 3,200 and most recently had annual sales in excess of $735 million. Prior to entering the service business in 1980, Hall practiced law for 10 years specializing in labor relations. He holds a B.S. and J.D. from Tulane University.

***Oil and Gas Investor:** Describe the strategy that drives your company.*

Hall: Our strategy is based on utilizing our competitive advantages to accomplish the following:

- provide production-related solutions by bundling our unique suite of well intervention services and rental tools and, where applicable, delivering these off of one of our 26 liftboats;
- expand to new domestic land and international markets, with our rental tool business leading the way followed by services; and
- increase asset utilization during seasonal and cyclical slower periods by efficiently maintaining and extending oil and gas production for our subsidiary SPN Resources LLC.

***OGI:** Where does the most promising business lie for the company, in the U.S. or internationally?*

Hall: In today's environment, we see worldwide growth opportunities for rental tools such as drill pipe, on-site accommodations, stabilizers, drill collars and other tools used to support drilling. In addition, we believe certain international markets are receptive to our production-related and decommissioning services. To that end, we see opportunities for liftboats, derrick barges and plug and abandonment services in international offshore markets. We also envision exporting our bundled services approach to certain international market areas.

***OGI:** Does the company have a backlog?*

Hall: Typically, our domestic work is performed on a call-out basis, while most international opportunities are contractual. However, given our unique position to manage and service many post-hurricane restoration projects in the Gulf of Mexico, our visibility for services and liftboats is positive through the remainder of the year and into 2007. We are at the forefront of recovering and removing damaged wells and structures, and restoring oil and gas production for many of our Gulf of Mexico-based customers. Also, commodity price futures suggest demand for drilling and production work will continue to be positive over the next 12 months, which will bode well for our rental tools, well intervention services and liftboats.

***OGI:** Are there plans to expand capacity such as assets or people?*

Hall: Our capital expenditure plans are spread across several segments of our business, with no significant asset expansion planned for any one area. Personnel wise, the industry continues to be constrained by a lack of skilled and experienced workers. While we are no different, we have mitigated some of the personnel shortage issues through cross-training our employees, creating a safe work environment and offering best-in-class benefits.

***OGI:** What percentage of the company's growth is organic as opposed to acquisitive?*

Hall: In recent years, most if not all of our growth is a result of internal initiatives. Nonetheless, we are opportunistic and explore all avenues that help us execute our strategy.

***OGI:** Which well or project will be most significant to the company this year and why?*

Hall: While we are excited about several opportunities and projects, two initiatives stand out. First, our recent 40% equity investment in Coldren Resources LP gives us the first call to provide services, rental tools and liftboats required by Coldren on Gulf of Mexico properties it acquired from Noble Energy. The investment also diversifies the oil and gas property portfolio of our subsidiary SPN Resources. Second, we chartered our new 880-ton derrick barge for 14 months in the Far East. The derrick barge will complement our plug and abandonment services, allowing us to provide a full range of decommissioning services. We are also building two additional derrick barges—one we will sell, and the other we will most likely bring to the Gulf of Mexico. ■

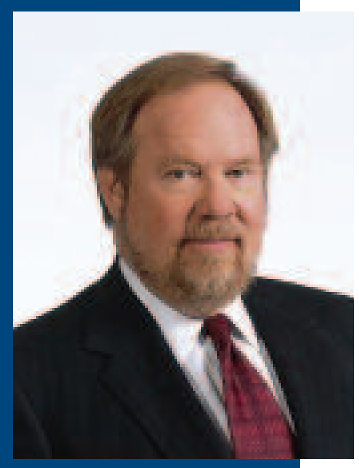
Syntroleum Corp. (NASDAQ: SYNM)

Oil and Gas Investor: *Describe your company's strategy.*

Holmes: Syntroleum has three main business strategies. We plan to:

- Leverage our air-based gas-to-liquids (GTL) process and its competitive advantages, which can be done in GTL marine-based applications and smaller-scale land-based GTL projects.
- Identify brownfield projects and participate in opportunities where expensive gasification infrastructure is already in place. An example of this would be integrated gasification combined cycle power projects or coal-to-methane development projects.
- And, we want to sell technology licenses to respond to increased industry interest. This strategy allows continued focus on core project development initiatives.

With more than 35 years in the petroleum industry, **John B. "Jack" Holmes Jr.** joined Syntroleum Corp. in 2002. He began his career with Humble Oil & Refining Co. (now ExxonMobil) in 1969, serving for 10 years in various engineering, operations and management positions. From 1980 to 1981, he was employed by two independent oil and gas companies, and then joined Texas International Co. in 1982 as senior VP in charge of international operations. Holmes joined Zilkha Energy Co. as president and COO in 1986. When Sonat Inc. acquired Zilkha in 1998, he became senior VP of Sonat Inc. and president/CEO of its Sonat Exploration subsidiary. In 1999, Sonat was acquired by El Paso Energy Co., where Holmes became president of oil and gas operations. In 2001, El Paso Energy merged with The Coastal Corp., and Holmes became COO for Petroleum Assets. He holds a B.S. degree in chemical engineering from the University of Mississippi.



John B. "Jack" Holmes, Jr., President and CEO

OGI: *Describe your core projects.*

Holmes: We have several exciting projects that we are currently working on. First, we recently announced that Syntroleum and Sustec have entered into a 50-50 agreement to jointly develop a 3,000-barrel-per-day Fischer-Tropsch (FT) plant installation at the Schwarze Pumpe Complex in Germany. Spreetal is the first project from the joint venture announced earlier this year. Pre-feed engineering work has begun and a final investment decision is expected by first quarter 2007. The project is located in an existing major industrial complex, where a gasification plant and Rectisol process are in place and operating. The project also is pre-qualified for a major German government cash grant of more than $125 million.

Second, we recently announced that we signed a contract to deliver 100,000 gallons of FT alternative fuel to the U.S. Department of Defense (DOD). Syntroleum will provide the initial fuel for evaluation by the DOD as part of a larger program aimed at long-term prospects for the domestic manufacture and supply of synthetic aviation fuels from FT plants. The ultra-clean fuel will be supplied from Syntroleum's existing plant near Tulsa, Okla., and will be used for research and development and performance testing of military turbine applications, highlighted by a B-52 flight demo later this year at Edwards Air Force Base. This agreement with the DOD is a significant milestone for Syntroleum, and we will forever be the first company to provide FT aviation fuel to the DOD for its certification and weapon-system-testing program. The government is currently seeking up to 200 million gallons of alternative synthetic aviation fuel in 2008.

And third, Syntroleum signed a letter of intent to form a joint venture with Bluewater Energy Services B.V., intended to develop and finance the building of the world's first air-based GTL plant on an offshore floating, production storage and offloading (FPSO) vessel that could also produce oil and offer storage capabilities. The purpose of the joint venture is to develop, construct, own and operate GTL/Oil FPSO vessels. The companies are working together to identify projects that will allow the joint venture to participate in the upstream development of oil and gas reserves and the downstream processing of those at offshore locations. A detailed feasibility study conducted by the companies has addressed a design of up to 17,000 barrels per day of FT products, 40,000 barrels per day of crude oil, and 10,000 barrels per day of condensate on an FPSO vessel, which would include about 2.3 million barrels of storage capacity. The GTL/oil FPSO study follows Syntroleum's work with its GTL barge concept for shallow water. There are numerous offshore gas discoveries in the 1- to 3 trillion-cubic-

foot-range where we can add significant value using this FPSO technology. Additionally, another key advantage of a GTL/oil FPSO is that the technology would allow us to avoid capital cost of re-injecting gas produced in oil operations.

***OGI:* Do you plan to deliver additional fuel to the DOD?**

Holmes: The DOD's short-term objective is to acquire 200 million gallons of synthetic fuels during 2008. Its long-term objective is to decrease dependency on crude oil base fuels and place an emphasis on domestically produced synthetic fuels. We are formulating proposals to meet the DOD's objectives.

We have demonstrated that the military can depend on Syntroleum to meet its stringent fuel quality specifications under its Assured Fuels Program which is receiving endorsement in the form of the B-52 flight test scheduled for late September or mid October of this year. Nobody else can make this statement.

We believe that successful testing of our fuel will provide the military with the experience necessary to consider long-term off-take agreements with the military and we expect to meet their needs.

***OGI:* Describe your core drilling and production areas, and what are your plans?**

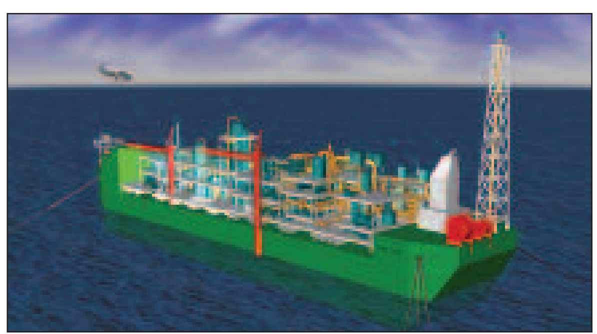
Holmes: Syntroleum has oil and gas assets in Nigeria. The first one is oil mining lease (OML) 113 in the Aje field and the other one is in the Ajapa field in OML 90. Participants in the Aje field will make election on the next well by October 2006. Syntroleum expects that participants will commit to the next well in order to earn an interest in the Aje field and OML 113. Syntroleum would pay 10% of Aje-4 to earn 32.5% interest. Subject to rig availability, participants are expected to drill Aje-4 well by mid-year 2007. We believe the Aje field has 116 million barrels of gross oil and condensate in the P-90 range, and we think there is about 700 billion cubic feet of gross gas in this field. We believe the Ajapa field has about 15 million barrels of gross oil and condensate in the P-90 range.

***OGI:* What kind of basin or play makes the most sense to the company and why?**

Holmes: We are focused on areas where we can apply marine-based applications and smaller-scale land-based GTL projects. We are actively pursuing projects in West Africa, the Middle East, Asia and South and Central America. Fields in the 1- to 3-trillion-cubic-feet-range are best suited for our technology as they are numerous and too small for large GTL and liquefied natural gas projects.

***OGI:* How did the hurricanes impact your business?**

Holmes: We were not directly impacted because we don't have any operations in the Gulf of Mexico, but the hurricanes increased the awareness about the need for diversifying our energy supply. There are significant opportunities to create new sources of energy across the world, which has almost a trillion recoverable tons of coal reserves. In fact, the U.S. has the world's largest coal reserves with an estimated 268 billion recoverable tons. Converting just 5% of the U.S. coal reserves to FT fuels would equate to the existing U.S. crude reserves of 29 billion barrels. We are interested in helping build GTL plants in the heartland of America providing jobs away from the coastal region.



