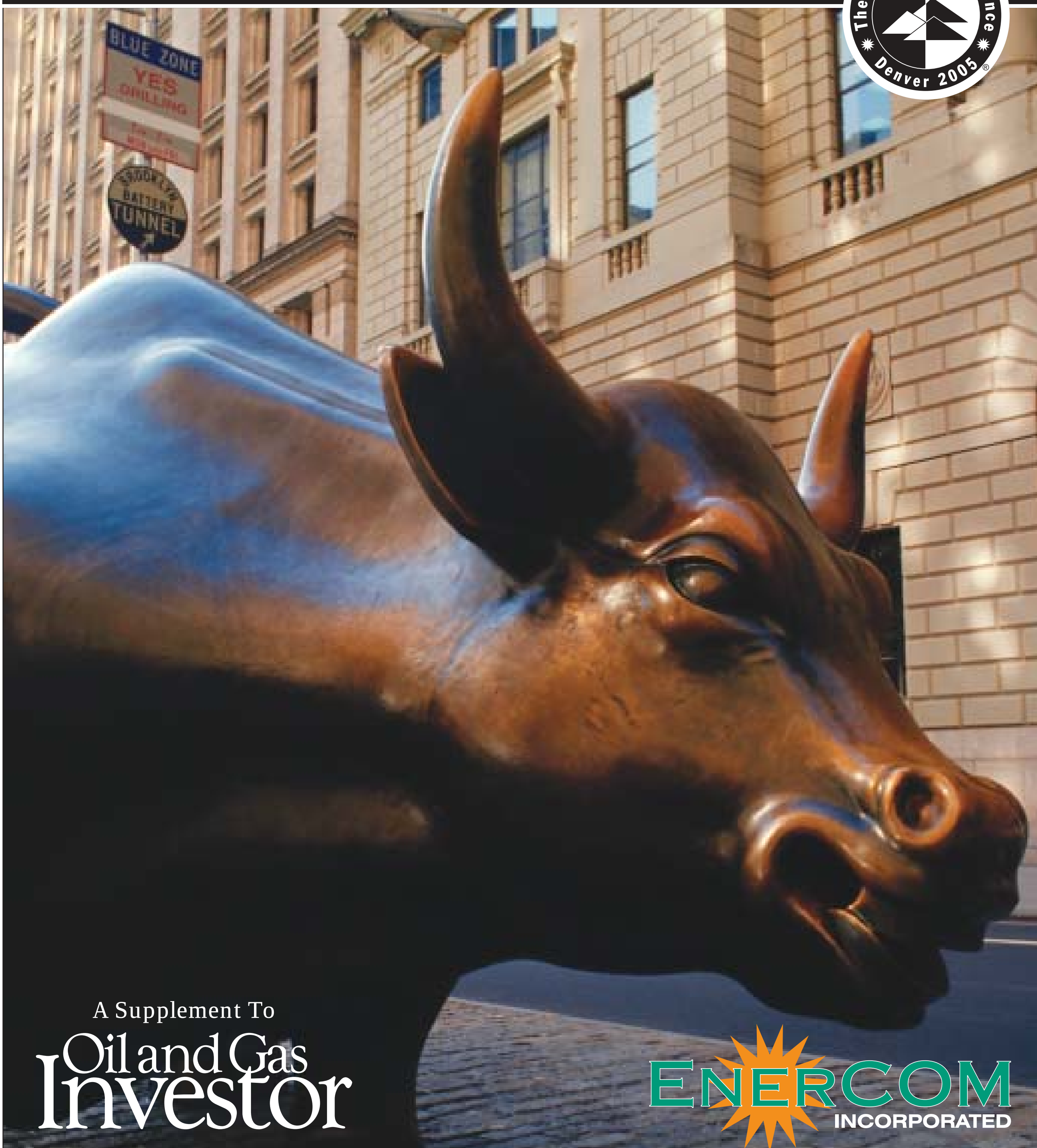
August 7-11, 2005

ONE ON ONE

Interviews from EnerCom, Inc.'s
The 10th Oil & Gas Conference™



A Supplement To
Oil and Gas Investor

EnerCom Incorporated

August 7-11, 2005

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Interviews from EnerCom, Inc.'s The 10TH Oil & Gas Conference™

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Investors in energy may feel like they are kids in a candy store. Record high oil and gas prices and robust cash flows do indeed make investment options sweeter than ever before.

But there are so many tasty energy stories on the shelves today. Expectations are rising. Which stock to choose first? Where do the best opportunities lie? Which company is the best investment for the short term or for the longer term?

We aim with this special report to give you a bit more information with which to make your investment decisions. Pour over quarterly reports, databases, balance sheets and numbers all day long to whet your appetite for specific energy equities.

But we think it is important to hear from the leaders of these companies too.

"Investors will own what they know and even more of what they feel comfortable with," says Greg Barnett, founder and president of Enercom Inc. and The Oil and Gas Conference ™.

Leslie Haines

Comfort increases when an investor knows and trusts the CEO and likes what he or she is saying. That's why we were fortunate to be able to catch all these busy CEOs for a short one-on-one interview. You'll read directly from them about their corporate plans, their thinking on commodity prices and the drilling environment, their challenges and dreams.

At the top of their minds are the challenges associated with controlling sharply rising service and acquisition costs, attracting—and not inconsequentially, keeping—top talent, and developing resource bases in unconventional plays.

Handling problems such as these is where the quality of management comes in. Indeed, the quality of management at these E&P and service companies is probably better than it's ever been, notes Barnett. That's good news, because on road shows with clients, one of the most frequently asked questions from investors is about a company's management quality, experience and track record in creating value.

In addition to a peek inside the corporations, this report provides a lot of background material and perspectives on the oil and gas scene from interested observers: equity analysts, investment bankers and others who play a key role in the business of finding, funding and investing in oil and gas.

Industry fundamentals are as good as at any time during the 20 years I have covered the oil and gas industry, but that's not to say that investing is a slam dunk. Here, the CEOs reveal what high oil and gas prices, rising day rates for rigs and scarce rigs crews mean for their companies. Budgets are up across the board.

But many questions remain. Does the E&P industry have enough good prospects to drill, or assets to acquire? Can high earnings per share be sustained? Will margins get squeezed?

In this report, you can go right to the source for more details behind the numbers. And, good luck in your investing.

—Leslie Haines, Editor-in-Chief,
Oil and Gas Investor

Helping Energy Companies Grow

OX BOW Energy Corporation

placed

$6,625,000

Common Stock

January 2002

MEDICINE BOW Energy Corporation

placed

$2,000,000

Common Stock

May 2002

MEDICINE BOW Energy Corporation

placed

$58,000,000

Convertible Preferred Stock

May 2002

ENSIGN OIL GAS

placed

$23,000,000

Redeemable Convertible Preferred Stock

November 2002

QUESTAR

Questar Market Resources, a subsidiary of Questar Corporation, sold all of its drilling assets

January 2003

MEDICINE BOW Energy Corporation

$20,000,000

Senior Credit Facility

March 2003

MEDICINE BOW Energy Corporation

has acquired certain producing properties located in Upshur County, Texas from an undisclosed seller

April 2003

MEDICINE BOW Energy Corporation

has acquired 100% of the outstanding common shares of

ENSIGN OIL GAS

June 2003

BC

BONANZA CREEK OIL COMPANY, LLC

has acquired certain producing properties located in the Denver Julesburg Basin of Colorado from

Sovereign Energy, LLC

December 2003

MEDICINE BOW Energy Corporation

placed

$120,000,000

Common Stock

December 2003

MEDICINE BOW Energy Corporation

$175,000,000

Senior Credit Facility

December 2003

MEDICINE BOW Energy Corporation

has acquired 100% of the capital stock of Edison Mission Energy Oil & Gas, whose principal asset was a 30% equity interest in Four Star Oil & Gas Company.

January 2004

BC

BONANZA CREEK OIL COMPANY, LLC

$30,000,000

Acquisitions and Development Facility

March 2004

MEDICINE BOW Energy Corporation

has acquired an additional 3% equity interest in Four Star Oil & Gas Company.

July 2004

CEA

Chicago Energy Associates, LLC

$30,000,000

Senior Credit Facility

November 2004

PPC energy

$40,000,000

Acquisitions and Development Facility

January 2005

PPC energy

has acquired certain producing properties and associated acreage located in Loving, Reeves and Jackson Counties, Texas, from an undisclosed seller for

$10,750,000

January 2005

PPC energy

placed

$2,350,000

Institutional Investment

January 2005

TEXAS AMERICAN RESOURCES COMPANY

$90,000,000

Senior Credit Facility

May 2005

TEXAS AMERICAN RESOURCES COMPANY

$10,000,000

Senior Term Loan

May 2005

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Rising FD&A Costs Support Higher Commodity Prices, Asset Prices

Worldwide finding, development and acquisition (FD&A) costs hit US$10.95 per barrel of oil equivalent (BOE) in 2004, said Steven Paget, an analyst with FirstEnergy Capital Corp., Calgary.

"This shows that fundamentals underlie the rise in world oil prices," he said.

Paget analyzed 10-year FD&A costs for more than 100 companies, using a database from research firm Evaluate Energy, London. The largest member of a narrower, 22-member study group—those with reserves of more than 1.9 billion BOE or "the global petroleum giants, themselves vastly different in size," he said—is ExxonMobil with 21.7 billion BOE; the smallest is Apache Corp. with 1.9 billion.

ExxonMobil and ConocoPhillips led its worldwide-major peers for best FD&A costs; Shell and Chevron ranked worst. National majors—Lukoil, CNOOC and Petrobras—that focus on a specific part of the world, typically had the best costs of all, he added. Middle Eastern national oil companies, such as Saudi Aramco, NIOC and KPC, were not included in the study.

"What surprised us the most? Pemex. Alone among all the world's majors [in this study], its total net reserve adds are negative over the past five years, even before deducting production. The Mexican national company is clearly running on borrowed time and pre-2000 reserve adds," he said.

World FD&A Costs, 2004, (US$/Net BOE)

Norsk Hydro	$862.30
Chevron	$40.65
Shell Group (RD)	$31.80
Statoil (US GAAP)	$12.92
ENI (Agip)	$11.64
Pemex*	$11.52
Repsol-YPF*	$11.50
Anadarko Petroleum	$11.41
Devon Energy	$10.14
Average	$9.13
BG Group Plc	$8.82
EnCana Corp.	$8.23
Burlington	$8.15
BP (UK GAAP)	$8.08
Apache Corp.	$7.67
Sinopec	$7.48
ExxonMobil	$6.50
ConocoPhillips	$6.34
Occidental	$6.15
CNOOC*	$4.13
Petrobras (US GAAP)*	$2.29
PetroChina*	$2.07
Lukoil (US GAAP)	$1.22

* Indicates 2003 FD&A costs

Source: FirstEnergy Capital Corp., Evaluate Energy

He warned too that recycle ratios—FD&A costs per BOE, divided by cash flow per BOE—have been trending downward during the past six years.

"Although the ratio rose in 2004 to 1.44 times, it is still the second-worst ratio since 1999," he said. "Clearly the industry is not seeing benefits from the rise in world prices, despite record cash flows per BOE. How can industry be persuaded to add the reserves needed to supply world demand?"

Paget pegs the breakeven point in upstream profitability at a recycle ratio of 1.25 times before future capital or approximately one time with it included.

Regionally, FD&A has been the highest in Canada and the U.S.; the cheapest regions are Asia/Pacific, Latin America and Europe. Tiebacks and the Buzzard discovery have made the North Sea inexpensive, he added.

Based on unrelentingly rising FD&A costs, he forecasted oil prices will average more than US$50 per barrel through the end of the decade.

Paget also examined costs among various sizes of E&P companies. "In 2004, we saw a secular shift in the oil price after four years of roughly stabilized prices. Did this affect FD&A costs, or did higher cash flows run into recycle ratios? The answer depends on the peer group," he said.

Among North American large-caps that use SEC guidelines in reporting, these companies generally held FD&A costs flat in 2004 from 2003.

"Capital discipline held firm, and more importantly the group as a whole had no negative technical revisions for the first time since 2000," Paget said. "It appears that the SEC's closer attention to reserve revisions after the Royal Dutch/Shell disaster has paid off."

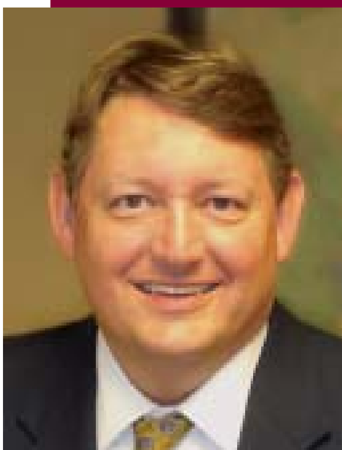
Among Canadian mid-caps, "this group tends to be a revolving door, as companies become large enough to be included and then exit via a merger with another company or a trust conversion."

Having the lowest FD&A in this group in 2004 were internationally focused Centurion Exploration and heavy-oil producer BlackRock Ventures. These two companies also had the best FD&A costs of all the more than 100 companies in the study.

The mid-cap group's FD&A-cost average was US$12.77 per BOE in 2004, up US$3.76, he said.

—A&D Watch

EnerCom Inc.



Greg Barnett, President

Greg Barnett is the president of EnerCom Inc. Established in 1994, EnerCom Inc., with offices in Denver and Houston, 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 in 1994, 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.

A Dallas native, Barnett has more than 24 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: *What's your outlook for the energy industry this year and next?*

Barnett: Looking out through the 2009-2010 period, we see more spending by the industry, not less, in the known and accessible hydrocarbon basins throughout the world.

Clearly, improved drilling and completion technologies have increased oil and gas well-success rates, sped up production, added to reserves and driven up return rates for the industry for the dollars spent.

Indeed, there are fields in West Texas, discovered in the 1930s, where operators are going back with new technologies to increase the field's estimated ultimate recoveries and production. In addition, there are fields being developed in the deep-shelf Gulf of Mexico as the result of applying new seismic technology to areas that weren't adequately mapped before. While technology is making it possible to accelerate payouts, it's also allowing producers to find new fields, extract more oil and gas from older ones and extend their productive lives.

OGI: *Does this mean a greater level of supply going forward?*

Barnett: To some extent yes, but the world's appetite for cheap sources of crude oil and natural gas is stronger, meaning the industry is going to have to spend more on drilling and technology just to keep pace with rising energy demand. Buying back shares might be in vogue right now, but industries can't run their machines on common shares, and homes can't be heated or cooled on common shares. Currently, the world is consuming around 88 million barrels of oil per day. If we assume only a 1% increase in demand, that's another 880,000 barrels of oil per day of needed new supply. Now, if the average new oil well is producing, let's say about 500 barrels per day, this means we would need 1,760 new wells—each producing 500 barrels per day—to meet that 1% increase in demand.

This is the fundamental change that's happening in the oil and gas business. Previously, there was more supply than demand. Today, however, China and India are consuming more oil and gas, as are the third-world countries. And with world population expected to climb from 6.5 billion currently to 8.6 billion by 2025, there'll be an even greater demand for oil and gas 20 years from now.

As we know from studying rig utilization data and monthly global production figures, the industry right now is running at full tilt. Going forward, the industry must increase capital spending to meet mounting demand.

OGI: *So the industry is going to have to play catch-up in the demand-driven environment you see.*

Barnett: That's correct. I appreciate the future position that renewable and alternative energy technologies will have in the energy equation, but if the world is going to have more cars on the road and more homes that need electricity, these technologies will be hard-pressed to meet total energy demand unless they're ubiquitous.

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

Barnett: Recently, December 2009 futures contracts were $55.50 per barrel for crude and $7.70 per million Btu for gas, and it's our belief that commodity prices will continue to remain strong—until we have a change in our supply sources.

OGI: *Which supply sources could prompt lower commodity prices?*

Barnett: One source would be Mexico, but only if Pemex were to start developing its onshore natural gas fields. Also, in a bit of give-and-take, the oil-sands projects in Canada could help lower oil prices but stimulate gas prices because of all of the gas needed to run those projects. In addition, there are large, untapped, proven resources offshore Florida in the Gulf of Mexico and offshore California. However, tapping into this resource potential would require a real national energy policy and some hard decision-making in everyone's backyard. If that doesn't occur, it's likely we'll be living with the supply fundamentals and pricing we see today.

OGI: *So you see current commodity prices being sustained through the next five years?*

Barnett: I believe we'll see such price levels out to 2010. The EIA numbers for 1980 indicated that world energy consumption then was 78.4 quadrillion Btus. In 2001, it said energy consumption had risen to 97.3 quadrillion Btus, a 24% jump. For the 2001-2025 period, the EIA is forecasting a 34% rise in energy consumption, reaching 130.1 quadrillion Btus by 2005. Of note, oil and gas is forecast to make up more than 60% of this energy consumption. You can make a strong case that commodity prices will remain at these higher levels for the foreseeable future.

OGI: *Your outlook for the economy and its impact on the industry?*

Barnett: The economy is sufficiently strong enough to continue to expand and create jobs and to meet the world's growing appetite for goods and services. Meanwhile, we see low interest rates continuing to benefit this industry, making it easier for companies to go into the market and get the capital they need to increase their spending. Every one of our clients—in fact, I believe, every publicly traded oil and gas company—is going to spend more in 2005 than they spent in 2004, and the list of projects they have on their plate at these prices is also bigger.

OGI: *What impact is all this likely to have on EnerCom's activities?*

Barnett: We'll be busy. Just as in the past 12 years, we're going to have to continue to come up with ideas that put our publicly traded energy clients front and center with portfolio managers, research analysts, investment bankers and retail shareholders. Also, I believe we'll see more public oil and gas companies, not less, even in this day of Sarbanes-Oxley.

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

Barnett: First, access to a very large pool of capital, more so than in the private markets. Second, it's helpful for companies to have other forms of compensation such as stock options to attract and retain key employees—both young and old. Let's not forget that this industry has lost a million employees since the crash in 1986, and it has been difficult to get them back. Third, it's okay to be an employee in the patch again. We all know about the bumper sticker with the request for one more oil boom; but seriously, the industry needs to attract, train and retain employees if it's going to meet the ever increasing global demand for energy. The more people know about these public companies the greater the chances will be that the companies will attract and retain this critical pool of talent.

OGI: *Do you also provide advisory assistance to private companies?*

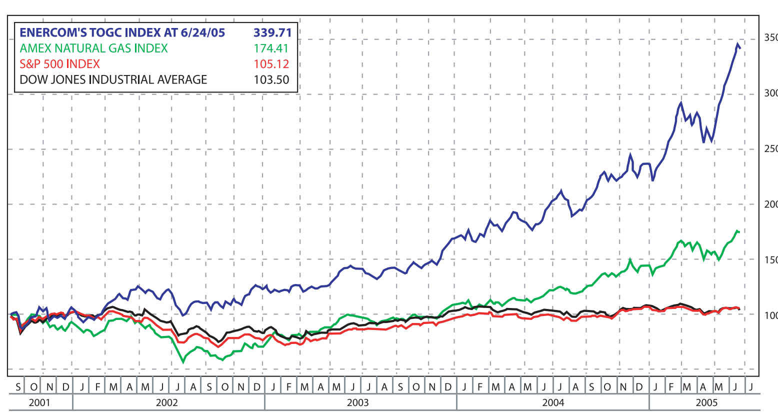
Barnett: Yes, but only in those cases where an oil and gas company and a management team is seeking to go public rather than remain private.

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

Barnett: In our 12 years, we've worked with more than 150 energy companies and at any one time we're working with 40 to 50 with an excellent mix of E&P and oil-service companies with lots of valuation upside and growth potential.

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

Barnett: We have a talented group of people here that have a broad depth of understanding of the global oil and gas industry, as well as an understanding of the financial community. We have decades of oil and gas experience, so we know which way the bit turns. We're not a Johnny-come-lately. The founders of EnerCom have witnessed all of the cycles since 1980. During the past 18 months, we've arranged nearly 1,000 one-on-one meetings and group functions throughout the U.S., getting our clients in



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

front of portfolio managers and research analysts. We've reached thousands of investment professionals through paper and electronic media channels. And we host two successful energy investment conferences—The Oil & Gas Conference® in Denver each August and The Oilservice Conference™ in San Francisco each February.

> "The economy is sufficiently strong enough to continue to expand and create jobs and to meet the world's growing appetite for goods and services."

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

Barnett: Three things: there's growth in reserves and production in each individual organization, through drilling and/or acquisitions; technologies are being used or provided by service companies to extract known hydrocarbons that were inaccessible in years past; and the quality of management is better than it has ever been.

The latter is probably the most important ingredient we look for in every client, and it's something investors demand. They want to know the company they're making an investment in is going to do what they say they're going to do. That's important in this particular sector because the billions of dollars that are being invested every year are expected to generate double-digit or above-average rates of return.

***OGI:** What questions are buysiders typically asking your clients these days?*

Barnett: Again, they want to know about the quality of management, its experience in generating value, where a given company is focused, its record of growth in production and reserves or products and services, how it stacks up against its peers, the type of technologies it's employing and if those technologies work. They also want to know in detail about a company's strategy, the kind of growth a company expects to achieve and how it expects to fund that growth.

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

Barnett: Time is the biggest challenge. There are far more publicly traded companies across all industries today than ever before, which means investors have more to choose from and less time to make decisions. Also, there's more demand on our clients' time these days, in terms of being available to do face-to-face meetings. In addition, there's the challenge of educating investors—mainly generalists—on new plays and the new technologies being used in those plays in such a way that they can properly evaluate the opportunities our clients have in front of them. It's our belief that EnerCom's experience best manages the time factor because we know the needs of clients and investors, and have time-tested solutions that quickly deliver measurable results.

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

Barnett: Investors are keenly interested in new ideas, but they are under constant time constraints. Therefore, presenting companies need to recognize that less is more—that they need to communicate quickly a story that helps buysiders understand that the dollars they're spending are going to generate above-average returns.

In general, forecasting expectations of growth and relevant returns on capital tend to be the information investors want—rather than historical data. To the extent a company is comfortable communicating this, it can be very helpful. In short, investors will own what they know and even more of what they're comfortable with. The more transparent a company can be about its operations and financial data, the more likely its stock will be able to command a higher multiple in the market. ■

> "Presenting companies need to recognize that less is more—that they need to communicate quickly a story that helps buysiders understand that the dollars they're spending are going to generate above average returns."

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 is your outlook for the fundamentals and commodity price direction of the oil and gas industry through the balance of 2005?*

McGonegal: If I only knew the answer to that! It's very difficult to say, there's so many variables right now and there's so many people involved in that area, whether it's trading futures or actually going and buying the stock. It's a very "crowded trade," as they say on Wall Street, right now. It's kind of difficult to predict, but even with oil and gas prices moving up and gas well above $2 a gallon, I don't think the behavior of the consumer has changed in any way, shape or form. If I can see that, there's probably a lot of producers out there who are thinking the same thing, so I would not be surprised to see oil prices continue to rise.

***OGI:** How is this likely to impact your level of activity?*

McGonegal: We're very committed to the commodity-based companies; be it mineral and mining, be it oil and gas. Those companies recognize the value of the auction market system that we have here. We're very committed to being the exchange of choice for commodity companies, particularly in the oil and gas sector.

***OGI:** You're outlook of gas prices not going down and consumer behavior not changing, would that cause more energy companies to list on the Amex?*

McGonegal: I don't know if it causes more to be listed, but our internal goal is to continue to be very active and very visible in that sector, and that won't change. Even if gas or oil did spike downward, we'd still be committed to that industry. I just think that the higher prices are, the better it is for the American Stock Exchange in terms of visibility in that sector continuing.