Pictured is a conceptual floating, production storage and offloading vessel that could also produce oil.

***OGI:* Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?**

Holmes: I believe the U.S. government's focus on securing our nation's energy supply has had a positive impact on Syntroleum. Syntroleum applauds Congress for their actions last year in passing the Energy Policy Act of 2005. This bill was a step in the right direction for developing a long-term energy strategy by providing funding for research and development of clean-coal initiatives and loan guarantees associated with the construction of commercial scale coal-to-liquids plants. The recorded vote shows the bipartisan support for the need to research alternative forms of energy and the growing interest in clean coal and coal-to-liquids technologies. Syntroleum urges the government to follow through with its commitment to dedicate money for loan guarantees and mandate long-term contracts to purchase FT fuels.

***OGI:* What is the greatest challenge facing your company ?**

Holmes: Our greatest challenge is to reach financial close on an FT plant, but we believe we're moving in the right direction. Today's energy fundamentals present compelling opportunities for Syntroleum as we are in a unique position of having demonstrated our technology on a fully integrated basis. A single success will equate to major impact on shareholder value. ■

Teton Energy Corp. (AMEX: TEC)

***Oil and Gas Investor:** Describe your company's strategy.*

Arleth: Our strategy overall is to acquire operated and non-operated working interests in resource plays with 3P (Proven, Probable and Possible) reserve or resource potential. That is what we have done over the past two years. In 2005, we concentrated on buying minority non-operated working interests in two plays, one in the Piceance and one in the DJ basin. This year, we've added one non-operated, minority-working interest (25%) in the Williston Basin, but we are looking to acquire an operated project in 2006 or 2007.

***OGI:** Describe your core drilling and production areas.*

Arleth: The core drilling area for the company currently is the Central Piceance Basin (the Grand Valley area in Colorado). Berry Petroleum operates that project with 50% working interest; we have 25%, Delta Petroleum has 18.6%, and there is a private holder who owns 6.4%. The project is progressing on schedule. In the DJ Basin, Noble Energy Inc. is the operator with 75% and we have 25%. Noble Energy Inc. is in the process of evaluating the 182,000-acre block with seismic and drilling this year. They are required to drill 10 wells by the end of this year and 10 additional wells by March 1, 2007. We are carried, that is we do not have to pay anything for those 20 wells, and at the end of that program, we are a working-interest partner with them. In the Bakken Play, we will probably drill one well this year sometime in the fall.

***OGI:** Does your company anticipate expanding to any new drilling or production areas this year?*

Arleth: Our primary focus is the Rocky Mountains. Our second priority is the Mid-continent Region, including Oklahoma and Kansas. Lastly, we would classify all other onshore U.S. basins as a third priority.

***OGI:** What kind of play makes the most sense to the company and why?*

Arleth: The type of plays that we like are high-repeatability resource plays, basin-centered gas accumulations, source rock plays or shale plays where you have a large geographic area and a large resource base and have to rely on technology to increase recoveries and make these plays economic. We like these opportunities because as the recovery technology improves in these resource plays over time, the risk decreases and the estimated ultimate recoveries increase.

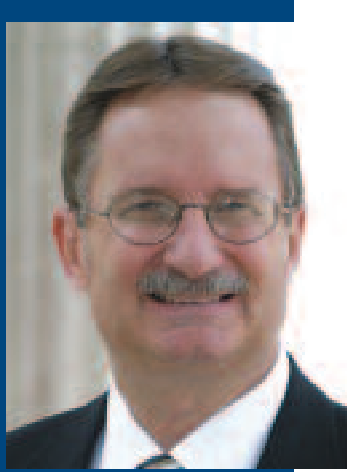
***OGI:** What is your projected budget for this year and how many wells do you anticipate drilling with that budget?*

Arleth: We've done a mid-year capital update and we have revised our 2006 capital spending from $12 million and approximately 20 gross wells in the Piceance Basin to approximately $17.8 million and 30 gross wells. We will also participate in one Bakken well in the Williston Basin sometime this fall. We do not anticipate any capital requirements for drilling in the DJ Basin because we are carried on 20 wells in the DJ Basin with Noble Energy. It is possible we may have some gathering expense as development progresses.

***OGI:** Do you foresee any acquisitions this year?*

Arleth: Possibly. If you look at our history, we've made acquisitions of minority working interest, non-operated projects. Today, we're looking for both operated and high-value non-operated projects in our portfolio.

Karl Arleth has been president and CEO of Teton Energy Corp. since May 2003 and a director since 2002. He was chief operating officer and a board member of Sefton Resource, an oil and gas E&P company, from 2002 to 2003. He served as chairman and CEO of Eurogas Inc. in London between 1999 and 2001. Arleth spent 21 years with Amoco and BPAmoco, ending in 1999. He chaired the board of the Azerbaijan International Operating Co. for BPAmoco in Baku, Azerbaijan. Concurrently in 1997 and 1998, he was president of Amoco Caspian Sea Petroleum Ltd. in Azerbaijan. In 1997, he served as a director of strategic planning for Amoco Corp.'s worldwide E&P sector in Chicago. Arleth was president of Amoco Poland Ltd. in Warsaw, Poland, from 1992 to 1996. Between 1977 and 1992, he held positions with Amoco as an exploration and development geologist, project supervisor, manager and executive in the E&P sector in Denver, Tulsa, Chicago and Houston. In North America, he has significant E&P experience in the Rocky Mountains, Mid-continent, the Western U.S. and Alaska.



Karl Arleth, President and CEO

***OGI:** Does your company hedge?*

Arleth: No, we do not hedge.

***OGI:** How are you going to sustain your earnings momentum?*

Arleth: Our core growth engine in 2005 was the Piceance Basin. We, along with our partners, drilled 10 wells last year. We had only three of those 10 completed by the end of the year. At the end of the first quarter of 2006, we had 10 wells completed. We now have 14 wells producing. We, along with our partners Berry Petroleum and Delta Petroleum, are going to drill quite a few wells over the balance of 2006. We have a revised capital program that estimates 30 gross wells for 2006 versus 10 gross wells for 2005. Then in 2007, we think the physical growth will increase substantially again. So, the way we are going to sustain our momentum is we are going to have strong, physical drill bit growth in the Piceance, which will sustain the company over the next 3 to 5 years. Absent any other acquisitions, the Piceance growth alone is going to allow this company to grow its revenues, cash flow and earnings. With that kind of growth rate, looking at 10 wells in 2005, 30 wells in 2006 and a greater number of wells in 2007, even though we are currently in a low gas price environment (at least for the next month or two), production growth is so strong that we are going to be able to grow the company regardless of occasional dips in gas prices. And the other projects will layer in on top of the Piceance. I firmly believe that all small companies have to have at least one project that is a "growth engine" for that company. We believe the Piceance is our growth engine and will sustain this company.

***OGI:** What price deck do you use?*

Arleth: Our price deck for gas this year is about $6 average price and about a $50 average price for oil. This is for planning purposes and is not for hedging.

***OGI:** Aside from the very high oil and gas prices of 2005, what other factor had the most impact or led to the most success for you last year?*

Arleth: The ability to acquire minority, non-operated working interests in high-value plays in high-value basins. By being a non-operator, but having good operating partners, it is possible to take on some development of close-in exploration risk and make investments in high-value opportunities. The factor that probably contributed most to our success last year was the ability to take a smaller piece of a deal in a high-value area versus having to operate with 100% working interest in a higher risk play.

***OGI:** How did the hurricanes impact your business?*

Arleth: All of our projects are in the Rockies, so we have not experienced any hurricane damage.

***OGI:** You have recently entered into an agreement with Noble Energy in the Denver-Julesberg Basin. What does this agreement do for your company?*

Arleth: First of all, this agreement allowed us to partner with a very good operator, Noble Energy Inc. (the largest operator in the DJ Basin), in the play. We had acquired approximately 182,000 acres in the far eastern DJ Basin over the Nebraska border. We believe there is an eastern extension of the Niobrara gas play into that portion of the basin and with Noble's experience, we think we'll be able to evaluate and monetize the play much more quickly than we would have on our own. With respect to the structure of the deal, Noble paid us $3 million and is going to carry us for 20 wells. So it allowed us to take our initial investment in that acreage off the table and redeploy it elsewhere. In fact, we redeployed a portion of that into our Williston Basin oil play that we acquired a few months ago. The agreement has also allowed us to manage the risk of the eastern DJ Basin play.

***OGI:** You mentioned you acquired an oil play in the Williston Basin. What does that acquisition do to enhance your company?*

Arleth: In April of this year, we acquired 25% of 58,000 net acres (90,000 gross acres) in the Williston Basin from American Oil & Gas. This is in Williams County, North Dakota, which is on the west side of the Nesson Anticline. American has a 50% interest, we have 25% and the operator, Evertson, a private company based in Nebraska, has the remaining 25%. We've looked at the Bakken for over a year, and we think that it is a good time to enter the play. There is still a learning curve to climb on the technology side, but for Teton, it gives us a little bit of commodity diversification from the 100% gas in the DJ and the Piceance to oil in the Williston.

***OGI:** What is the greatest challenge facing your company?*

Arleth: The ability to continue to make high-value acquisitions that will grow the company profitably for our shareholders. As we grow, we have to make larger acquisitions and you have to maintain a good, strong discipline in the acquisition process as you grow. It is a very competitive market; everyone is out there looking for the same thing. Because of our base in the Rocky Mountains and our ability to buy into plays or acquire operations, we think we can continue to make those high-value acquisitions. ■

The Exploration Co. (NASDAQ: TXCO)

***Oil and Gas Investor:** Describe your company's strategy.*

Sigmon: We are a full-cycle exploration, development and production company. TXCO leases acreage, generates prospects, drills exploratory and development wells, and produces oil and gas. This strategy has worked well for us and has given us multiple growth opportunities, including several potential resource plays, on more than 700,000 net acres. We also own and operate a gas pipeline serving our core area, the Maverick Basin, in Southwest Texas.

***OGI:** Describe your core drilling and production areas.*

Sigmon: We're focused on the Maverick Basin where we have more than a half-million net acres under lease. It offers multiple opportunities to explore for and produce from multiple formations. We also have acreage in the Marfa Basin in West Texas and the Williston Basin.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Sigmon: Yes, we're very excited about our new Marfa Basin position. This is a relatively underexplored basin. It lies in front of the Ouachita Overthrust and is geologically in a similar position to the Fort Worth, Val Verde and Arkoma basins. The Barnett and Woodford shales are present, but thicker than in the prolific Fort Worth Basin. They have high, gas-in-place potential, are organically rich and thermally mature in the gas window. We're just starting our first Marfa drilling project and expect to drill a second well there later this year.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Sigmon: We're focused on areas that offer the greatest opportunity for what TXCO does best: We employ technology—advanced 3-D seismic processing and advanced drilling and completion techniques—to exploit the potential in areas overlooked in the past. We've had steady growth in reserves and production employing this plan.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Sigmon: Our Glen Rose Porosity oil play in the Maverick Basin continues to be a winner. We've drilled some 60 wells there since the discovery in 2002, and production has been climbing steadily for the past year. To date, we've produced more than 2.5 million barrels of Porosity oil. We've budgeted $30 million for 32 wells this year.