***OGI:** What does the Amex offer oil and gas issuers and investors?*

McGonegal: I think we offer a lot of things that other exchanges don't, particularly for the type of oil and gas company that we're really targeting. We've got very big companies here, but typically, companies don't come here at that size. Ultra Petroleum is a really great example. They came to us at around a $200-million market cap area, and now I believe they're over $4 billion. That's the type of story we like to tell, and it's the type of company we're looking for at the get-go. We're looking for the small- and mid-cap company on the initial listing, and a lot of exchanges don't focus their attention on the smaller company.

The niche for the small- and mid-cap commodity type of company has kind of been underserved, and that's a niche where we've been extraordinarily successful, for several reasons. We devote and tailor a lot of our products and services to that group. All of our companies get assigned a relationship manager. All of our companies can choose to use the Amex/IR alliance, which is a full-service investor relations offer that we pay for at the Amex. All of our companies get to use AmexOnline, a targeting tool that we fully pay for. Companies can go out and use the product and look for investors that have bought companies that look a lot like theirs—it's a very robust targeting tool with about 70,000 names in it across the country of buy and sell-side investors.

Our structure, having an auction market, having all trades go through one central location, one specialist, decreases volatility. It narrows the spread, because all orders are coming into one location. We also have the floor broker community, which brings other liquidity. Typically, our companies realize that value as opposed to having anonymous people trade them electronically, which is really not a good thing for a commodity company because they tend to be volatile.

A lot of our specialists have many years of experience trading these types of products. They know when the stocks get hit it's because the commodity price underlying it is hurting them, and they're able to step in and buy when there's no buyers and sell when there's no sellers and dampen the volatility.

Our companies are allowed to communicate with their specialist to build a relationship with their trader, and you won't get that in the electronic marketplace at all. So if you combine all four of those things, it's really a compelling value in a compelling marketplace for that small- or mid-cap company and it's proven to be successful.

***OGI:** Do you believe energy has hit a glass ceiling, or do you see its pricing and popularity continuing to rise?*

McGonegal: From my personal perspective, I would say no. It doesn't seem to me that any behavior has changed, I still see Hummers all over the street. That would lead me to believe that until prices are at a point where people say, "that's it, something's got to be done," you won't see any change. You're starting to see a little bit of the very beginning of people looking at alternative energy sources, but until the prices really are hurting people in terms of their behavior, I don't know if we've seen the top yet. If I had to put a bet on the table whether oil is going to be higher a year from now, I'd probably have to say yes, or at least it will be where it's at right now.

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

McGonegal: I don't think they're undervalued or overvalued, once they reach a certain level where they're visible and liquid. Typically, we'll see that some of the smaller companies that come here feel that they're undervalued and not getting enough visibility, and that's why they come here. They want to get that visibility, they want to be more visible to the institutional investor, more visible to the retail investor in general, and that's why they choose to list here. It's important if you're going to realize your full valuation as a company that you have a proper marketplace to do it. I think that holds true for any sector, but I think it holds particularly true for the commodities sector, where a small company may have great management, may have great prospects, but if no one knows about their story, they're not going to trade at the correct multiple. Once they list here, they get more attention on their story and hopefully that will translate to a higher stock price and a higher multiple.

***OGI:** What advice do you give an energy company that has just listed its stock on your exchange?*

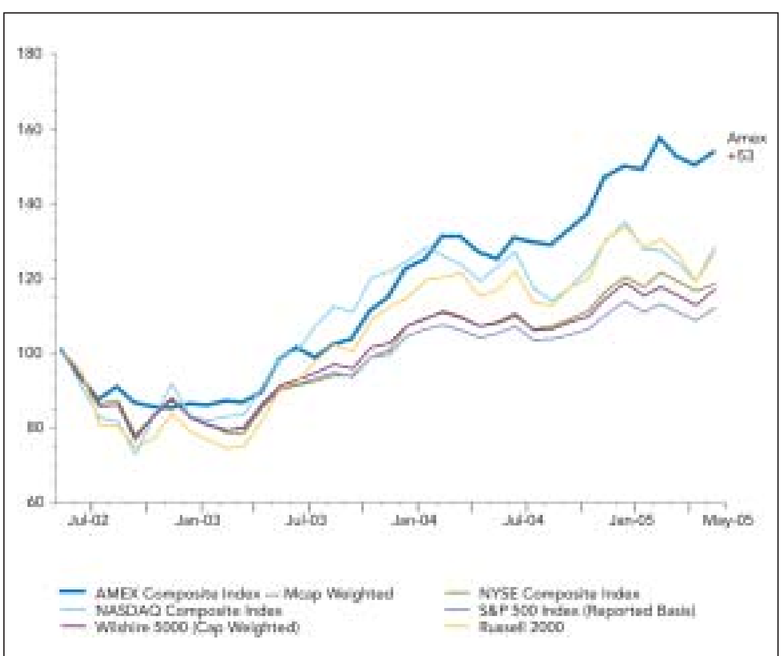
McGonegal: The biggest advice I'd give them is to really get to know your specialist, to really get to know how the auction market works and to really develop a relationship with your specialist unit.

The second bit of advice I'd give would be to make sure you're utilizing all of the services the Amex provides you free of charge. Make sure you're in touch very frequently with your issuer services director, who's your relationship manager at the exchange, and make sure that he or she is showing you all the products and all the services we offer to increase your visibility and your potential as a public company.

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

McGonegal: I think, for the most part, Wall Street gets it. I think they do a pretty decent job. I think in some respects it may be a better job than a lot of other industries in terms of the analyst community who has a pretty good grasp and a pretty good knowledge of what's out there. The underlying commodity is highly followed, it's highly liquid, it's widely quoted. I think they do get it, they understand the business, and they do a fairly nice job compared to other industries.

My only fear is that as more and more products come out to try to get investors to buy, more indexes, more mutual funds, all centered on oil, maybe they're kind of diluting the potential returns for investors and maybe confusing them with too many products. ■



Amex composite performance.

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 briefly the strategy that drives your company forward.*

Plank: We're really here to grow and do it profitably, and that's easier said than done. It's sometimes easy to grow, and it's sometimes easy to be profitable, but it's not easy all the time to do both. So far, we've grown profitably over a period of 50 years, and in the last decade or so, we've done it though a combination of both acquisitions and drilling. They kind of go hand in hand. Over the last 10 years, in fact, we've invested $18.3 billion in our business of which 47% was acquisitions and 53% was exploration and development drilling. What we've found is that to be good at either, you've got to show a way to add value. And the way that we really add value is through operations.

***OGI:** Could you describe briefly your core drilling and production areas?*

Plank: The other element of the strategy is not to get bound to any one given basin. When we were in Denver 15 years ago, we had a little bit of a Rocky Mountain presence, but primarily we were an Anadarko-Basin producer. Today, we have a portfolio of core areas where we've got lots of running room in Canada, the North Sea, Egypt and Australia, all in addition to two core areas we've got in the U.S. So as we've been building the company, we've tried to add areas. If you acquire, you get bigger and get more production. But if you aren't thinking about how you're going to gain greater opportunities through the drillbit, then you've just got a bigger depletion problem.

***OGI:** Your company announced expansion of the relationship with ExxonMobil in Canada. Is that an example of trying to diversify outside of the U.S.?*

Plank: You could look at it that way. The way we look at it is we like to grow all of our regions as best we can and as economically as we can. To me, that is an illustration of the sort of creativity we've used in trying to add value for shareholders as best we can. In Canada, it's pretty well known that the royalty trusts have a different set of economics they're using when they acquire properties. The net result is it has been very difficult to buy properties in Canada for a price that for most of us makes sense. A lot of times, what you're doing when you buy a property is you're gaining opportunities to add reserves through drilling on those properties. Well, here we didn't put the up-front money into acquiring reserves that would have brought us upside opportunities, we're just putting money into the upside opportunity. It gave us access to over one million acres of underdeveloped and underdrilled property, and for ExxonMobil, they've got a very nice promote off of us. To the extent we're successful, they're successful. It's our answer to how to increase our activity levels in Canada without overpaying for properties in a very heated market.

***OGI:** What type of basin or play makes sense to you for expansion?*

Plank: When we talk about the core areas and you get into a region, we don't want to just take a single drilling deal or take a concession. What we'd like to do is find an area where we've got value to add and where we can gain running room. In Canada, we've got 8 million acres, and a lot of drilling has to be done on that acreage to know if it's low risk, moderate risk or just a little bit higher risk. But we'll probably drill over 1,000 wells in Canada this year of low- to moderate-risk type opportunities. That's an ideal set of circumstances where we can be very active through the drillbit and grow our production because of the acreage spread and the type of opportunities we have.

Egypt is another ideal region. It also has some pretty significant upside opportunities. We have low- to moderate-risk drilling. I think last year, our success rate was something like 85%. But at the end of 2003, we made a discovery at Qasr, which was a development we did in 2004. Looks like there's around 2 trillion cubic feet of gas and large condensate reserves. And we own 100% of the contractor's interest.

The North Sea is a little bit different for us. We got in there by buying an interest in the Forties Field from BP, and while at this time we've added some acreage, we really haven't added production except in that field. We'd really like to grow that more into a model core area by making an acquisition. I expect that at some point in the future, we'd have a good shot at doing that. We've got an interest in another 13 or 14 concessions in the North Sea, so we will be shooting seismic on all of them and presumably coming up with prospects to drill on those.

OGI: *E&P companies have been reporting some pretty stellar results recently. Can you keep up the earnings momentum? How do you plan to do that?*

Plank: You really can't control prices. What we can control is our costs and our production. So we've got to add production at the lowest possible cost, and once we have that production, we have to keep our costs as low as possible so that our margins are as strong as they can be.

To us, being a low-cost producer is not lip service. It's just part of who we are. To continue to be profitable, I expect that we'll continue to figure out ways to grow our production economically. And if you can grow production economically, you can continue to grow your profits.

OGI: *Do you hedge?*

Plank: We look at hedging as a necessary evil. We do not hedge our base production, but what we do hedge from time to time—and probably will continue to hedge in this kind of market environment—is the first two to three years of production in acquisitions that we make. The reason is that it puts a floor under our economics so that if we have a blip in prices, we still get our way through payout of the acquisition and still have an adequate rate of return.

The reason I say it's a necessary evil is that generally speaking, producers have been on the losing end of hedging. Doing a lot of hedging has been extremely costly to E&P companies as a group. We don't have a lot of debt, we don't have a lot of reason to hedge. Certainly, if we step up to a $1 billion acquisition, then I think it's pretty good insurance to put under your pricing.

Right now about 5% of our oil is hedged and about 10% of our gas. By mid-year, we'll be down to about 7% of our gas.

OGI: *What is your budget?*

Plank: Last year, I think we spent $2.5 billion, and we'll spend at least that this year. What we do is budget quarter to quarter, because things change so fast that we don't want to over commit to a budget and then wait a year to revise it. My guess is we will spend at least what we spent last year. If prices stay where they are, there's little question but that we'll spend more than that.

OGI: *What kind of price deck are you using?*

Plank: We actually use two different price decks. On acquisitions, we use whatever the strip price is, which is why we hedge. With $50 oil, there's obviously a downside as well as an upside. To get acquisitions done, you've got to use certain pricing or no one would sell to you. On the drilling side, we use a price deck that is intentionally conservative. Basically, it's below $5 per thousand cubic feet this year, and it's actually below $30 a barrel this year, and it goes down the following year and is flat forever thereafter. If we can make economics on our projects with that kind of price deck, chances are we'll have a better rate of return than what we're planning.

OGI: *How many wells do you anticipate drilling or participating in this year? At what kind of production target are you looking?*

Plank: We're a little bit different animal because we don't give production targets.

Apache's Qasr Field development in Egypt is expected to start production in the second half of 2005. The field, discovered in 2003, has reserves of 2 trillion cubic feet of natural gas and 50 million barrels of condensate.

The reason is it tends to get people very focused on the short-short term. As far as wells, go, I think we drilled around 1,500 to 1,800 wells last year, and I would guess we would do at least that this year. We're going to look at it quarter to quarter to see if the pricing outlook has changed, see what our results are. Certainly, we've got an inventory that we could afford 20% plus growth in the number of wells that we might drill.

OGI: *Are you looking at one or two projects or wells that could have a substantial impact on the company?*

Plank: You always have a few of those in your inventory. But my experience is when you start pointing to the fence, because you're going to knock one out of the park, that's about the time you whiff. One of the things we're very pleased with is having knocked one out of the park in the form of this Qasr discovery and having it prove up with development wells in 2004. We're going to be bringing that field online around mid-year and by end of the year, we're hoping it will be producing upward of 150- to 200 million cubic feet a day. We have a contract for it, and as we add infrastructure, we hope to have that field producing at the contract level of 300 million cubic feet of gas. Our net share, basically, would be about half of that.

OGI: *Drilling costs and acquisition costs have been rising pretty dramatically. How is that affecting you?*

Plank: In a couple of ways. We have to rededicate ourselves to keeping our costs as low as possible in every way that we can. And the nature of our incentive management is that we watch our costs. We argue over costs, we negotiate as tough as we can in order to keep our costs as low as possible. Rig counts are up and costs are on the rise, so we're all subject to a higher cost environment. What we've got to do is just make sure that what we drill and operate continues to be economic. Fortunately, prices are still at a level where our margins are extremely strong.

If you drill 1,800 wells around the world, it's not that you're going to get them for any less, but at least we aren't sitting around twiddling our thumbs waiting on rigs.

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

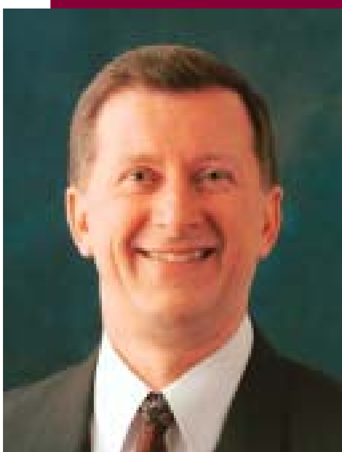
Plank: We don't plan for acquisitions. But obviously we've been extremely acquisitive in the past, and we've tried to be innovative in our approaches. We would hope that we might be able to find something that makes sense. I think we've got a year of growth on the production side pretty well built in, even without acquisitions. I would expect that over time we will continue to be acquisitive. It's just being able to predict whether it's in the confines of this year or next.

OGI: *What is the E&P industry's greatest challenge today, and what's the greatest challenge for your company?*

Plank: I think growing profitably is always the greatest challenge. How do you grow in ways that make sense? We've got a saying here that it's become popular among some companies in our industry to shrink to grow. The conventional wisdom that supports that theory is, well, as the company grows larger, it gets more and more difficult to grow profitably, so why not shrink and then grow all over again from that lower base? We do everything we can not to give in to conventional wisdom because it may or may not make sense. Our feeling is, forget shrink to grow, that's just not us. Our CEO likes to say there's a lot of distance between us and ExxonMobil. We've just got to be able to do it economically. ■

Apache has increased production from the Forties Field in the North Sea since acquiring the field from BP plc in 2003. Apache also has acquired interests in more than a dozen North Sea blocks.

ATP OIL & GAS CORP. (NASDAQ: ATPG)



T. Paul Bulmahn, Chairman and President

T. PAUL BULMAHN is the founder, chairman and president of ATP Oil & Gas Corp., an international offshore oil and gas development and production company active in the Gulf of Mexico and the North Sea. Bulmahn was selected Entrepreneur Of The Year in Energy by Ernst & Young in 2000 and also accepted the Inc./Cisco 2000 Growing with Technology Award on behalf of ATP.

He founded ATP Oil & Gas (Netherlands) B.V. in 2002 to develop Dutch offshore properties. He has served as chairman of the Houston Bar Association's oil, gas and mineral law section.

Prior to forming ATP, Bulmahn was president and chairman of Harbert Oil & Gas Corp. Earlier in his career, he represented Tenneco in Washington, D.C., and was an administrative law judge for the Railroad Commission of Texas.

Bulmahn was elected to the board of directors of Valparaiso University in October 2004. He also serves as a member of the College of Business Administration advisory board of Texas State University. He earned a Bachelor of Arts from Valparaiso University; a Juris Doctorate from University of Texas School of Law; and an MBA from the Graduate School of Business, Texas State University, which named him a Distinguished Alumnus in 2000.

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

Bulmahn: ATP focuses its efforts on offshore oil and natural gas properties where exploration companies have drilled and encountered reservoirs with hydrocarbons, but for various reasons the exploration company has decided it will be unable to develop the property. Many of these properties contain undeveloped reserves that are economically attractive to us, but are not strategic to the majors or the exploration-oriented independents. Our management team has extensive background in engineering, geology and geophysics, and also has technical and operational expertise in successfully developing and operating those properties.

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

Bulmahn: Approximately 66% of our proved reserves are in the Gulf of Mexico with the balance in the North Sea. In the Gulf of Mexico, we have leasehold and other interests in 59 offshore blocks, 26 platforms and approximately 70 wells, including five subsea wells. In the North Sea, we have properties in both the U.K. sector and the Dutch sector. We are the operator of all of these properties, including one company-operated subsea well in the U.K. sector. As of December 31, 2004, on a company-wide basis, we operate 99% of our properties based on the PV-10 of our proved reserves.

OGI: *Do you anticipate expanding into any new core areas?*

Bulmahn: ATP is constantly evaluating where we need to be and where we can be the most effective. Obviously, we are a company that focuses first on the acquisition end of the business. We look for properties with primarily proved and as yet undeveloped oil and gas reserves. We focus on areas with mature infrastructure of oil and gas pipelines and producing processing platforms. One factor that is important to us is that there is a relatively stable political and regulatory environment to ensure that offshore development can be accomplished smoothly.

OGI: *Acquisitions costs have been described by some as prohibitively expensive. How has that affected the company's strategy?*

Bulmahn: We clearly are always attempting to secure those properties that are attractive to ATP that may be marginal or not strategic on other folks' budgets. As the price of oil has soared, it is more difficult to acquire properties from others because the properties that were marginal at $40 or $50 a barrel may now be feasible at $60 a barrel. But, since we started in 1991, we have had success in building our inventory regardless of commodity prices. We were successful when oil was well below $20 per barrel and gas was below $2 per thousand cubic feet to today's prices of $50+ per barrel and $8 for natural gas. As a result of our multi-year approach to acquisitions, we have projected annual production increases through 2008 just from our existing inventory. In summary, we have done an effective job of continuing to acquire properties in all price environments.

We also acquire some of our properties with royalty interests, and thereby the exploration company that divested itself of a property to ATP can enjoy a continuing revenue stream from that property after we bring it on production. That sometimes can make a big difference to a company's operations when they're able to work with a company like ATP to accomplish development of a project that they otherwise wouldn't have been able to get to.

OGI: *E&P companies have been reporting some fairly stellar financial results in recent quarters. Do you think the earnings momentum can be sustained and how?*

Bulmahn: On the top line, earnings are driven primarily by two forces—production and commodity prices. We are poised to boost our annual production through 2008 with existing inventory. We believe that by utilizing the technologies available to smaller independents, ATP can enhance the efficiency of hydrocarbon recovery. ATP operates all of its properties in development, so we have considerable influence on the timing of a project's development. By controlling the development of those properties as the operator, ATP is able to shorten the time between capital investment and first production thereby, we believe, maximizing the return on capital.

OGI: *How many wells does the company anticipate drilling or participating in?*

Bulmahn: During 2004, we completed 13 wells at six different properties in the Gulf of Mexico and one well in the North Sea. Our 2005 development plan includes 15 properties of which four properties are already in production. And when we get these properties developed, it will noticeably increase our production and also add to the proved developed reserves.

OGI: *Is the company offering any guidance on its estimated production for the year?*

Bulmahn: We have, from the standpoint of the Employee Volvo Challenge that I issued in December of 2004. At that time, we were producing approximately 70 million cubic feet equivalent a day, and at our Christmas luncheon, I first congratulated our employees on a very solid 2004, but I didn't want any of our employees to grow complacent. I challenged them to accomplish the projects that we had already scheduled for 2005 and two other goals: one was a 200% reserve replacement and the other was moving our production from 70 million a day in December 2004 to greater than 160 million a day by December 2005. That is an achievable goal if we're able to accomplish all of the projects that are moving in the year 2005. If we achieve that goal, we will more than double our production rate from the end of 2004. And for our company to double in size in a year is very strong.

OGI: *Around the lunchroom, is there a buzz about the one or two projects that could most help the company reach those goals?*

Bulmahn: There are a number of bread-and-butter projects, but we're focused on a couple of projects like Mississippi Canyon 711, that's called Gomez, and our largest property in terms of proved reserves. The first well logged approximately 100 net feet of oil and gas pay in the Lower Pliocene, and it tested at a rate of 134 million cubic feet a day in the fourth quarter of 2004. We believe that when we're able to connect that well and a second well that is already drilled at the site, and we anticipate accomplishing that in the fourth quarter of this year, we will have a very substantial project come to fruition.

The project that's exciting for the company that's moving forward, also very aggressively, is the L-6 block of the Dutch sector of the North Sea in approximately 115 feet of water. We have a 50% working interest in that block, and the other 50% is owned by EBN, that's the entity of the Dutch government. The well was originally drilled by NAM (Shell Oil and ExxonMobil) in 1990, and it tested at 40 million cubic feet of natural gas a day. The discovery was left undeveloped until ATP acquired it in 2003. We project first production from that well in the fourth quarter of 2005.

We also have a project that is very significant to the company in the North Sea, that is Cheviot. We secured that project from the U.K. government in the 21st licensing round. We have completed the acquisition of a 3-D seismic plan, and we expect to be able to work with that data (and we're working on that as we speak), and we hope to be able to complete the development plan for that property during 2005 with the obvious goal of recording proved undeveloped reserves by the end of 2005 at that location. What we have seen from the preliminary data is that there are reservoirs that are in addition to the original location that previously produced. We're evaluating those for possible exploratory drilling or potential development drilling as well. ■

Production from the successful ATP Dutch sector North Sea L-06d natural gas well will tie into this G-17 processing platform currently under construction.

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 variety of positions for Mobil and its various affiliate companies in the energy and technical fields from 1981 until 1999.

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

Heinemann: Historically, our company has been a heavy oil company in California. Up until 2003, we basically had 100 million barrels of heavy oil reserves in the San Joaquin Valley in California. About five years ago, we recommitted ourselves to growing the company, and because we thought opportunities for acquisitions were limited in California, we embarked on a strategy to make acquisitions outside our home state. When we made those acquisitions, we had a few other goals in mind. One, obviously, was to lighten our production mix with natural gas or light oil, either one. We decided when we were going to go into new basins, we would likely be doing that with joint ventures. That was going to be our preference. We embarked on a number of acquisitions, beginning in September 2003 when we purchased the Brundage Canyon Field in the Uinta Basin in Utah. We purchased that field because we thought it was an undercapitalized oilfield; it was owned by Williams Co. at the time. When we took over operations, that field was producing about 1,200 barrels of oil equivalent (BOE) per day. Today, it's producing over 5,000 BOE per day, and it's been that success which has given us the confidence to make a number of other acquisitions and joint ventures in Utah and Colorado. We're growing organically, we're growing by acquisitions and the growth has been into lighter hydrocarbons.

OGI: *What new skill sets do you need as you move into the lighter hydrocarbons?*

Heinemann: The key when you go into a new basin is you have to have some regional geologic and geophysical capabilities. We have some of that in our company. We certainly are more than willing to use our skills to complement the skills we have with our partners. You have to have some regional subsurface knowledge to create value when you go into a new place. Behind that, of course, you've got to be able to block and tackle. You've got to be able to drill economically, you've got to be able to generate good production rates through good completions, good fractures.

OGI: *In 2004, about 75% of the company's production came from California assets and about 25% came from Rocky Mountain assets. How do you see that changing over the next couple of years?*

Heinemann: Probably the mix will increase outside of California, although we did increase our production over the last few years in California, one of the few California operators to do so. We were up between 2% and 3% in 2004. Statewide, the decline in production was between 5% and 6%. We have a number of projects in California that are within our existing assets that will enable us to keep production at current levels or even increase it. Most of our acquisition focus is clearly outside the state. As we're successful making those acquisitions, or as we're successful proving up our exploitation opportunities, we see production growing in the Rockies and in the Midcontinent.