James E. Sigmon has been president and CEO of The Exploration Co. since 1985 and a director since 1984. As an engineer, Sigmon has been active for more than 30 years exploring for and developing oil and gas properties. Before joining TXCO, he served in the management of a private oil and gas exploration company active in drilling wells in South Texas. He received a B.S. degree in electrical engineering from the University of Texas at Arlington in 1971.

James E. Sigmon, President and CEO

The wells offer a rapid payout, in three to six months at current prices. Even if the price of oil collapses to half what it is now, these wells would pay out quickly. It's a very profitable play and one that has the potential to keep TXCO busy for years to come. We've identified more than 300 potential drilling locations across this structure, which stretches for more than 30 miles across the southern end of our Maverick Basin acreage.

***OGI:** This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Sigmon: Our revised capital budget for 2006 is for more than $70 million and 90 wells. That's our largest drilling program ever. By comparison, TXCO participated in 52 gross wells last year and spent a little more than $52 million for drilling, seismic and leasehold acquisitions.

The Glen Rose Porosity will get the largest slice of this year's Capex, around $30 million for 32 projected wells. Other big projects this year are our new San Miguel tar sand project and the gas-prone Pearsall formation, a potential resource play, as well as our new Barnett and Woodford project in the Marfa Basin.

***OGI:** Do you foresee any acquisitions this year?*

Sigmon: That's always a possibility if a good deal comes along on a prospect that dovetails with what we're doing already. However, TXCO's focus

continues to be organic growth via the drill bit. We have a lot to work with already.

OGI: *Can your earnings momentum be sustained?*

Sigmon: In my opinion, yes. We had record income in 2005, 48 cents per share, with a large part of that due to an asset sale we did with EnCana. We used proceeds from that deal to pay down debt and acquire the Marfa Basin acreage that I mentioned. Coupled with TXCO's success in the Glen Rose Porosity and the potential we see in our multiple plays, I believe we will have a very profitable future as reserves and production continue to rise.

OGI: *Does the company hedge?*

Sigmon: We prefer to work with current market prices when we can, although we do some limited hedging to manage price risk for banking purposes. We're not active traders. TXCO paid off its gas hedges last year, but we still have some hedges in place for part of our oil production.

OGI: *What price deck do you use?*

Sigmon: Our average price is just under $53.

OGI: *How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?*

Sigmon: We're strictly onshore. Last year's storms had no direct impact on our operations.

Separately, I should mention TXCO recently acquired a drilling rig that will give us greater operating flexibility and reduce our costs. With the large number of locations we have identified in the Maverick Basin, we will be able to keep it busy for years to come.

OGI: *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Sigmon: The key event for TXCO last year was the completion of a strategic alternatives review we began in late 2004. We met with numerous oil and gas firms to review assets and possible combinations, including an outright sale. The result was an $80-million asset sale to, and a joint venture with, EnCana that greatly enhanced our shareholder value.

What I like about the agreement is it benefits both parties. TXCO used the proceeds to clean up our balance sheet so that we now have essentially no debt. We also acquired the promising Marfa Basin acreage. In turn, EnCana gained access to a new area where it can employ its industry-leading expertise in developing the Maverick Basin's resource play potential. We gained a valuable partner that has been working closely with us.

The baseline to TXCO is we proved in dollars and cents what we have said for years about the Maverick Basin: it has high potential with multiple emerging resource plays. We're simply a different company today than we were a year ago and that's reflected in our higher share price. But we still have a lot of potential that isn't reflected in that price.

OGI: *What is the greatest challenge facing your company?*

Sigmon: We are unusual in that our greatest constraint is capital—not prospects. We have identified thousands of drilling locations in multiple plays across the Maverick Basin, including eight potential resource plays. TXCO's improved financial condition will allow us to expedite drilling and development. We can stay busy for many years to come if we have the capital.

OGI: *What are your plans for the heavy oil play in the Maverick Basin? At what oil price do you estimate this play is economic?*

Sigmon: The potential for our San Miguel tar sand project could be huge. Government studies estimate there are at least 2 billion barrels, or more, of very low-gravity oil in place. Tests done back in the 1960s and 1970s showed it was possible to recover roughly 50% of oil in place, but prices then didn't make it economic.

Things have changed a lot since then. We've seen improvements in technology and, of course, crude prices are comparatively much higher. We're optimistic that can make the tar sand profitable now. We're working closely with a Canadian partner with experience in the Athabasca region's Cold Lake field.

We recently started steaming a two-well pilot project, so we're still in the early stages. We'll look at the data and establish our baseline economics, then decide whether it will prove economic. If it looks good, we have budgeted for 26 additional wells in our 2006 capex.

OGI: *Do you have any final thoughts or comments you'd like to share?*

Sigmon: TXCO offers an impressive compound annual growth in many areas. We have a commanding acreage position with multiple resource-play potential. In addition, we have an established, multi-year record of continuing growth in proved reserves, production and cash flow. We have a unique story to tell that I believe offers great upside potential and will continue to be of great interest to investors in the energy market. ■

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Transmeridian Exploration Inc. (AMEX: TMY)

Lorrie T. Olivier, Chairman, CEO and President

Lorrie T. Olivier has been chairman, CEO and president of Transmeridian Exploration since founding the company in 2000. Previously, he worked for American International Petroleum Corp. From 1996, he served as the senior executive in charge of operations in Kazakhstan and the Caspian Sea region. He has spent his entire career in international oil and gas E&P, previously serving with Occidental Petroleum and Shell Oil.

Oil and Gas Investor: *Describe your company's strategy.*

Olivier: The company's niche is to find and develop fields that have under-developed or under-evaluated reserves, which can be acquired on terms that will allow for the rapid development and exploitation of these reserves at costs below the industry's norm for international finding and development costs. Generally, we rely on our knowledge of the area to identify those properties that are generally too small for the large companies and too big or technically challenging for the smaller local companies.

We are primarily focused on areas with established hydrocarbon potential and immediate access to markets for the sale of our crude.

OGI: *Describe your core drilling and production areas.*

Olivier: TMI concentrates its efforts in the Caspian Sea area of the Former Soviet Union (FSU). Our first project, the South Alibek field, which is currently under full development, is located onshore in the Pri-Caspian Basin in western Kazakhstan. We have drilled to date 10 wells of a 50-development well program involving at least five modern 1,500 to 2,000 hp rigs from two contractors and are undertaking the commissioning of a 30,000-barrel-of-oil-per-day treating and storage facility for the handling and exporting of the field's production to western markets.

OGI: *Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Olivier: The company is focused on the development of the South Alibek field, but has identified future potential by recently acquiring rights to fields in southern Dagestan.

Additionally an extensive study and evaluation work program in Azerbaijan has been completed, and we have requested an agreement in principle covering a large area for exploration and exploitation on the northern border.

Both of these projects have the potential to significantly impact the reserve base of the company and add production as the projects mature. For the near term, the company will be conducting seismic and test drilling over these properties during the next 24 months.

OGI: *What kind of basin or play makes the most sense to the company and why?*

Olivier: The company's focus is on existing fields and properties that have not been fully exploited. Therefore, there is no limitation or focus as to type of play, but we are typically involved in relatively deep (12,000-foot to 14,000-foot) wells technically challenging to drill, with complex reservoir characteristics. Not that we go out of our way to look for difficult fields, but generally these are the type of properties that were not developed extensively within the FSU and are readily available for companies like ours.

OGI: *Which one or two wells or projects could yield the greatest return for the company this year?*

Olivier: The company will enjoy the most benefit this year from the ramp up of production from its South Alibek field. As the field surpasses the 3,000-barrel-of-oil-per-day rate, the company should be cash flow positive, covering all its operating and general administrative costs, including interest service on the company's debt.

OGI: *This year, what is your projected budget, and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Olivier: The company's capital expenditures this year are expected to be around $90 million as we expand our development drilling program in the South Alibek field. This program includes the drilling of about 11 or 12 new wells in 2006 along with commissioning a 30,000-barrel-of-oil-per-day central treating and pipeline facility, which should be operational by the end of the fourth quarter 2006. This is a major growth spurt for the company, dwarf-

ing the prior year's expenditures of only $21 million. We expect to maintain this pace of drilling for the next three years as we continue to expand the resources of the South Alibek field.

OGI: *Do you foresee any acquisitions this year?*

Olivier: The company has made one small acquisition in the Southern Dagestan area of the FSU. This is not a major acquisition in and of itself, but it positions the company to participate with its partners in future auctions of existing fields in the region. Dagestan is the one area in the western FSU that has not been extensively privatized. For this reason, we feel that getting a foot in the door, so to speak, now will facilitate our chances to participate in future privatizations by the government.

OGI: *Can your earnings momentum be sustained?*

Olivier: Currently, we have more potential properties than our people and resources can handle. To that end, we are expanding our staffing efforts and capacity to take on more projects that should maintain our current growth levels for the near term, if not significantly add to our past success profile.

OGI: *Does the company hedge?*

Olivier: Due to the low levels of exports in the past, we have not taken advantage of financial hedge positions on our sales. As we ramp up production levels and our markets becomes more established, we will probably explore the use of hedging instruments to reduce our market risks.

OGI: *What price deck do you use?*

Olivier: We are in a commodity-based industry, and one thing we do know is that we cannot control prices, and therefore we concentrate on being a "low-cost" producer, keeping our average finding and development cost below $6 per barrel. This strategy allows us to be competitive even during periods of very low prices. It is comforting to our investors that we do not need $60 oil to be successful. So while we are poised to reap benefits from high oil prices, we are also positioned to maintain profitability if prices retreat to recent historical norms.

OGI: *How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?*

Olivier: We enjoy a hurricane-free region of operations. Our area is more affected by severe winter storms, which primarily affect the transportation systems in the region, causing shutdowns and backlog delays at major loading points. This type of interruption is mitigated to the extent that we can export our crude through pipelines and avoid rail and sea terminals in the Northern Caspian Sea.