OGI: *For the first quarter, the company reported income was up 116%, revenues were up 54% from the previous year. Can the company maintain that kind of earnings?*

Heinemann: Our track record over the last five or six quarters has been we're growing production, and prices are going also in the right direction. When you have both of your top line components going in the right direction, you're going to make more money. We see some cost pressure from suppliers and some inflationary pressures, but we think we're going to continue to grow production about 12%. Our 2005 production should be about 12% higher than our 2004 production, which was 24% higher than our 2003 production. Our net realized prices are going up in the same fashion.

OGI: *Does the company hedge?*

Heinemann: This year, we have about 7,500 barrels a day hedged at an average price of about $41 or $42 per barrel. That's about a third of our current production. Risk management decisions are becoming more important as people think about how to take advantage of these record prices and also the unique shape of the forward price curve. Going into 2006 through 2009, we have 10,000 barrels per day in a collar hedge with a floor of $47.50 and a ceiling of $70 per barrel, which gives us comfort for future cash flows if prices decline.

OGI: *What kind of a price deck are you using this year as you plan the drilling program?*

Heinemann: We'll look at a number of different price decks. We'll look at a $50 price deck. We'll look at a $50 flat pricing, we'll look at $40 price flat, and then we'll look at an average strip over the last three months. You want to be encouraged by high prices, but you don't want to fund a lot of projects in the bottom of the portfolio, which require high prices to be profitable over a long period of time. We'll pick our best guess, and we'll sensitize against it.

OGI: *And for gas?*

Heinemann: Our outlook for gas is changing because we're long gas, for the first time in the company's history. Either we will look at the current strip on gas or we'll look at $50 flat on oil, and we'll look at the oil-gas ratio ranging anywhere from 6 to 8, which is about what we've experienced over the last year or so.

OGI: *What's the budget, and how does it compare to last year's?*

Heinemann: We've already announced that we'll do about $107 million in capital, which is a record program for the company. Over the course of the year, we're seeing more projects that we want to do. We'll actually probably bump that up as the year goes on. Last year, our capital was almost $75 million, so it's up about one third.

OGI: *How many wells does the company anticipate drilling or participating in this year?*

Heinemann: We'll be in something between 200 and 225 wells this year. That would be divided fairly equally between California, Utah and our Midcontinent position, which is in far northeastern Colorado. It's just like our capital budget; it's up about a third. The well count goes up some as we drill more wells in the Midcontinent because those are shallow gas wells and you're drilling more wells per dollar.

OGI: *Your drilling has been accelerating and your acquisitions have been taking place during a time of rising prices. How have those factors affected the company?*

Heinemann: So far so good. We have made some acquisitions, but we have not made those acquisitions at the absolute height of the commodity cycle. We've actually gotten some price help from the acquisitions that we have made. A number of those acquisitions have a producing component with a significant upside potential. We're just now starting to appraise that upside potential. If that upside potential comes to fruition to any extent, the price of our acquisitions will look very favorable.

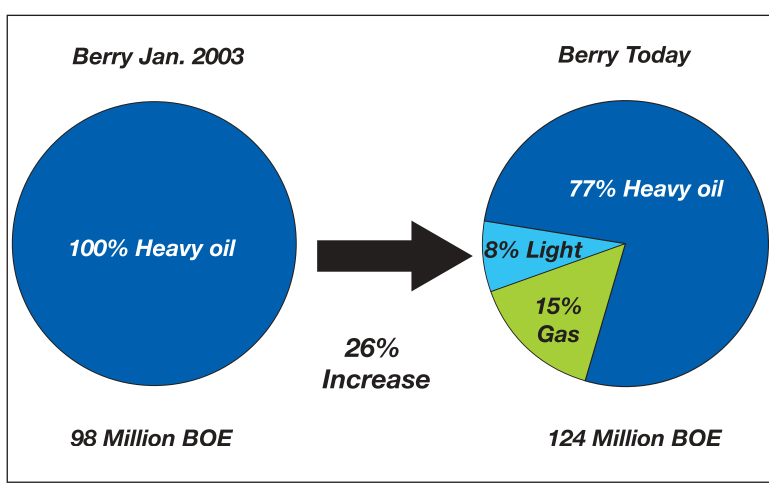
OGI: *Has the company experienced difficulty getting rigs or other services that it needs?*

Heinemann: It's actually a big issue going forward. No longer do you only think about your ability to fund your capital program. Now you have to think, can I get the crews and rigs to execute the program? That's an additional challenge for us, and it's an additional challenge for a lot of companies in the Rockies.

As we enter our appraisal programs this summer on our recent leasehold acquisitions, we are excited about our prospects at Coyote Flats on the Ferron gas and Emory coal, and our Lake Canyon acreage with shallow oil and deep gas potential. Both of those prospects are near our Brundage Canyon Field in Utah.

In the Tri-State area of Colorado, Nebraska and Kansas, we have a shallow gas play, which could provide significant upside to our current Yuma County, Colorado, gas production.

So, if our appraisals are successful, we'll be even more focused on rigs, crews and permitting. That's a challenge we hope we will have to face, since it will mean we have been successsful in our drilling programs. ■



Proved reserves have grown by the developent and acquisition of light oil and gas while maintaining heavy oil reserves.

Bill Barrett Corp. (NYSE: BBG)

Fredrick J. Barrett., President, Director and COO

Fredrick J. Barrett has served as president and a director of Bill Barrett Corp. since the company's inception in January 2002 and was named COO for the company in June 2005. He served as a senior geologist of Barrett Resources and its successor 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 the strategy that drives your company.*

Barrett: Our strategy is to assemble, evaluate and develop high-quality oil and gas projects in the Rockies, which, in turn, generate sustainable long-term growth. We focus primarily on natural gas, though we will definitely take advantage of oil opportunities. We're one of the few true exploration companies and focus on the Rockies exclusively.

Our objective is to apply our experience base and emerging technologies to exploit as much of those reserves as we can. If you're going to be a premier E&P company in the Rockies, which is what we believe we're building here, you need land exposure, growth visibility, balance of exploration and development projects, and you certainly need an understanding of the technology to unlock those gas reserves. We have over 24 different exploration projects in 10 different basins. We've assembled a multi-year, low-risk development inventory in five basins where we have over 2,400 identified locations in our inventory. We have proved, possible and probable reserves in that development inventory of over 1 trillion cubic feet equivalent of gas. Roughly 70% of our exploration projects are weighted toward unconventional-type plays. Once established, these plays have the potential to be very low-risk, repeatable, long-lived development programs with very large reserves.

When you apply our management experience to our low-risk development inventories, balanced with our comprehensive exploration portfolio, combined with a dedication to the utilization of new and existing technology, and further incorporate a singular focus and a culture of cost efficiency, we feel we've built a very solid corporate platform for maximizing stockholder value.

***OGI:** Describe your core drilling and production areas in the Rockies.*

Barrett: There are five development programs that we're currently exploiting. The first is our Piceance Gibson Gulch Field in northwest Colorado. This is a basin-centered gas play where we'll drill up to 80 wells this year. It's a new area for us that we put together in the last half of 2004. This is a gas manufacturing-type play for the company representing our largest capex asset for 2005.

Second is our Uinta West Tavaputs area in Utah. This is our next-largest capex program. West Tavaputs is a very large structural feature that's sparsely drilled. We have proven the shallow formations at less than 10,000 feet to be productive. We'll drill at least 13 wells this year.

Third is our Wind River development program in the Cave Gulch and Cooper Reservoir areas of central Wyoming. Both of these areas are low-risk infill programs and have been the more active drilling areas for the company over the past several years. We'll drill about 12 wells there this year.

Fourth is our Powder River Basin coalbed methane play, which is about 9% of our budget, but is a bread-and-butter unconventional coalbed methane play where we're targeting the Big George coals along the western portion of the Powder River. We've doubled our production coming out of this basin over the past year. The basin currently produces over 20% of our total production. In 2005, we'll drill up to 218 wells in the Powder River.

Finally, we're big believers in the Williston Basin. We're targeting three primary horizontal development plays in the Madison, the Bakken and the Red River formations. Though our production in 2004 was 90% gas, the Williston gives the company a component of oil. And because the surface access is primarily on private land, we can drill year-round in this area. We'll drill around seven wells in the Williston.

***OGI:** With acquisition costs rising, how has that affected the company's growth strategy?*

Barrett: In today's environment, acquisitions can be expensive and you have to be disciplined. We look for key acquisition opportunities that arise, especially if they happen to be accretive or additive to our strategy. Our advantage is our knowledge and experience base in the Rocky Mountain basins to understand the upside and the future potential. If we don't know the acquisition property or the general area inside and out, we won't waste our time on it. We look for strategic fit relative to our objectives in the Rockies. If an acquisition does come up this year that we believe meets those objectives and is part of our strategy, we will take a very hard look at it. As far as the current price environment, hedging strategies obviously can play a key role in reducing the risk associated with increasing acquisition costs.

OGI: *How does the company approach hedging?*

Barrett: Our hedging philosophy is based on locking in prices for a portion of our production to reduce the volatility caused by changes in product prices that obviously are beyond our control. We don't have specific parameters for maintaining hedging positions, but in the past, we have been comfortable hedging production volumes for the next couple of years that don't exceed 40% of our expected production.

OGI: *What price deck is the company using this year as you plan the drilling program, and what does the budget look like?*

Barrett: We're currently using a $45 WTI oil deck and a $5.25 CIG gas deck, which is approximately equivalent to a $6 Henry Hub price. Our current budget for 2005 is $305 million compared to a 2004 budget of approximately $204 million. The two budgets are similar strategically in that we typically spend 75% to 80% of our capex on low-risk development and the other 20% to 25% on exploration, land, seismic and facilities.

However, the 2004 budget is different than the 2005 for several reasons. We have a much larger capex program for the West Tavaputs area in the Uinta Basin. Now that that area is fully approved for development under the current EA, we are drilling a 13-well program in there. Secondly, the budget is different because of our Gibson Gulch development program, which we acquired in September of 2004. This adds a whole new dimension to our capex program with over 80 wells to be drilled during the year. So you'll see a slight reduction in our development programs in the Wind River Basin, but a significant ramp up in the Gibson Gulch in the Piceance Basin and the West Tavaputs in the Uinta Basin.

OGI: *How many wells does the company expect to drill or participate in this year?*

Barrett: During 2005, we're planning to drill 333 development wells, of which 218 are coalbed methane wells in the Powder River Basin and some 15 exploration wells. You can compare that to last year when we drilled 245 development wells, 206 of which were coalbed methane wells in the Powder River Basin and 13 exploration wells.

OGI: *What will 2005 production be?*

Barrett: We're estimating approximately 37.4- to 40 billion cubic feet equivalent during 2005, which represents about an 18% to 26% increase over 2004. If an exploratory well is found successful, we will incorporate that production into our forecast, otherwise, we do not factor exploration success into our budget.

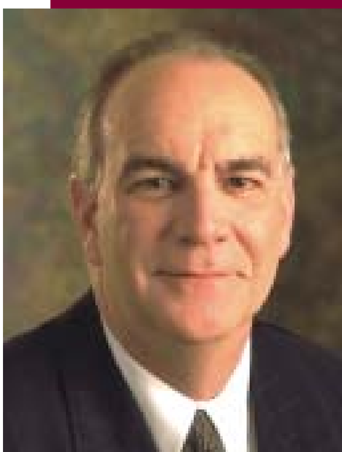
OGI: *Drilling costs have been rising and there are some issues related to rig availability, particularly in the Rockies. How are those factors affecting the company?*

Barrett: As it relates to cost, you can break it down into tangible and intangible costs. The key issue with tangible costs, for example casing and tubing, is that costs have increased by almost 100% because steel costs have almost doubled. As far as the intangibles such as the costs on rentals, drilling rigs and the pumping services for our completions, we've seen those costs go up anywhere from 7% to 50%. As a result, we have made adjustments to our budget. You're not going to eliminate cost increases with this type of inflation, but we're always trying to drive costs out of the system through drilling and completion efficiencies.

As it relates to rig availability, it is extremely tight here in the Rocky Mountain region. I personally have never seen an environment like this in my career here. But to that end, we do have rigs secured for all of our development projects. We don't necessarily utilize long-term drilling contracts, but rather shorter contracts, anywhere from three months up to a year, possibly a little longer. ■

A rig develops gas reserves in the Wind River Basin, the company's most significant producing area.

Burlington Resources (NYSE: BR)



Steven J. Shapiro, Executive VP

Steven J. Shapiro is executive VP of finance and corporate development for Burlington Resources, and serves as a member of the board of directors and the office of the chairman. He was elected to the board in 2004 and assumed responsibility for the company's strategy development and execution, as well as its financial performance, in 2002. He earned a bachelor's degree in industrial economics from Union College and a master's degree in business administration from Harvard University.

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

Shapiro: We believe in taking a balanced approach between production growth and financial returns. In fact, Burlington's returns rank among the highest in the large-cap independent sector, and we have committed to achieving between 3% and 8% average annual production growth over the long term. Last year, our production grew by 10%. So, our business model is working. We're heavily focused on North American natural gas with 85% of our production coming from North America and about 80% of that being natural gas and gas liquids. We're differentiated by a high-quality asset base that is concentrated in major fields. We call this concept "Basin Excellence," and it refers to having high local market share that in turn conveys a number of advantages that enable Burlington to be a differentially low-cost producer. We regard our relentless cost focus as a key part of the equation, along with the ability to apply our core engineering skills to operating large-scale, multi-year programs. The nature of our assets allows us to continually learn from our experience and add value as we go.

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

Shapiro: We're primarily focused in the Rocky Mountain Fairway from the San Juan Basin in the south up through Canada on the northern end. We're active in the San Juan, Williston and Wind River basins, plus in legacy positions in south Louisiana and the Anadarko Basin. In addition, we're particularly pleased with our newly established core areas in the Bossier trend and in the Barnett Shale, and its look-alike formations in other areas.

We also have a growing base of international production, in particular from northwest Europe, Africa, China and Latin America. Our international assets supply 15% of total production today, and these regions could mature into core areas down the road. Here again, we are taking the differential skill sets that we developed in North America and utilizing them in similar geologic settings in the international arena.

OGI: *You said 85% of the company's production base is in North America. How do you see that changing over the coming years?*

Shapiro: I don't foresee it changing much over the next few years, although if we were to see a unique opportunity internationally, we'd never say no. But our base plans remain focused on North America. We believe that while North America is perhaps a bit growth-challenged, it still allows some of the highest returns in the business. The international environment has become intensely competitive in terms of access to opportunities, and as a result, the cost of entry has gone up dramatically. For this reason, combined with our record of success in the U.S. and Canada, we see no particular gains in moving away from North America.

OGI: *You mentioned the importance of controlling costs. Your chairman recently said that the company has some "natural advantages" that it can apply. Could you describe those?*

Shapiro: These advantages are inherent in the highly concentrated nature of our asset base, which is focused in some of the most attractive producing basins in North America. Getting back to our Basin Excellence concept, these are areas in which we have many years of operating experience, comprehensive data, unique local knowledge, the benefits of established, long-term relationships with suppliers, control over ownership of key infrastructure and longstanding marketing arrangements. These are tasks you have to do a little better than your peers to achieve a differential cost advantage in our business.

OGI: *E&P companies have been reporting some fairly stellar financial reports in recent quarters. Can your company keep up that kind of earnings momentum?*

Shapiro: Obviously, commodity prices have been exceedingly strong and show few indications of weakening. Still, the reality is that we focus not on prices, but on those factors over which we can exercise some control—our cost structure and production growth. We hedge some of our production, but our strategies are more focused on the efficient development and exploitation of our resource base. We have some 7 trillion cubic feet of identified forward-looking development inventory. This portfolio, concentrated in areas where we have achieved Basin Excellence, represents a tremendous advantage in enabling us to control our costs and plan for growth.

"In the Bossier play, we've been able to extend that play further to the south, and we're close to producing 150 million cubic feet a day gross out of a play that was really producing nothing about 18 months ago."

***OGI:** What is the company's approach to hedging?*

Shapiro: We believe in hedging on an opportunistic basis. We use wide collars with floor prices that ensure very good returns, while the ceilings allow our investors to participate in any commodity price run-ups. We've been quite successful with hedging over the last few years, but we're not afraid of being unhedged when we see upside opportunities. Given the volatility of commodity prices, we're more than happy to take advantage of price swings.

***OGI:** What percentage of the company's production is currently hedged?*

Shapiro: For the rest of this year, we have about 20% of our production hedged, while for next year, less than 10% is currently hedged. Our philosophy is to hedge no more than two years into the future and no more than 50% of our production.

***OGI:** What price deck is the company using this year as you plan the drilling program?*

Shapiro: Because we have a very large inventory of future projects, more than we could possibly develop in a one-year timeframe, we use a price deck simply to rank those projects and set priorities. Today, that price deck assumes a $5 per thousand cubic feet natural gas price and a $35 per barrel oil price.

***OGI:** What is the budget this year, and how does it compare with last year's?*

Shapiro: Our base budget is about $2 billion, excluding acquisitions. Last year, it was about $1.7 billion, so we're up about 15%. We'll re-examine the budget at mid-year and given the cost pressures we've seen in the business, as well as the emerging opportunities, I would not be surprised to see an increase.

***OGI:** How many wells is the company expecting to drill or participate in this year?*

Shapiro: Our plans are to drill about 1,000 net wells, or perhaps a little more. That would be up 20% from last year. This program will help drive production growth of around 3% over last year's 2.8 billion cubic feet equivalent a day.

***OGI:** Operating in the Rockies, are you finding any difficulty obtaining access or finding rigs to accomplish your program?*

Shapiro: For the most part, we are getting the equipment we need to execute our program. Because

Burlington is the largest producer and operator in the San Juan Basin of New Mexico with interests in more than 12,000 operated and non-operated well completions.

our assets lend themselves to repeatable development programs over greatly extended periods of time, we are able to maintain fairly stable equipment fleets. This, in turn, improves our access to and control over equipment. There are exceptions, such as when we initiate new exploration programs or accelerate existing programs. But in general, equipment availability is not getting in the way of our program execution.

> "A growing issue for us as well as the entire industry is maintaining a sufficient workforce of geoscientists and engineers, and thus maintaining overall technical capabilities. ... The current influx of new technical graduates isn't enough ..."

Access and land use is, however, a creeping concern. To make up for the production decline in the Gulf of Mexico, the industry is having to drill more wells onshore. That creates more land-use issues and greater risk of environmental objections.

***OGI:** In the shorter term, are access issues affecting the company at all in the Rocky Mountain region?*

Shapiro: No, not in terms of meeting our objectives. We try to anticipate obstacles and plan around them. It's possible that we could grow a little more rapidly if drilling permits on government lands were processed in a more timely manner and if the industry had access to more areas. But once again, we're performing according to our plan.

***OGI:** Does the company look to one or two projects that could have the greatest impact this year?*

Shapiro: In the Bossier Trend, we've been able to extend the play farther to the south, and are now producing 150 million cubic feet a day gross from acreage that was producing nothing just 18 months ago. In the Cedar Creek Anticline in the Williston Basin, we have two horizontally drilled water flood programs that are yielding oil production growth of 5,000 to 6,000 barrels per day each year. We're currently producing over 25,000 barrels a day, and expect that to reach 35,000 barrels a day over the next few years. And an international project coming onstream hopefully later this year, the Rivers Fields in the East Irish Sea, could add annual average production between 70- and 80 million cubic feet a day.

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

Shapiro: We're always looking for acquisitions. As primarily a North American gas player, you can't really replenish your inventory over the long term through exploration alone. So we, like everyone else, look to acquisitions. Although it's a seller's market today, we're always hopeful that we can find unique opportunities here and there that fit our portfolio and add value for our shareholders.

***OGI:** Acquisition costs have been rising at a fairly good clip. Does that affect how you approach potential deals?*

Shapiro: It certainly makes us think twice about doing acquisitions, and we really haven't made any significant transactions this year or last year. Given the realities of the acquisition market, we are exceedingly fortunate that we can rely on our 7 trillion cubic feet of development inventory as a main source of growth. This inventory is economic in a $5 natural gas price environment, and we can essentially pull enough projects off the shelf to support our growth objectives.

***OGI:** What do you see as the greatest challenge facing the company this year?*

Shapiro: Obviously, for all North American producers, reloading inventory given the basin maturity here is a vital issue. Containing costs is another, particularly considering Burlington's objective to be differential in terms of cost containment. We fight that battle every day. And finally, another growing issue for us as well as the entire industry is maintaining a sufficient workforce of geoscientists and engineers, and thus maintaining overall technical capabilities. As the industry workforce ages, the current influx of new technical graduates isn't enough to make up for the losses. So we face the dilemma of needing to drill more wells just to maintain domestic supply at the same time that access to qualified technical personnel is flat or even shrinking. So the entire industry must be a lot more efficient in terms of how we use our workforce. ■

Calyon Securities USA

Brad L. Beago, Director and Senior Analyst

Brad L. Beago is a director and senior analyst in the U.S. research department of Calyon Securities USA in the Houston office. He is responsible for the oil and gas E&P sector, specifically, the independent producers, with 16 companies under coverage. Before joining Calyon in late 1997, he was an independent producer analyst with Jefferies and Co. Inc., which he joined in December 1992. At Jefferies, Beago was a senior associate with a large research team that covered as many as 55 producers. Prior to that, he was in corporate finance at Howard, Weil, Labouisse, Friedrich Inc. He has also held the position of financial analyst with Western Geophysical. Beago received his MBA from the University of Houston College of Business Administration and his Bachelor of Business Administration in management from Southwest Texas State University. He is also a chartered financial analyst.

***Oil and Gas Investor:** Like all analysts, you keep raising your commodity price deck. What are your thoughts on oil and gas prices?*

Beago: I am long-term $40 oil and $6 gas. My attitude is, if you can buy a stock at those metrics and then the price of oil and gas goes above that for a period of time, that's just icing on the cake for investors. I don't have the answer on where oil and gas prices are going—it's been so volatile.

***OGI:** You were recently out on the road with an E&P company. What was the mood of the investors you met? Are they still interested in energy stories, or do they think it's too late?*

Beago: Investors are certainly open to good ideas. It's true their returns have been excellent, so there's no doubt there's been some profit-taking. I would say there is caution in putting new money to work, given $60 a barrel of oil. But that said, they are looking for new opportunities to add to their portfolio. I wouldn't recommend a wholesale jumping into the sector right now—it's an incremental decision. You have to be selective. But there are some strong stories out there: XTO, EOG Resources—they have outstanding portfolios of projects. Yes, you would have to pay up for these stocks, but they always perform well, and I have no reason to believe they won't continue to do so.

***OGI:** How do you go about valuing oil and gas stocks?*

Beago: Historically, we valued them based on the net asset value [NAV] of the proved reserves, with some commodity price assumption added on. It's essentially the company's breakup value. That assumes market returns on reinvested cash flow. But with these high commodity prices, that's no longer true. They should be able to reinvest and generate high returns. This is causing companies to drill more.

Think about the way that a bond trades—if the interest rate goes down, the bond price increases. However, coupons must be reinvested under the new, lower interest rate. For an E&P company this may not be the case. When the commodity price goes up, the NAV goes up. However, with a project inventory, many are able to generate outstanding, above-market rates of return on reinvested cash flow. As such, the commodity price increase is not a one-time value adjustment.

***OGI:** How do institutions appear to be valuing stocks?*

Beago: My guess is they are using $40 and $6.50. What investors are less appreciative of is whether the E&P company can reinvest its high cash flow into new projects to keep production flat, or to grow it.