OGI: *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

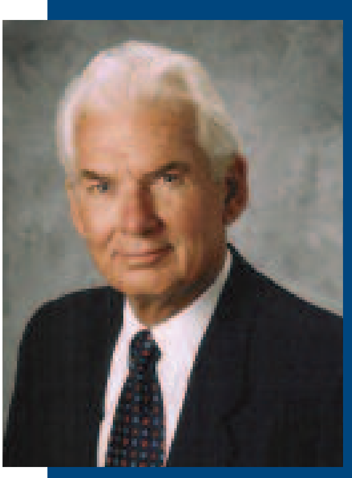
Olivier: The availability of capital to expand our holdings and operations was probably the most significant factor in 2005 that allowed us to achieve the growth we attained.

OGI: *What is the greatest challenge facing your company today?*

Olivier: Managing the growth of the company poses two major challenges for the management of TMI. We need to attract new and qualified people to staff key operational and managerial positions throughout the company, and we need to contract and retain equipment that is technically and operationally competent to allow us to develop oil reserves in the challenging areas where we operate. ■

The company's operations are focused in the Caspian Sea area.

TrueStar Petroleum (Toronto Venture: TPC)



Dr. Charles A. Kohlhaas, Director and Chairman of the Board

Dr. Charles A. Kohlhaas is an executive with over 40 years worldwide experience in the oil and gas industry, with majors and independents. He received his petroleum engineering degree in 1956 and a Ph.D. in geophysics in 1972 both from the Colorado School of Mines. He also has a certificate of financial management from the University of Denver, College of Business Administration.

As a petroleum engineer, he has a strong technical base in operations, field development and reservoir engineering with independent and major oil companies and has managed major acquisition programs.

He has experience in business, planning, start-up and expansion programs, financing and corporate structure, and is a experienced international negotiator. In addition, his experience includes founding and managing independent E&P companies.

Kohlhaas has written extensively on oil and gas issues in foreign affairs.

***Oil and Gas Investor:** Describe your company's strategy.*

Kohlhaas: A combination of low-risk bread-and-butter type domestic plays that can be reliably developed and produced and higher-leverage low-risk international plays. We now have a small, but balanced portfolio with one solid play of both types. Our plan is to add to our assets with additional acquisitions of both types to give us an expanded portfolio but maintain our current balance. We are actively reviewing and evaluating candidates of both types.

***OGI:** Describe your core drilling and production areas.*

Kohlhaas: Our active area of development and production at this time is the core area of the Barnett Shale in Denton and Tarrant counties, Texas, on a group of assets we acquired last year from Eagle Oil and Gas. We have interests in 32 producing wells, over 40 PUD's, rigs contracted and financing arranged for an ongoing development program on those Eagle leases.

We are currently planning an active drilling program for this fall that should increase our active well count and production significantly. Exact schedules are being worked out with our acquisitions schedule and rig availability. We anticipate using a new-build rig for part of this program. In addition, we are taking a hard look at our vertical well inventory for workover and remedial work, which gives us a quick turnaround on the investment dollar.

We have $50-million credit agreement with Macquarie Bank Ltd. Macquarie is very encouraging with regard to an aggressive development program.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year?*

Kohlhaas: Yes, and we have several areas under evaluation. Our criteria for acquisitions describe both domestic and international assets with similar characteristics to those we have now.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Kohlhaas: Again, we want to maintain our current portfolio balance. We shall be looking domestically at large acreage positions, which have a reliable development potential, such as low-permeability sands, shales, coalbed methane or other similar types of plays. Macquarie has been very encouraging in this regard.

Internationally, we are evaluating targets with undeveloped discoveries, late-stage exploration, or other types of low-risk point of initiation supplemented by the potential for large reserves and high-rate production that can provide short-term high leverage on the initial investment.

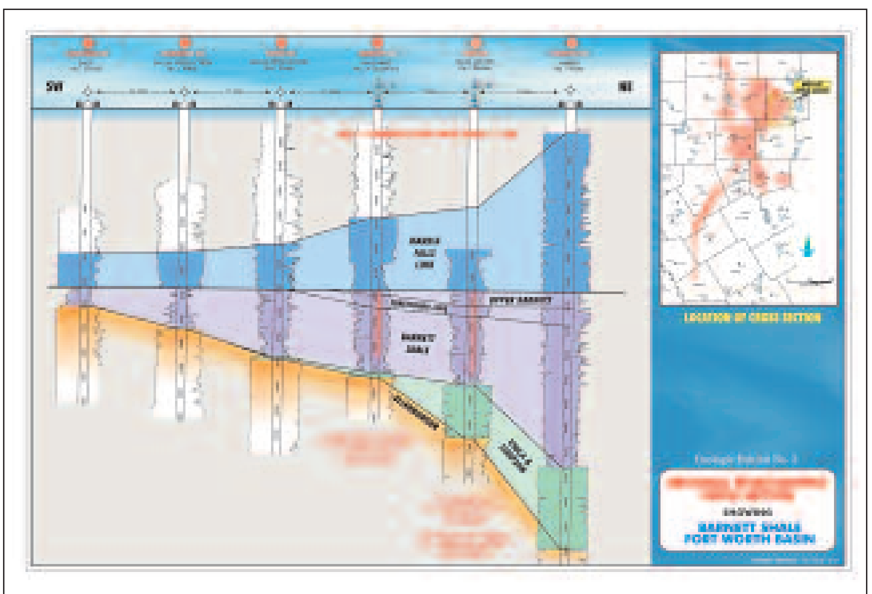
***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Kohlhaas: As the Barnett Shale play is our single current activity, it is the most important now and probably for the rest of the year. When we are able to start development in Guatemala, it should have a significant impact, but that will probably not be until early next year.

***OGI:** This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Kohlhaas: We have just had some welcome addi-

tions to our program, so we are in the planning stage and working out how to accommodate them. We expect an increase of 20% to 30% of our capital expenditures compared with last year, but the plans and forecasts are not completed yet.



Regional stratigraphic cross-section showing Barnett Shale Fort Worth Basin.

***OGI:* Do you foresee any acquisitions this year?**

Kohlhaas: Possibly. We are always aware of various acquisition possibilities in the area of our current operations and would anticipate that one or two of those may be something we would want to take advantage of to augment our current Barnett Shale possibilities. We are also aware of several candidates that, on first look, could be attractive, and we shall evaluate those in detail to establish a short list for further evaluation and possible proposals.

***OGI:* Can your earnings momentum be sustained?**

Kohlhaas: As we ramp up our production with new drilling, our earnings should start to show significant increases over the next several months and we have a location inventory for several years of drilling.

We also have an inventory of older vertical wells that we are reviewing for workover, remedial, recompletion and re-fracture candidates. These wells have the advantages of scheduling efficiency; they already have surface facilities and are already hooked up to sales pipelines, so we have a quick turnaround on the invested dollar.

***OGI:* Does the company hedge?**

Kohlhaas: Yes. Our agreements with Macquarie require us to hedge, and Macquarie manages those hedges very nicely. Over the past few months, we have been happy to have that program in place.

***OGI:* What price deck do you use?**

Kohlhaas: We use actual current prices without escalation.

***OGI:* How did the hurricanes impact your business?**

Kohlhaas: We are far enough away from the Gulf Coast that they had no significant impact.

***OGI:* Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?**

Kohlhaas: Finally completing the acquisition of the Barnett Shale properties and establishing the asset and revenue base for the company.

***OGI:* What is the greatest challenge facing your company today?**

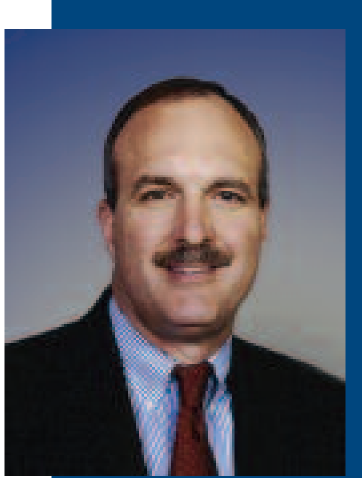
Kohlhaas: Reaching a critical mass of assets, revenues and staff for sustained growth.

***OGI:* Do you have any final thoughts or comments you'd like to share?**

Kohlhaas: The opportunities available in the industry today as a result of the price increases for our product are unlike any I have seen before (and I have been cycle-tested several times) in that I do not think this is a "boom" that will end at some point in the near future. This is the first time that worldwide demand has reached and exceeded worldwide production capacity. Demand shows no sign of abating significantly, so I think we are seeing a fundamental structural change in the industry to accommodate long-term supply problems. Many of our development projects were uneconomical just a few years ago.

In addition to that, we see a growing role by the national oil companies; in many ways private companies are competing at a disadvantage against companies with sovereign authority behind them whose objective is to establish supply and are not particularly concerned about traditional criteria for investment such as payout and rate of return. ■

Ultra Petroleum Corp. (AMEX: UPL)



Michael D. Watford, Chairman, President and CEO

Michael D. Watford was appointed in 1999 chairman, president and CEO of Ultra Petroleum Corp., one of the largest U.S. independent oil and gas producers. Over his six-year tenure at Ultra Petroleum, Watford has increased proved reserves by over 2,600% and increased production at an average annual compound growth rate of 67% all through organic growth.

Prior to joining Ultra Petroleum, he was CEO of Nuevo Energy Co. of Houston. Over his 25 years in the oil and gas business, Watford has become familiar with virtually every aspect of the industry, holding senior management positions in natural gas sales, marketing, exploration and production and corporate finance.

Oil and Gas Investor: *Describe your company's strategy.*

Watford: We are a growth-oriented E&P company with a strong desire to achieve industry-leading growth at an industry-leading low cost structure in terms of finding and development costs and in terms of total costs. We want to be the low-cost producer as well as be in the upper 10% in terms of growth in reserves and growth in production.

OGI: *Describe your core drilling and production areas.*

Watford: We have a very simple story. We are in the early stage of developing an American legacy-type natural gas asset in Southwest Wyoming, and we have an oil opportunity in the shallow waters off Bohai Bay in China. Between these two assets, we have domestic gas and international oil.

OGI: *Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Watford: We are very opportunistic. We are also very protective of our cost structure and our margins. So acquisitions probably don't make much sense in this environment, but grassroots exploration and subsequent drilling does make sense. Right now, we are doing some exploration drilling in Pennsylvania that is not core to our current business.

In Wyoming, what we are trying to do is continue to drill more wells all over the Pinedale Anticline and Jonah field and to drill deeper so that we are able to get a better understanding of the resource potential of the acreage we have in our primary areas. We have spent a tremendous amount of time developing a new petro-physical model with the assistance of Core Labs, where we cored 10 different wells and then did a lot of analysis on the rock. We will use that revised view of the rock properties to gauge resource in place.

It leads us to believe that at the end of the day, we have far more gas in place in the Pinedale Anticline in Southwest Wyoming than earlier thought, which also translates to the need for increased density drilling over time on the Anticline. There is a need to drill more and more wells over time in order to extract all the gas.

Currently, the model suggests that on 10-acre spacing for every drilling location, we'll only extract about 60% of the gas in place, which still means you have 40% of the gas yet to be recovered. So, we've got a long way to go in terms of drilling efficient wells to recover even the 60% of the gas in place. But we're still looking at a tremendous resource potential with reserves in excess of 44 trillion cubic feet of gas in place in the Pinedale Anticline and almost 14 trillion cubic feet of gas in place in the Jonah field.

OGI: *What kind of basin or play makes the most sense to the company and why?*

Watford: We are currently participating in the play that makes the most sense.

OGI: *Which one or two wells or projects could yield the greatest return for the company this year?*

Watford: All of our 2,500 locations in Wyoming are high rate-of-return projects. The average Pinedale Anticline well has a 45% rate of return with a $5-wellhead gas price. The high rate of return we obtain on our average well is without a doubt, industry-leading.

OGI: *This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Watford: We plan on spending $450 million in our capital expenditures program for 2006. Approximately $400 million will be spent in Wyoming. This is the largest budget in our history,

but more importantly, twice what we spent in 2004 and roughly a 50% increase over the 2005 budget of $283 million.

In conjunction with this level of expenditures, we plan on operating more drilling rigs by drilling over 150 wells, which is more than we have ever drilled before. This is a 36% increase from the 110 wells we drilled in 2005.

OGI: ***Can your earnings momentum be sustained?***

Watford: We have been able to sustain our earnings momentum because we have had stellar production growth. Plus we have been operating in an environment of significant commodity price increases until recently. In fact, we are able to keep up our earnings and cash flow growth with lower commodity prices because of the aggressive production growth targets we have.

In 2005, we grew our production by 49% to 73.8 billion cubic feet equivalent from 49.5 billion cubic feet equivalent in 2004. We are continuing to grow our production in 2006 with a growth target of 27%, all through organic growth. We can continue the growth in earnings and cash flow because of both reasons: strong commodity prices, and more importantly, the increasing production.

OGI: ***Does the company hedge?***

Watford: We do hedge. Approximately 20% of our annual production for calendar year 2006 is hedged at $6.21 per thousand cubic feet. It stands to reason that because we have no outstanding debt, there is no need for us to protect our capital program; therefore, we haven't had a significant need to hedge.

OGI: ***What price deck do you use?***

Watford: We put our 2006 capital budget together for all non-hedged natural gas volumes and assumed a $5.75 per thousand cubic feet price in Wyoming.

OGI: ***How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?***

Watford: With a more severe than normal hurricane season in the Gulf Coast, culminating in hurricanes Katrina and Rita, the industry experienced severe supply disruptions. With offshore Gulf Coast production being knocked offline temporarily, the effect was to drive natural gas prices to lofty levels. However, as normal winter never occurred and temperatures remained above average for most of the U.S., we find natural gas storage is well above five-year averages. Concerns over natural gas supply disruptions have disappeared. The result was a strong 2005 year-end-pricing in Wyoming that was approximately $8 per thousand cubic feet, but currently we are experiencing weakening prices that are almost a third less. As we are still early in the 2006 hurricane season, we are uncertain as to what direction supply levels are heading.

OGI: ***Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?***

Watford: We and our partners, Questar and Western Gas Resources, reached a total depth at 19,500 feet in an exploration well testing a new deeper horizon at a location on the north end of the Pinedale Anticline. We are encouraged by the initial results in the Blair/Rock Springs and Hilliard formations, similar to shows encountered in a well drilled in 1970, approximately 15 miles to the south of our current exploration test. We were also encouraged by high pressures encountered, even though it is premature to draw conclusions regarding the commerciality of the deep-test well six miles south of the current test.

The long-term impact of the deep-test of the Blair/Rock Springs formation could yield a third producing formation and materially increase potential reserve estimates for the Pinedale.

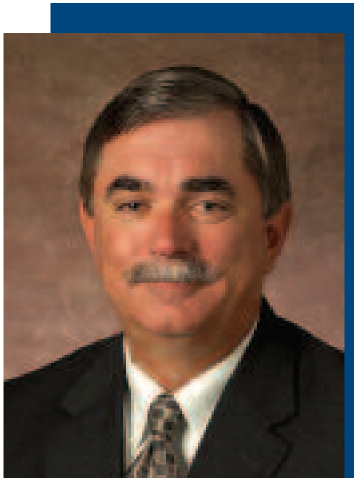
OGI: ***Do you have any final thoughts or comments you'd like to share?***

Watford: First, to position Ultra to put even more rigs to work and to continue drilling even more wells, we are diligently working on a Supplemental Environmental Impact Study with the Bureau of Land Management. Our goal is to increase access to our acreage, which is now limited. Hopefully, we should have an answer by mid-2007 and be able to execute year-round drilling and completing in the 2007-2008 drilling season.

Second, we have entered into strategic agreements to cause additional infrastructure in Wyoming to be built to process and transport natural gas. The most valuable projects are a new natural gas processing plant with Williams Field Services and a new interstate pipeline with Kinder Morgan—Rockies Express Pipeline (REX). As an anchor shipper in REX, we will access additional markets for our Wyoming natural gas in the Midwest and Northeast markets.

Third, we are targeting doubling our production to 140 billion cubic feet equivalent in 2008 from 73.8 billion cubic feet equivalent in 2005. We believe this is attainable by maintaining flat capital at $400 million and all through organic growth. ■

Unit Corp. (NYSE: UNT)



Larry D. Pinkston, President and CEO

Larry D. Pinkston joined Unit Corp. in December 1981. He had served as corporate budget director and assistant controller prior to being appointed controller in February 1985. He has been treasurer since December 1986 and was elected VP and CFO in May 1989. In 2003, he was promoted to executive VP and effective August 1, 2003, he assumed the office of the president. In February 2004, he was elected chief operating officer and became CEO in April 2005. He holds a B.S. degree in accounting from East Central University of Oklahoma and is a certified public accountant.

***Oil and Gas Investor:** Describe your company's strategy.*

Pinkston: Unit's business strategy is to maximize the value of all three energy segments in which it is involved. This includes maximizing the drilling company by improving market share and rig utilization while developing new markets; growing the oil and natural gas reserve base with attractive finding and acquisition costs, while increasing reserves by more than 150% of annual production and focusing on exploitation drilling and opportunistic acquisitions; and growing its natural gas-gathering, processing and treating operations by increasing its geographical focus and expanding its facilities and systems. The company's strategy also includes maintaining a conservative debt position and enhancing its financial strength.

***OGI:** Describe your core areas.*

Pinkston: Unit's core area of operations is located in the Anadarko and Arkoma basins in the Mid-continent region of the U.S. Approximately 60% of both the wells we drill and the drilling rigs we own are in these two basins. Virtually all of our natural gas-gathering and processing operations are located in these two basins as well. Our remaining operations are located in the Gulf Coast, Permian Basin, East Texas and the Rocky Mountain regions.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year?*

Pinkston: We are always looking for strategic areas for all three of our segments. We established a Houston office in 1996 with the intention of expanding our Gulf Coast operations, and we intend to continue drilling more prospects in this area. Our Midland office was opened about two years ago to expand our Permian Basin operations, and we have opened a small office in Denver and are currently trying to increase our presence in the Rocky Mountain area.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

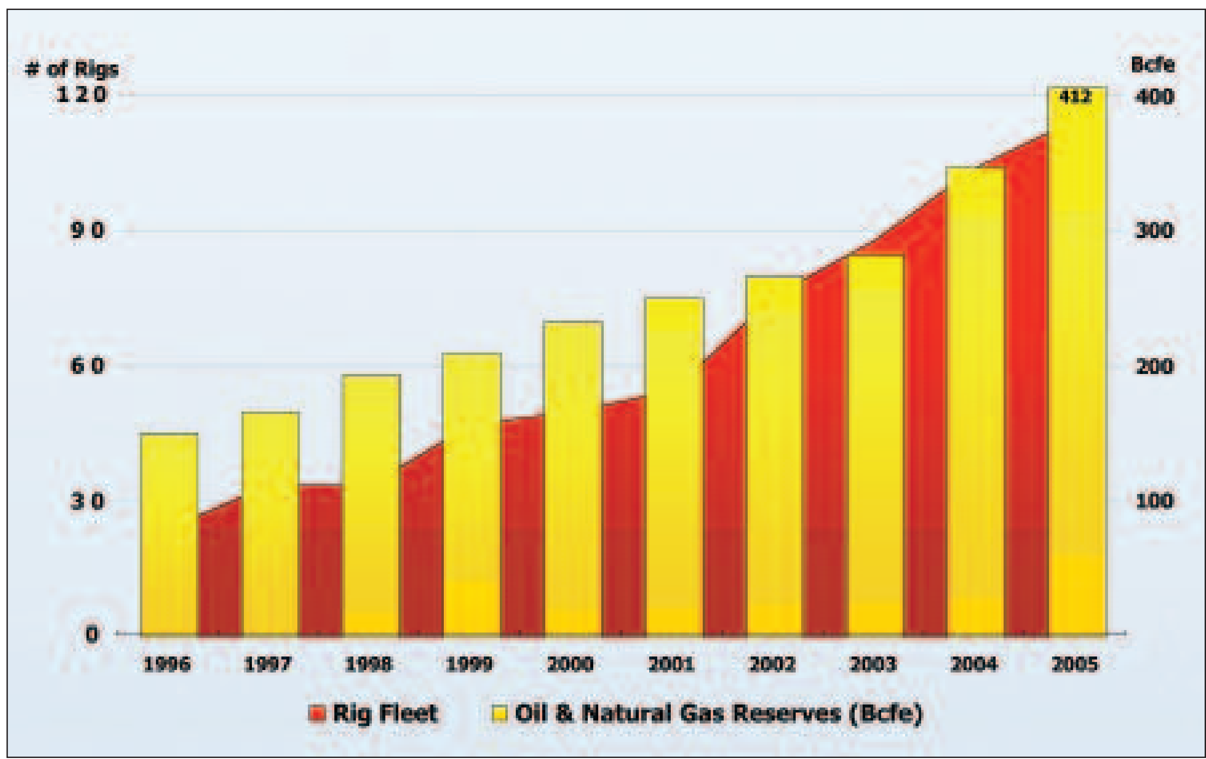
Pinkston: The goal for our E&P operations has been to replace 150% of the year's production with new reserves. We have achieved this goal for the past 22 consecutive years. In order for the E&P segment to continue to achieve its goal, we need to continue to add different geographic areas for us to explore. This is one of the primary reasons that we got into the Gulf Coast market—so that we could drill the higher impact prospects with substantial development potential.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Pinkston: The most significant project for Unit for the past two years has been the Panola prospect in the Arkoma Basin. It has been a core asset since the early 1980s when Unit drilled the discovery well. We have subsequently drilled or participated in 60 wells that averaged about 3 billion cubic feet per well. In the fall of 2004, we drilled a well in an attempt to extend the field to the north and encountered a better—developed Lower Atoka field play that tested approximately 15 million cubic feet per day. Since that time, we have participated in eight successful "high-volume" Lower Atoka wells. The most recent successful well is the Unit Lively No. 7 that penetrated approximately 238 feet of net pay. First gas sales began on May 2 of this year at an initial rate of 42 million cubic feet equivalent per day gross and 9.6 million cubic feet equivalent per day net to Unit and flowing tubing pressure of 2,840 psi. Currently, there are two additional wells that are drilling.