The internal rate of return [IRR] on that investment right now is as high as it's ever been. Companies are getting 20%-plus. There are few industries in the world where you can invest capital and get these kinds of IRRs. E&P companies with good prospect inventories, even if these commodity prices fall somewhat, should be able to keep generating these outstanding returns. If you have the ability to create an inventory of high IRR projects based on your acreage, seismic data, etc., that represents real value above NAV. Investors need to give producers credit for that.

***OGI:** Are the stocks still undervalued in some cases?*

Beago: Yes, I believe so.

***OGI:** Without naming names, what kind of E&P company is undervalued?*

Beago: Any company that can reinvest its higher cash flow, which goes up due to high oil and gas prices, in high IRR projects to create further cash flow. There's a huge acceleration in value as you turn over that money again and again.

OGI: *How can an investor know which companies fit this description?*

Beago: By knowing what the company is doing and where. Look at the Barnett Shale play in north Texas, for example. There are proven areas in the play where the economics are relatively set with predictable ranges of reserves, costs, etc. In the oulying areas of the play, less is known. We do know the competitive nature of the Gulf of Mexico is generally less than it was in the past, but there are a few companies that have come up with consistent results there.

I am honestly concerned about these so-called resource plays. [Editor's note: These are onshore development plays with low-risk, long-life reserves].

OGI: *Why is that? Everybody touts them.*

Beago: The tendency is to drill them out away from the fairway to the more marginal wells on the flanks, so some plays that initially look like they'll do between 10% and 15% IRRs may turn out to be, instead, between zero and 10%, especially if commodity prices retrench. They'll turn out not to be economic and catch some people off guard.

OGI: *Do you see more consolidation and mergers ahead among the E&P companies?*

Beago: Yes. I think that once again, the real currency these companies have is their drilling locations. As long as companies think drilling opportunities are valuable, you'll see more M&A. The need to get locations will drive M&A.

OGI: *What about the majors?*

Beago: I still think the majors will continue to sell properties—but they are doing more big farm-outs with independents. Take the XTO deal just announced, where XTO gets a crack at drilling on ExxonMobil's acreage. The majors are conscious of losing opportunities for upside if they sell a property outright and the buyer then exploits it. For all these years, they kind of ignored it, and now the tide's finally coming in.

OGI: *What happens if oil and gas prices fall by much?*

Beago: The problem now is, apart from all this happy talk, we have to remember—the stocks' correlation to oil price is now about 90%, the highest correlation I've ever measured. So if oil goes from $58 to $50 to $40, they'll really get hosed. I guess then we'll say that's a buying opportunity. It doesn't seem to matter which stock you pick these days, or by what company fundamentals—they appear to all be moving the same, in tandem with oil prices.

OGI: *So, is anything a buy right now, or are they all hold or accumulate?*

Beago: Cimarex is a buy. And I recently picked up some names active in the shallow Gulf of Mexico, because they are generally out of favor. I have a buy on Energy Partners, Remington Oil and Gas and PetroQuest.

My theory on the Gulf Coast and shallow Gulf of Mexico is that investors define their risk as hitting the quarterly earnings numbers and being predictable. The biggest risk you can have as a portfolio manager is if one of your stocks misses its quarterly numbers, and in the Gulf Coast region, that's always possible. There are hurricanes, water-drive reservoirs that are unpredictable. Investors say 'You have to reward me more if you're going to take this kind of risk, especially offshore.'

OGI: *Any "fallen angels" you like?*

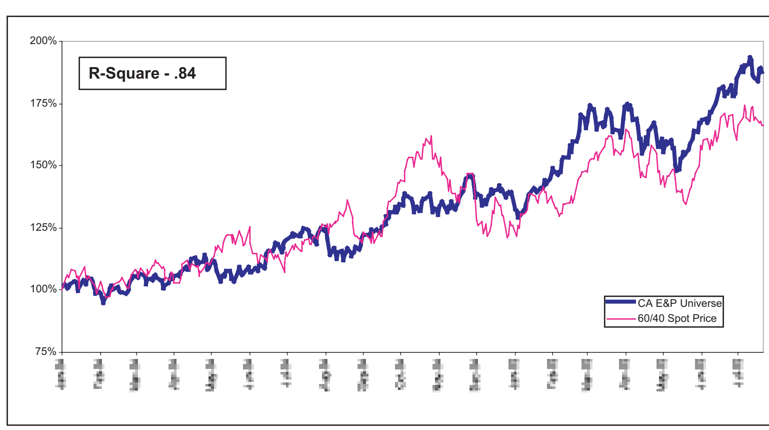
Beago: I have a buy on Vintage Petroleum. They are still the cheapest stock in my universe. They are back to a growth mode, they've cleaned up their balance sheet, they are acquiring again. Will they ever regain the luster they once had? I don't know.

OGI: *What about the crop of recent IPOs?*

Beago: We were involved in the Bois d'Arc deal because I had known their former parent, Comstock Resources, for a long time. I think those guys are real strong. I did not know W&T Offshore as well—but I recently met management and there's a lot to like there.

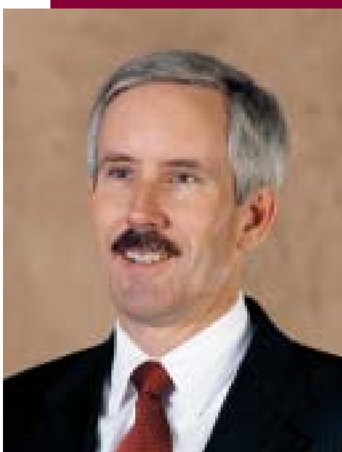
OGI: *What is the investor appetite for IPOs now? Will we see any more this year?*

Beago: I think so, but it is not like a slam dunk. Investors are very selective. But if you have a strong, solid story, you can get capital easily today, whether from a private source or public markets. ■



E&P stock prices have mirrored changes in commodity prices. The key for investors over the past year and a half has been to be invested in the sector, not necessarily which stock they own.

Carrizo Oil & Gas Inc. (NASDAQ: CRZO)



S.P. (Chip) Johnson IV, President and CEO

S.P. Johnson IV has served as the president, CEO and a director of Carrizo Oil & Gas Inc. since December 1993. He also is a director of Basic Energy Services Inc.

Previously, he worked 15 years for Shell Oil Co. where his managerial positions included operations superintendent, manager of planning and finance, and manager of development engineering. Johnson is a registered petroleum engineer and has a Bachelor of Science degree in mechanical engineering from the University of Colorado.

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

Johnson: Our strategy is based on exploring for natural gas in the onshore Gulf Coast and in the Barnett Shale play of north central Texas trying to find gas using new technology.

OGI: *Please give more detail on your core production areas.*

Johnson: Those two areas are where we produce almost all of our production. Right now, the Gulf Coast produces about 80% of our production and the Barnett about 20%, although that's probably going to be closer to 50-50 next year.

OGI: *Why the shift?*

Johnson: We didn't get active in the Barnett until early 2003, and now we have equal drilling programs of about $35 million in each area. The Barnett production will quickly grow to a level where we think it will be equal to the Gulf Coast.

OGI: *Would you like to, or do you anticipate, expanding to other core production areas this year?*

Johnson: We are currently looking at some other shale plays. We are also looking at, and have generated, some prospects in the North Sea, although we don't see ourselves putting any significant development capital into those projects in the near term.

OGI: *The "near-term" being how far out?*

Johnson: At least a couple of years.

OGI: *What would have to happen for those to be added to the plan?*

Johnson: One, they would have to become successful plays. At this point it's still too early to tell. And also we'd have to have the financial capability to go after them.

OGI: *Describe the technologies you are using and how they are proving effective?*

Johnson: Specifically, the technology we are using is 3-D seismic, both in the Gulf Coast and in the Barnett. In the Gulf Coast, we use it to look for new prospects and identify drill sites. In the Barnett, we use it mostly to decide where we're going to drill horizontal wells so that we don't get into problems with faulting. In the Barnett, we're also using horizontal drilling and multistage fracturing to improve our recovery in those reservoirs.

OGI: *E&P companies have been reporting some stellar financial results in recent quarters. How can your company keep up that kind of momentum?*

Johnson: Well, with these commodity prices and service costs not even rising to where they were in 2001, right now it's pretty easy to do. There will be increased pressure on service costs, but we think our margins are going to be great for a long time at these commodity prices.

OGI: *Does the company hedge?*

Johnson: We currently hedge with costless collars. We hedge about 75% of our near-term production—meaning the next 90 days—and we hedge out to about 25% of our production a year from now.

OGI: *Has that been a fairly consistent strategy?*

Johnson: That's been our strategy for three or four years. We've never been in a situation where we were required to hedge by, say, the banks. We tend to hedge to try to prevent downside disasters with prices that would hurt our capital program. We tend to put the hedges in when we see something in the market that looks more bullish than we think it should be.

OGI: *What price deck are you using this year as you plan the drilling program?*

Johnson: We generally run our numbers at $6 Nymex gas, and then we test that against $4.50 Nymex gas. On oil we use $50 WTI and $40 WTI.

OGI: *What is the budget, and how does it compare to last year's?*

Johnson: We're planning to spend about $90 million this year; $70 million on drilling, equally split between the Barnett Shale and the Gulf Coast, and then about $14 million on land acquisitions, and about $6 million on 3-D seismic acquisitions and purchases. That is about 40% higher than last year.

> "In the Barnett, we're going to drill about 24 net wells, which is significantly above last year in the Barnett."

OGI: *How many wells does the company anticipate drilling or participating in this year?*

Johnson: The Gulf Coast will be about 35 gross wells, which works about to about 17 net wells. In the Barnett, we're going to drill about 24 net wells, which is significantly above last year in the Barnett. In the Gulf Coast last year, we drilled about 35 gross wells. In the Barnett, though, we drilled 13 net wells last year, but we'll drill four times as many net horizontal wells this year.

OGI: *What is your estimated production for this year?*

Johnson: We've been giving estimates of around 10 billion cubic feet equivalent (Bcfe), which is about 20% above last year.

OGI: *Does the company have one or two single projects or wells that could have a major impact on it this year?*

Johnson: We have a very high impact exploratory well we would like to drill at the end of the third quarter, we call MegaMata, which is a deep test in Matagorda County. We will bring in industry partners to help pay for this because it is a 20,000-foot test. We would like to end up paying less than 10% of the drilling costs and try to earn between 20% and 30% of the after-casing-point costs.

OGI: *And what's the expectation from that well for the company?*

Johnson: We have a mean success volume of 72 Bcfe on that well, and the upside is 10 times that.

OGI: *Drilling costs and acquisition costs have been rising fairly dramatically. How is that affecting you?*

Johnson: Acquisition costs have gone up very fast. We have been unsuccessful in all the bids we've made on acquisitions recently. Our drilling costs have gone up about 10% this year so far. They don't appear to be going up rapidly in most areas, but we're paying a lot more for barge rigs than we used to. We're not paying a lot more for Barnett Shale drilling rigs than we did six months ago.

OGI: *Why do you think the company has been unsuccessful in the bids it has put in for acquisitions?*

Johnson: We have not chased the commodity price up, and we don't have a cost of capital to bid against some of the other companies that are out there consistently making acquisitions.

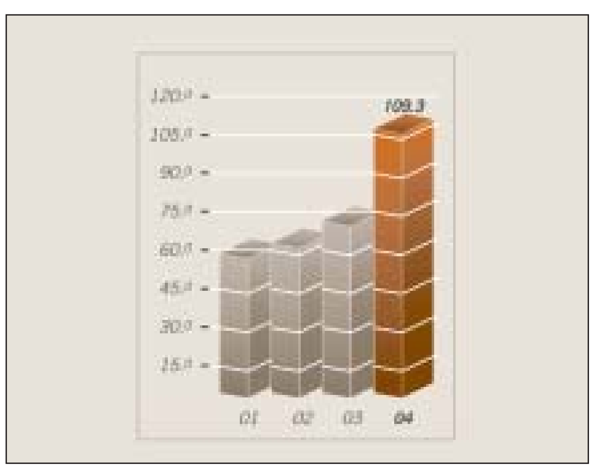
OGI: *What is going on in the market to keep service costs from rising so dramatically?*

Johnson: At least in the case of drilling in the Barnett Shale, a lot of rigs have been refurbished or reassembled that have basically been out of service for years. The drilling technology in the play is not so high that you can't bring rigs back pretty quickly, find a small crew and put them to work right away. So the addition of rigs has made a difference there.