***OGI:** This year, what is your projected budget, and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Pinkston: Unit's budget for the E&P segment is



Both rig fleet and reserves have been on a steady incline for Unit.

$240 million for 2006. Of this, $190 million is designated for drilling approximately 235 wells, while $50 million is set aside for acreage and seismic. Of the drilling budget, we use 80% for close-end or field extension drilling, 10% for resource plays and 10% for exploration plays. Our 2006 budget is approximately 42% higher than last year's budget for E&P. Unit does not budget for acquisitions.

The budget for the contract-drilling segment is $185 million for 2006. Of this total, $150 million is designated for rig additions and maintenance, and $35 million will go to acquiring more drill pipe. This 2006 budget is approximately 107% higher than last year's budget for contract drilling.

Unit's budget for its natural gas-gathering and processing segment is $30 million for 2006 and will cover new projects.

***OGI:** Do you foresee any acquisitions this year?*

Pinkston: We are always looking at acquisitions, but the climate for acquisitions is difficult right now. Many of the properties are aggressively being marketed with a large amount of PUD's and probables as compared with PDP reserves. With the lower gas price and higher drilling costs, this increases the risk for achieving an acceptable rate of return on the acquisition. Fortunately, we do not need acquisitions to meet our goals. However, we will continue to pursue acquisitions that meet our criteria.

We plan to add 10 drilling rigs to our fleet during 2006. Since the beginning of the year, we have added four rigs to the fleet bringing the total to 115 drilling rigs. During the remainder of the year, we will add six additional new drilling rigs, bringing the total fleet to 121 rigs.

***OGI:** Can your earnings momentum be sustained?*

Pinkston: The earnings momentum will be determined based on the price of natural gas and oil. We are optimistic on the industry for the next 3 to 5 years.

***OGI:** Does the company hedge?*

Pinkston: We currently have no hedges. We are not aggressive hedgers and let our balance sheet be our hedge due to our low debt structure. If we made a significant acquisition of oil and natural gas properties this year, we would seriously consider hedging that production during the payout period.

***OGI:** What price deck do you use?*

Pinkston: To determine the economics of drilling wells, we use $5.50 for natural gas and $35.00 for oil with no escalation.

***OGI:** How did the hurricanes impact your business?*

Pinkston: Fortunately, the hurricanes did not greatly impact our operations. We had some natural

Unit's Rig No. 233 operates in the Rocky Mountains of Wyoming.

gas production in South Louisiana and Southwest Texas, which was shut-in for about two weeks, but there was no damage to any equipment. All of our drilling rigs are land based and were not impacted by the hurricanes.

***OGI:* Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?**

Pinkston: The most impact to Unit's business has been the increased utilization of 3-D seismic data primarily in the Gulf Coast region. We are currently participating in an 80 square-mile 3-D in the Texas Gulf Coast that looks promising for some new field discoveries.

***OGI:* What is the greatest challenge facing Unit?**

Pinkston: For the E&P segment, Unit faces two challenges: finding and keeping qualified people; and continuing to achieve acceptable economics as gas prices are coming down and drilling costs are increasing.

For the contract-drilling segment, the biggest challenge is to find quality new rig components as we continue to add new rigs, and training new employees to operate the rigs.

***OGI:* How is your company dealing with the rapidly rising costs and tight personnel market?**

Pinkston: With the tight personnel market, we are doing several things, including offering competitive compensation packages. Two years ago, we began hiring new graduates from college and providing training and industry experience. In the drilling operations, we have initiated a mentor program to train new employees with hands-on experience on operating rigs.

With the rising costs, we are dealing with it as Unit has historically dealt with this issue. We make our decisions with the knowledge of current cost structures and become more efficient in our operations.

***OGI:* Do you have any final thoughts or comments you'd like to share?**

Pinkston: Unit Corp. is an energy company with three segments that are highly focused toward natural gas. All three segments have a demonstrated history of consistent economic growth. Over the last 10 years, our rig fleet has more than quadrupled in size, while our E&P segment has replaced an average of 229% of its annual production. Our newest segment, the gas-gathering and processing operations, has added more than 125 miles of pipeline, a 33% growth in the last two years.

Unit has a proven track record of steady growth within a cyclical and volatile industry. ■

Unit's Rig No. 201, one of the largest land drilling rigs in North America.

Universal Compression Holdings Inc. (NYSE: UCO)

Oil and Gas Investor: *Describe the strategy that drives your company.*

Snider: Universal Compression has a focused business strategy of being the premier full-service compression company. Our focus on providing the most reliable and efficient compression services enables our customers, who include many of the world's largest natural gas producers and gatherers, to maximize their natural gas production and asset efficiency. We have a large modern fleet of compressors through which we provide contract compression services and a growing international base of operations. We continue to invest in our contract compression fleet and in our sales and service infrastructure so that we are well-positioned to meet customer needs anywhere in the world.

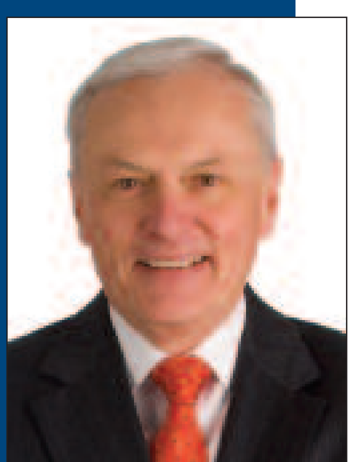
OGI: *Where does the most promising business lie for the company, in the U.S. or internationally?*

Snider: Since its founding over 50 years ago, Universal Compression has grown from being a regional domestic provider to an international service company with operations in 15 countries. We see ample growth opportunities in both domestic and international markets. Growing worldwide demand for natural gas, declining reservoir pressures and the benefits of outsourcing are all growth drivers for the company. Our domestic activity benefits from the continued development of natural gas from unconventional sources such as gas shales, coal bed methane and tight sands formations, while our international activity benefits from the expansion of the gas infrastructure in new markets around the globe.

OGI: *What percent of your revenues are domestic versus international, and how is that changing?*

Snider: Our international operation's share of total revenue has increased from around 12% when we went public in 2000 to around 30% today. To help expand our presence in key energy markets, we purchased sales and service companies in Australia, Brazil and Venezuela over the last three years and recently acquired another company with locations in Africa and Europe. We expect the international growth trend to continue as the energy industry continues to develop the natural gas field production and delivery infrastructure around the world. Of course, we continue to be quite active as well in the U.S., where we maintain 19 field service locations and have sales and service locations in the primary onshore and offshore natural gas producing regions.

Stephen Snider is chairman, president and CEO of Universal Compression Holdings, Inc. He has over 25 years of experience in senior management of operating companies. Snider also serves as a director of Energen Corp. (a diversified energy company focusing on natural gas distribution and oil and gas exploration and production) and T-3 Energy Services, Inc. (a provider of a broad range of oilfield products and services). He also serves on the board of directors of the Memorial Hermann Hospital System.



Stephen Snider, Chairman, President and CEO

OGI: *Does the company have a backlog?*

Snider: We periodically disclose our fabrication backlog for third-party sales of compressors, which has increased significantly from $68 million in March 2005 and $145 million in December 2005 to $228 million in March 2006. Of course, strong market demand for additional units is a key driver for our increased backlog. In addition, we have benefited from customer commitments for delivery of new units further out into the future due to extended manufacturer delivery times for engines and compressors.

OGI: *Are there any plans to expand capacity at your fabrication facilities?*

Snider: We build new units for both our contract compression fleet and third-party sales at our two main fabrication facilities in Houston and Calgary. In the first half of 2006, we completed a 20,000 square-foot expansion of our Houston facility, which will enable us to meet our sizeable backlog of both fleet and sale units, and increases our shop capacity for larger horsepower equipment.

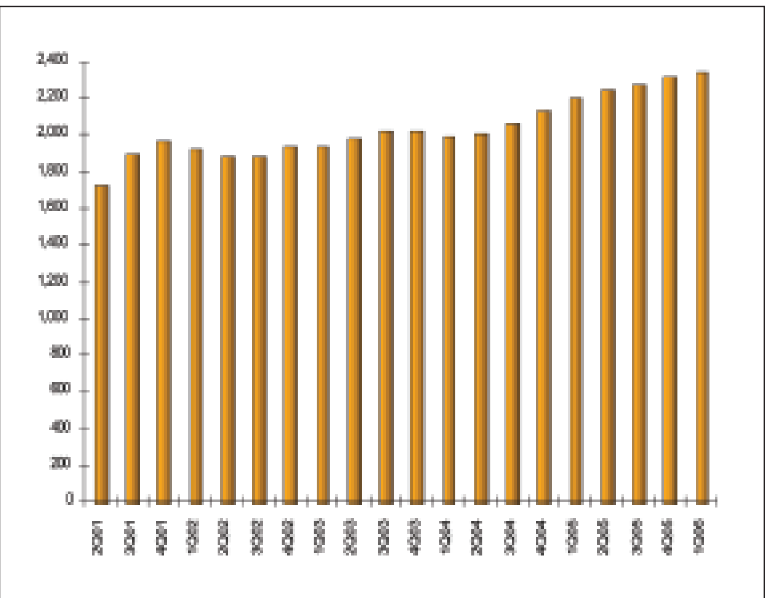
OGI: *What percentage of the company's growth is organic as opposed to acquisitive?*

Snider: Most of our recent growth has been organic through investment in our contract compression fleet. We have plans to add a significant

number of new larger horsepower fleet units to locations around the U.S. and in key international markets including Argentina, Brazil, Indonesia and Mexico.

We expanded in the Canadian market in late 2004 through the acquisition of a competitor's compressor fleet there. This was a good deal for us, as we solidified our strong contract compression market position in Canada and added new customer relationships.

In Asia, we have operations in Australia, Indonesia and Thailand. We have been successful in expanding our contract compression business in Asia over the past four or five years and are optimistic this positive trend will continue. We have also opened offices in China and Russia over the last couple of years to help identify opportunities in these large but relatively new markets for Universal.



Contract compression — average contracted horesepower (in thousands).

During 2005, we designed and constructed a natural gas processing and treatment plant in South America. This is a logical new business service for Universal; it is a fairly common operation required by our customers and involves compression. We are optimistic about opportunities to provide similar processing and treatment services in other energy markets around the world.

Universal compressor unit in the western United States.

***OGI:** Have the prices or rates you charge risen all for now, or are more increases possible in 2006 and 2007? Why?*

Snider: We have implemented domestic contract compression rate increases periodically since 2003 as we experienced escalating costs, particularly in the areas of labor and lube oil. With strong current market conditions and a need to offset increasing operating expenses, we implemented a rate increase effective April 1, 2006, on a significant portion of our domestic units that were operating beyond the primary contract term and were not under some type of alliance arrangement. We expect to continue to selectively adjust rates in accordance with market conditions.

***OGI:** If you are a rig company, are you building new rigs? At what cost?*

Snider: We are not a rig company, but like drilling contractors have been adding new rigs, Universal has been building new compressor units to meet market demand. We have experienced a fairly steady increase of contracted compression horsepower since 2000. Universal builds new compressor units every year to meet customer requirements whether for new projects or to help them offset the effect of declining reservoir pressures. We expect to have capital expenditures of over $200 million in 2006. Most of our capital expenditures are associated with our contract compression fleet.

***OGI:** Are you experiencing personnel (crew) shortages? What are you doing to attract and retain people?*

Snider: Attracting and retaining qualified employees is always a key factor in running a successful and service-oriented business, and that is particularly the case in today's active energy markets. We have the best employees in the industry. We continue to support our employees through training and safety initiatives, competitive compensation packages and a company culture that rewards teamwork, integrity and success. We believe our team of experienced employees provides us with a competitive advantage. ■

Whiting Petroleum Corp. (NYSE: WLL)

***Oil and Gas Investor:** Describe your company's strategy.*

Volker: Whiting's strategy is focused on growth with an emphasis on increasing reserves and production per share through property acquisitions, exploitation and exploration. We strive to increase reserves and production through complementary acquisitions, efficiently exploiting proved undeveloped oil and natural gas reserves and drilling exploratory wells in our core regions.

***OGI:** Describe your core drilling and production areas.*

Volker: Whiting's core drilling and production areas consist of five regions: the Permian Basin; Rocky Mountains; Mid-continent; Gulf Coast; and, Michigan. These regions constitute the following respective percentages of the company's total reserves and production: 39%/32%; 23%/30%; 21%/14%; 11%/17%; and, 6%/7%. The preceding reserves data is as of December 31, 2005, and production data is based on June 2006.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Volker: Whiting is currently increasing its capital spending for secondary and tertiary projects on the company's Postle and North Ward Estes fields, which were acquired in late 2005. On the exploration front, we are involved in two of the most active plays in the Lower 48: the Middle Bakken oil play in the Williston Basin and the Williams Fork-Mesa Verde gas play in the Piceance Basin. The company holds approximately 100,000 net acres in the Middle Bakken play in North Dakota and Montana and approximately 7,000 net acres in the Williams Fork play in northwestern Colorado with working interests between 50% and 100%. We also own the surface and mineral rights in most of our Piceance Basin acreage. The company is also assembling exploratory acreage in two other areas but due to proprietary reasons, cannot disclose the details of those two projects.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

Volker: From the time of its IPO in November 2003, Whiting spent its first two years as a public company building an asset base through acquisitions. During that period, we acquired 206.3 million barrels of oil equivalent for $1.4 billion, or an acquisition cost of $6.94 per barrel of oil equivalent. The basis of these acquisitions was rate-of-return criteria and evidence that the acquisitions would be accretive to both reserves and production per share rather than a desire to operate in a particular basin or to achieve a certain percentage of either natural gas or crude oil production. By 2006, we turned our focus to exploitation and drilling operations on the acquired properties while also considering complementary property acquisitions in our existing core areas.

James J. Volker, President and CEO

James J. Volker joined Whiting Petroleum Corp. in August 1983 as VP of corporate development and served in that position through April 1993. In March 1993, he became a contract consultant to Whiting Petroleum Corp. and served in that capacity until August 2000, at which time he became executive VP and chief operating officer. Volker was appointed president and CEO and a director in January 2002 and chairman of the board in January 2004. He was co-founder, VP, and later president of Energy Management Corp. from 1971 to 1982. He has more than 30 years of experience in the oil and natural gas industry. Volker holds a degree in finance from the University of Denver, an MBA from the University of Colorado and has completed H.K. VanPoolen and Associates' course of study in reservoir engineering.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Volker: Whiting believes that its secondary and tertiary projects at the company's Postle and North Ward Estes fields will generate the best returns from an exploitation standpoint in 2006. Daily production from these fields has already increased 50%, from 8,000 barrels of oil equivalent in the first quarter of 2005 to nearly 13,000 barrels of oil equivalent in the second quarter of 2006.

On the exploration front, we believe that our Middle Bakken play and our Red River gas play in the Williston Basin in North Dakota will provide very attractive returns in 2006. We also see the Williams Fork gas play in the Piceance Basin offering the best potential returns in 2007.

OGI: *This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Volker: For 2006, we have increased our drilling budget by about 80% to more than $400 million, up from $223.6 million in 2005. We expect to drill approximately 430 gross wells in 2006 based on our current drilling budget. That compares with 308 gross wells in 2005.

OGI: *Do you foresee any acquisitions this year?*

Volker: It is very likely that we will make a property acquisition that enhances our position in one of our core areas.

OGI: *Can your earnings momentum be sustained?*

Volker: Yes. Whiting's production continues to grow, while the company's margins remain strong despite higher costs and fluctuating commodity prices.

OGI: *Does the company hedge?*

Volker: Yes. Currently, about 55% of Whiting's crude oil production is hedged under costless collars. Floors average approximately $48.60 per barrel and ceilings average approximately $76 per barrel. Roughly 60% of the company's current natural gas production is hedged with floors averaging $6 per million Btu and ceilings averaging approximately $10.35 per million Btu.

OGI: *What price deck do you use?*

Volker: For 2006, Whiting is assuming a $59 per barrel realization for oil and a $7 per thousand cubic feet realization for natural gas. These realizations would equate to Nymex prices of $68 per barrel and $7.50 per thousand cubic feet. These pricing assumptions do not include the effect of hedging.

OGI: *Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you in 2005?*

Volker: Whiting's $802 million acquisition of properties from Celero Energy was probably the most significant event in the company's history. The acquisition added proved reserves of 122.4 million barrels of oil equivalent, nearly doubling the size of the company's reserve base. The purchase price of $6.54 per barrel of oil equivalent was one of the lowest in the industry in 2005. Including future estimated development costs, these reserves will be added at a total cost of $10.92 per barrel of oil equivalent.

The acquired reserves are contained largely in the Postle field, located in Texas County, Oklahoma, and the North Ward Estes field, located in Ward and Winkler counties, Texas. Production from the acquired properties has increased more than 50%, from a first-quarter 2005 average of approximately 8,000 barrels of oil equivalent per day to nearly 13,000 barrels of oil equivalent per day in the second quarter of 2006. A carbon dioxide (CO_2) injection project has been implemented in the eastern half of Postle field, and Whiting is in the process of expanding the CO_2 flood to the western half of the field. We plan to initiate CO_2 injection at North Ward Estes field in 2007. Following the CO_2 injection projects, we expect the fields' combined production to reach approximately 18,000 barrels of oil equivalent per day, which would represent nearly 50% of the company's current production.

OGI: *What is the greatest challenge facing your company today?*

Volker: Whiting's greatest challenge today is controlling expenses in the face of rising field-level costs. We are addressing these expenses through greater price negotiating ability as our drilling budget increases and by increasing our production volumes to reduce unit-operating expenses as our secondary and tertiary projects take hold.

OGI: *You have recently acquired North Ward Estes field. Why did you acquire this property, and what does it do to enhance your company?*

Volker: Our acquisition of North Ward Estes field was based on internal hurdle rates using rate-of-return criteria. The acquisition also needed to be accretive to both reserves per share and production per share while holding the potential for future production increases. The acquisition cost of these reserves was $6.54 per barrel of oil equivalent ($1.09 per thousand cubic feet equivalent) and $10.92 per barrel of oil equivalent ($1.82 per thousand cubic feet equivalent) fully developed.

OGI: *Are there any closing thoughts or comments you'd like to share?*

Volker: We like our current mix of oil and natural gas, both in our reserves (76%) and our production (66%). Crude oil has been selling at a premium to natural gas based on their 6-to-1 heating equivalency, and that will likely continue into the winter heating season. Additionally, natural gas prices have shown quite a bit more volatility than oil prices. So having our production weighted toward oil gives us more confidence in assessing the future performance of our company. ■

Whittier Energy Corp. (NASDAQ: WHIT)

***Oil and Gas Investor:** Describe your company's strategy.*

Rhodes: Whittier's goal is to build an asset base of producing reserves with a competitive cost structure and attractive upside potential, which will be strategic in another company's portfolio at some point in time. To that end the company acquires, develops and exploits properties in three core areas: South Texas, the Texas/Louisiana Gulf Coast and the Permian Basin. We currently operate six properties in Texas and three in Louisiana. In addition, we own significant non-operated working interests in all three core areas and minor interests in Wyoming, Oklahoma and California. Whittier Energy also generates exploration and exploitation projects in-house and reviews and participates in prospects generated by third parties. Whittier has the flexibility to operate or not, promote and retain a high working interest for internally generated prospects or participate for meaningful working interest amounts in prospects generated by others.

Bryce W. Rhodes has served on Whittier Energy's board of directors and as company president and CEO since 2003. He was a VP of Whittier Energy from 1991 through September 2003, where he managed all aspects of its acquisition and exploration investments and its day-to-day activities. Since April 1999, he has served on the board of directors of PYR Energy Corp., a public oil and gas exploration company. Rhodes also served as an investment analyst for the M.H. Whittier Corp., an independent oil company, from 1985 until 1991.

Bryce W. Rhodes, President, CEO and Director

***OGI:** Describe your core drilling and production areas.*

Rhodes: Whittier operates in three core regions, all onshore. In South Texas, our principle fields are the recently acquired Westhoff Ranch field producing from the Frio formation in Jackson County; the Scott & Hopper field in Brooks County, which produces from the Vicksburg formation; the Big Wells field in Dimmitt County, producing from the San Miguel formation; and the Tom Lyne field in Live Oak County, which has Wilcox production and the non-operated Tom East field in Brooks County. These are all mature fields with established production. We are conducting an active drilling program in South Texas with four wells drilled and completed so far in 2006 and two wells currently being drilled.

In Southeast Texas, the company owns a 22% working interest in the Esperson Dome/Ulrich field, a mature producing field that was re-developed after a 3-D seismic survey was shot in the mid-1990s. Thirty-two wells have been drilled under this program, 24 of which are productive. Production occurs from the Cook Mountain and Yegua formations. We have one well awaiting pipeline and production facilities and one additional probable location to be drilled in 2006. In 2005, the company and its partners completed a 60 square-mile 3-D shoot in Southeast Texas and identified 15 Yegua and five Nodosaria formation targets. Drilling on these prospects was hurricane delayed, but began in the first quarter of 2006. To date, five Nodosaria and one Yegua discovery have been made. In addition, an acceleration well for a shallower Hackberry target was drilled. One well is currently producing in excess of 3 million cubic feet equivalent per day; the remaining wells are awaiting production facilities and pipeline tie-ins. At least two additional Yegua tests are planned for the year.

Our largest operated fields in South Louisiana are the Rayne field in Acadia Parish, the Beaver Dam Creek field in St. Helena Parish and the Cut Off field in Lafourche Parish. Our working interest in Rayne is 33%, while Beaver Dam Creek is 89% and Cut Off is 87%.

In the Permian Basin, we have interests in two fields, the Windham field in Midland County, Texas and the Langlie Mattix field in Lea County, New Mexico. Both fields are mature producing fields with established production rates and shallow declines. We have proved undeveloped reserves in both fields and plan to drill two wells in the Windham field in the third quarter. In Langlie, we have been making continuous investments in the injection and production facilities and have planned several wells for late in the year.

***OGI:** Does the company anticipate expanding to any new core drilling and production areas this year? If so, where?*

Rhodes: The Imperial acquisition, once closed, will expand our core areas to include operations in Mississippi and East Texas. Beyond that, we expect

to continue to focus on opportunities in our current areas of interest.

***OGI:** What kind of basin or play makes the most sense to the company and why?*

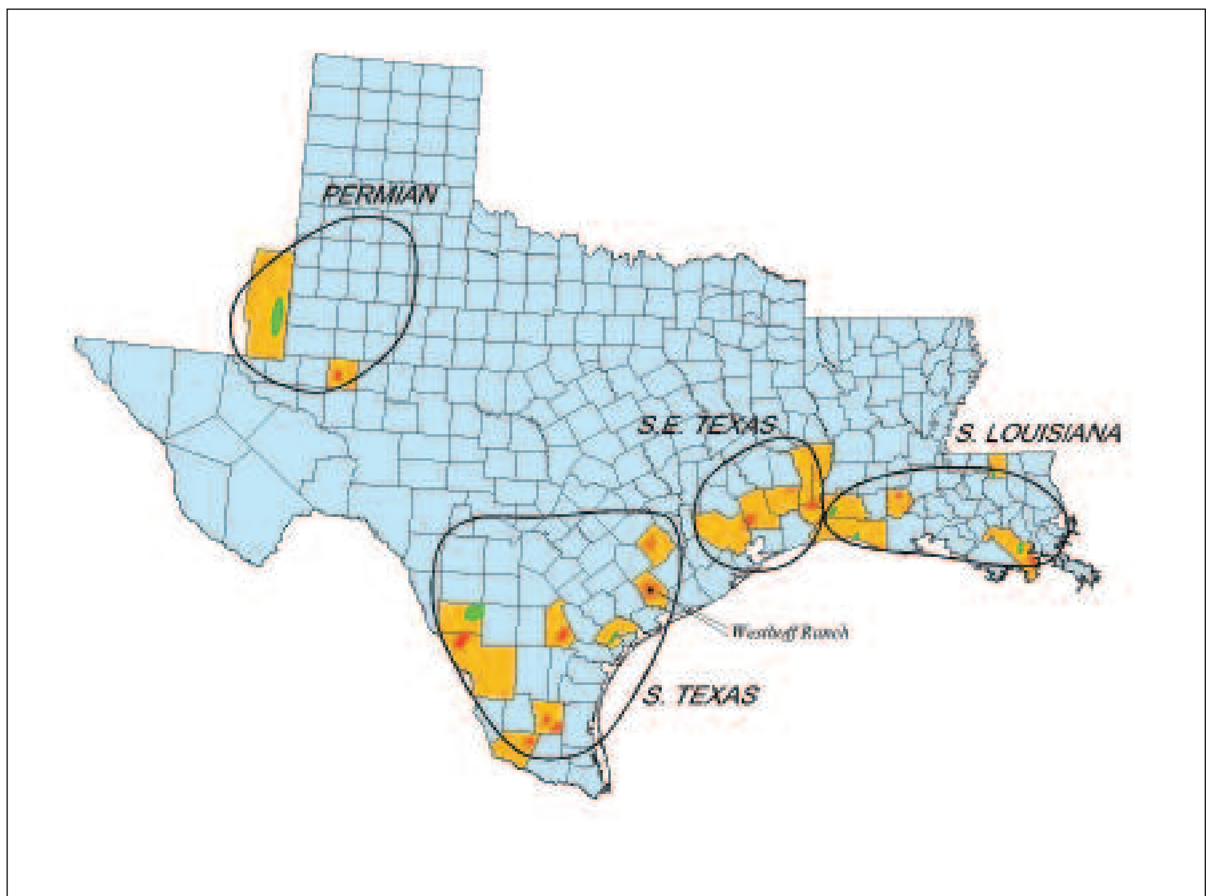
Rhodes: Whittier Energy has become a very efficient operator in South Texas and along the Texas/Louisiana Gulf Coast. We are always looking for new opportunities that would allow us to expand our acreage positions and production base within these areas. Our expertise lies in acquiring mature fields where we see upside from re-completions or identifying new drilling opportunities. In terms of acquisitions, we are looking for deals where we can add value through exploitation and exploration. Our deal size has grown somewhat to $10 million to $25 million, and to date, all of our acquisitions have been privately negotiated.

***OGI:** Which one or two wells or projects could yield the greatest return for the company this year?*

Rhodes: There is no one well currently planned that, by itself, would add significantly to our annual production. But taken as a whole, our drilling program is expected to add both daily production and proved reserves in 2006. We have over 100 identified 3-D supported drilling locations that target 85 billion cubic feet equivalent of net un-risked potential resource. We have over 17,000 net undeveloped acres under lease and a 3-D seismic database that covers 2,900 square miles. Our Southeast Texas project area has yielded exciting results so far with a 100% success rate, and we are hopeful that this will continue. Our technical team and land group have been productive in the generation and leasing of some new prospects, which, on a combined basis, have the potential to be very meaningful.

***OGI:** This year, what is your projected budget and how many wells do you anticipate drilling with that budget? How does that compare with last year?*

Rhodes: Our capital budget for 2006 is $29.2 million, which will allow us to drill 13 operated wells and participate in 31 non-operated wells, including two re-completions. In previous years, our capital budget targeted proved reserves. The major change for this year is that 70% of our drilling budg-



Whittier is focused on West and South Texas and the Gulf Coast.

et targets non-proved prospects, which should add significantly to our reserve base. In contrast, our 2005 budget was approximately half as large and only 30% was allocated to non-proved resources. Overall, we have 100-plus identified drilling locations in our inventory, which allows us to grow both reserves and production organically for the next several years.

***OGI:** Do you foresee any acquisitions this year?*

Rhodes: Acquisitions are difficult to predict in terms of timing and size, but we will remain true to our original business strategy, which calls for us to be active acquirers of reasonably priced properties in our core operating areas. We have announced two acquisitions in the first half of 2006 with total proved reserves of 189 billion cubic feet equivalent and probable reserves of 6.8 billion cubic feet equivalent. The first of these is Westhoff Ranch field located in Jackson County, Texas. We have a 75% working interest in the field and current net production is 3.1 million cubic feet equivalent per day. The other is the Imperial Petroleum acquisition in which we will acquire three fields in Texas and Mississippi with 18 proved undeveloped drilling locations and potential to add 3.5 million cubic feet equivalent per day of net production in 2007. The Westhoff Ranch acquisition closed on May 31, 2006; the Imperial Petroleum is expected to close in early August 2006.

***OGI:** Can your earnings momentum be sustained?*

Rhodes: Our production is a balanced mix of oil, natural gas and a very well thought out and effective hedging program that protects our cash flow from short-term pricing swings. We expect our 2006 drilling program will add both daily production and proved reserves, which will strengthen our balance sheet. We are cost-effective acquirers and drillers, and although we are subject to commodity price fluctuations, we believe we will be able to sustain our production and earnings momentum going forward.

***OGI:** Does the company hedge?*

Rhodes: We do some hedging to protect acquisition economics as well as support our capital budget. We use collars in some cases to establish floor and ceiling prices of future production and swap contracts designed to fix the price of anticipated sales for both crude oil and natural gas. We constantly review our hedging position and use hedges to reduce price volatility and achieve more predictable cash flow from acquisitions.

***OGI:** What price deck do you use?*

Rhodes: Our price deck is substantially below the New York Mercantile forward strip; however, we do adjust the price deck on each acquisition we consider to adjust for risk profiles and the location of individual properties.

***OGI:** How did the hurricanes impact your business? Have you raised your rates? Are you building any new equipment?*

Rhodes: We did lose some production from South Louisiana due to power outages and shut-ins caused by downtime at third-party pipelines and processing facilities. One single non-operated well in Cameron Parish lost all its production facilities except its wellhead. Our Southeast Texas exploration project was delayed as a result of county court houses being closed or damaged, which affected title work.

***OGI:** Absent the very high oil and gas prices of 2005, what other factor or event had the most impact or led to the most success for you last year?*

Rhodes: We acquired RIMCO Production in June 2005, the largest acquisition in company history. This added 24 billion cubic feet equivalent of proved reserves, over 10,000 acres with a multi-year inventory of drilling projects, added 9 million cubic feet equivalent per day net production, and we were able to retain a very successful and talented prospect generation team. This acquisition, combined with the drilling success we had for the year, increased proved reserves by 105% and production by 91%.

***OGI:** What is the greatest challenge facing your company today?*

Rhodes: Acquisition economics are becoming more challenging all the time due to continuing strong commodity prices and the work of identifying quality acquisition targets that meet our objectives at reasonable prices. We are fortunate to have a strong inventory of drilling prospects, which will allow us to grow organically so we are not forced to make acquisitions in order to maintain growth.

***OGI:** Do you have any final thoughts or comments you'd like to share?*

Rhodes: The staff at Whittier Energy remains committed to our strategic plans and will continue to grow the company's reserves and production. It is our belief that our stock is currently significantly undervalued when compared with industry averages or peer group averages regardless of what metric you choose to measure. ■

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