OGI: *What do you think is the E&P's greatest challenge?*

Johnson: For most people I talk to, it's rising service costs. We have seen that hapen in some of our drilling areas. But overall, it hasn't been a big problem. There are regions that are having a shortage of rigs and maybe over time it will all balance out, but right now, it's OK with us.

Another problem that a lot of people have is lack of drilling prospects. We, fortunately, have a large inventory of drilling prospects because we have spent 10 years assembling a massive 3-D seismic library of the Gulf Coast, and we had a head start in buying leases in the Barnett Shale before a lot of other companies jumped in. ■



2004 total proved reserves for Carrizo Oil & Gas Inc. increased to 109.3 billion cubic feet equivalent, an increase of 55% over year-end 2003 levels.

Cheniere Energy Inc. (AMEX: LNG)

Charif Souki is chairman, chief executive and co-founder of Cheniere Energy Inc. He has more than 20 years of investment-banking experience in the industry and an MBA from Columbia University.

Keith Meyer is president of Cheniere LNG Inc., a wholly owned subsidiary of Cheniere Energy Inc.

Oil and Gas Investor*: You sold all your proved working interests in E&P assets in 2002 and since then, you haven't drilled any wells. Are you officially out of the E&P business?*

Souki: No. We continue to generate prospects, mostly offshore Texas, and sell them. It's nice to have a finger on the pulse, even if it is a small part of our business. We have been successful, but the wells are getting smaller and more expensive.

We have 7,000 square miles of prestack time-migration 3-D data. And we own 9% of (privately held producer) Gryphon Exploration. Warburg Pincus owns the remainder.

OGI: *Originally investors were skeptical of your ability to execute an LNG plan.*

Souki: People are taking us more seriously now. We prefer to be judged by what we do. We developed this LNG business model five years ago, and it has remained the same for those five years. In the beginning, we executed it with very little means.

OGI: *How did you arrive at LNG so far ahead of everyone else?*

Souki: LNG is going to be a significant amount of domestic consumption by the end of the decade. The U.S. will need 15- to 18 billion cubic feet (Bcf) a day by 2010. That's what convinced us imports are going to be more important. And, we looked at rising finding costs in the Gulf of Mexico and said this is not sustainable. Those costs are north of $3 a thousand cubic feet and the Gulf Coast onshore is probably not far behind. And we saw the decline curve. The Gulf used to produce 14 Bcf a day, and now it is down to 12 Bcf if you include production from deep water. So I continue to expect the Gulf will decline during the next five years—the only factor sustaining it is $6 or $7 gas. I see nothing to change the high finding costs.

OGI: *But why LNG?*

Souki: We didn't start out with that. We were looking at the trends in E&P—the major equilibrium point where gas prices would settle. You had bankruptcies of offshore players like the old Petsec Energy and Forcenergy. Very smart people like the Zilkhas were getting out of the Gulf. When you looked at finding costs versus DD&A, something was not computing and we were convinced the trend was not going to change. Big companies like Anadarko Petroleum and El Paso were saying it would take $3.50 or $4 to justify exploration but finding costs were going to $3. At that point, the conclusion was that exploration offshore has a very short life. You can get the leases and you can get lucky, but it takes a lot of money and there is substantial engineering risk in deep water. That led us to think about having to import gas, which led us to LNG.

OGI: *Isn't it more expensive than E&P? Is there room for a small company like Cheniere to do this?*

Souki: The myth was it would take $5 to import LNG, but you can land it all day long for $3.50 from almost every major gas-producing country in the world. We looked at two things. If there is an infinite number of possible LNG sites, we could do the permitting and construction and maybe sell a site to someone who needs it in a hurry. That model has been used in the independent power-generation business.

Or alternatively, if LNG sites are scarce, then you have something different—a lease that is critical, where you build a facility big enough to benefit from economies of scale. We explored the possibilities from Maine to Mexico and concluded there were few sites that actually worked.

OGI: *And Freeport, Texas, was first.*

Souki: Yes. Then we met Michael Smith (former chief of Gulf-focused Basin Exploration) three years ago, and he believed in us. That was good timing. Look, we were a company whose market cap was $20 million, and we were talking about billion-dollar facilities. We had to make sacrifices, so we brought in Michael and relinquished management of Freeport to him. He took over the negotiations with Dow Chemical and ConocoPhillips. Having done that, we could go on to Sabine Pass. And now, here we are in 2005: we have three permits in hand, of which two have started construction. For the third, at Corpus Christi, we hope to break ground later this year. We've filed with FERC for the fourth, Creole Trail. We are very comfortable with where we are—and we're very busy. Three years ago, we had 13 employees, and now we have close to 90. It's been a challenge to attract good people—but they all have experience in LNG or gas pipelines.

> "It was a challenge to convince our 'anchor tenants' that we were serious, that we had some attractive real estate and we had the wherewithal to get these built."

***OGI:** And Keith, how did you get involved?*

Meyer: I ran into Charif at a conference about five years ago and realized we were both beating the same drum—but no one was marching to it at that time. I've spent most of my life in the pipeline business, such as at CMS Panhandle, which owned the Lake Charles LNG plant, so I was paying attention to the nation's gas-supply situation. The Gulf of Mexico provides 54% of our supply but is declining fast. I saw that we were heading for a gas shortage, and we had no alternative except LNG.

***OGI:** What if your terminal is only half full?*

Meyer: We have long-term terminal-use contracts [capacity reservations] at Freeport and Sabine Pass so our income doesn't depend on volume throughput.

Souki: A component of our strategy is that we will reserve a portion of the capacity for our own use—potentially involving upstream endeavors, which will expose us to the gas spot market a bit. The contracts we have with Chevron and Total are enough to service the debt and leave us a little profit.

***OGI:** Walk us through the economics at Sabine Pass.*

Meyer: Total will pay $125 million a year for 20 years starting in April 2009, and Chevron will pay us roughly $90 million for 20 years starting in July 2009. So, we'll have about $215 million a year of revenue from Sabine versus $30- or $40 million to operate it. Plus, we expect distributions from our interest in Freeport of about $15 million a year.

Souki: For 20 years, we'll have net cash flow. You can discount that however you want, but keep in mind, our customers are investment-grade credits. We will charge 32 cents per million Btu as a tariff plus 2% of throughput for fuel and power.

If you think you can get capacity elsewhere and cheaper, then fine. I don't think you'll find another company proposing an LNG project that is so public about its rates. It's a number we think the market can live with. Our customers will make a lot of money monetizing their gas reserves.

***OGI:** What's your next challenge?*

Souki: I think to stay focused on our business plan. We are doing what we have to do. We are a service provider; it is up to the companies to provide tankers and LNG supplies. We are marketing Corpus Christi and Creole Trail now, the only two terminals we have with capacity left. Michael wants to expand Freeport's capacity and we are thinking about expanding Sabine Pass to 4 Bcf a day.

It was a challenge to convince our "anchor tenants" that we were serious, that we had some attractive real estate and we had the wherewithal to get these built. You overcome that by continuing to deliver on your promises. Having Bechtel build Sabine Pass is very comforting. It's just a matter of execution now.

Let the facts speak for themselves. When people said, "There are other sites," we said, "Fine, go pursue them." We're not saying we are the only ones in LNG. The U.S. is going to need more LNG capacity than just ours. ■

	Freeport, TX	Sabine Pass, LA	Corpus Christi, TX	Creole Trail, LA
Capex ($MM)	$750	$750 – $850	$650 – $750	$850 – $950
Initial Capacity (Bcf/d)	1.5	2.6	2.6	3.3
Storage Capacity (Bcfe)	6.7	10.1	10.1	13.5
Docks	1	2	2	2
Tanks	2	3	3	4
Acreage	233	853	612	1,463
FERC Status	Authorization to construct (Jan. 2005	Authorization to construct (March 2005)	Permit Approved (April 2005)	Application Filed (May 2005)
Ground-breaking	Under Construction	Under Construction	Q4 2005 (Expected)	Q3 2006 (Expected)
Est. Operational	2008	2008	2009	2010

Cheniere Energy's LNG facility plans.

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, the company's president and COO. McClendon is a member of the Board of Visitors of the Fuqua School of Business at Duke University, from where he graduated in 1981.

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

McClendon: It's really pretty simple. We are building one of the largest onshore natural gas resource bases in the U.S. through a combination of organic growth through the drillbit and acquisitions growth. We focus almost exclusively on natural gas. In addition to our acquisition and exploitation businesses, we also love to explore for new reserves of natural gas, and today are the most active driller of new wells in the U.S.

OGI: *Could you describe your core drilling and production areas?*

McClendon: We are focused about 70% in the Midcontinent, which consists mostly of Oklahoma and the Texas Panhandle as well as Kansas and western Arkansas. Our other areas of importance are the Permian Basin, South Texas along the upper Texas Gulf Coast, the ArkLaTex region and finally in the Barnett Shale.

OGI: *Do you anticipate expanding to any new core areas this year?*

McClendon: I don't think so. Beyond the Midcontinent, the areas that I mentioned are all new to the company in the last three years, or they feel like areas where we can extend some of what we do well in the Midcontinent. Specifically, our drillbit expertise and our asset consolidation approach. We've got our hands full right now, and at this time, we're not looking for additional geographic areas. We feel that a major advantage of Chesapeake's strategy is our focus on being able to concentrate on only five states where 99% of our production is and where about half of the U.S. production is located. By focusing on this area, we feel like we can have some of the best returns and growth prospects in the industry.

OGI: *What are the characteristics of the basins where you are operating that make sense to the company?*

McClendon: All of the areas show similar characteristics. First of all, they are all gas-prone, at least at the depths at which we concentrate. Secondly, multiple formations, which reduce dry hole risk. Thirdly, well-established decline curves, so we don't find ourselves in areas where we're unfamiliar with what might happen once we drill wells. Fourthly, areas where consolidation opportunities are numerous. For example, seven years ago in Oklahoma, we had very little production. Today, we control about 20% of the state's production. It's unlikely that we can do that in any of these other areas, but we aspire to become bigger in each of the areas.

Finally, many of our focus areas are relatively unexplored at depth. This is where I think a key differentiating characteristic of our company can be a strong competitive advantage. We're willing to take on exploration projects in areas where most other companies only look at the regions for either developmental drilling opportunities or acquisition opportunities.

OGI: *E&P companies have been reporting some pretty stellar financial results recently. What's your plan for being able to keep up earnings momentum?*

McClendon: I don't know that we worry too much about earnings momentum itself. We do worry about operations momentum and figure that financial momentum comes as a result of having great operational results. Oil and gas prices go up and down, so that's one of the reasons for that view. But from an operating perspective, we continue to make progress toward our goal of generating 10% production growth through the drillbit this year. Overall, our growth rate will be closer to 24% when you include acquisitions. Our finding cost metrics are to replace our reserves this year at least at 150% of what we produce at a cost of $1.80 per thousand cubic foot or less. So that's an important financial metric to us. And hopefully we'll continue to see continued positive results from our hedging program, which to date has been a big value generator and a great risk mitigator for us.

OGI: *Could you describe your hedging strategy in a bit more detail?*

McClendon: We first started a proactive hedging strategy about four years ago as it became clearer to us that natural gas demand had reached the point of overtaking natural gas supply, which would lead to higher prices and volatility-induced price spikes. That would create, we thought, episodes of high prices in the future. So we determined at that point that a great way to mitigate the company's operational risk and financial risk would be to take advantage of inevitable volatility in oil and natural gas markets.

Other companies look at hedging from a more defensive posture to protect cash flow; to protect some base amount of earnings. We've always wanted to be a little more opportunistic, so we think about it this way: when prices spike, we want to be there to provide some liquidity. We do think we're in a market that will create some spikiness because of weather, because of shortages or whatever else it might be. We like to lock in exceptionally high oil and gas prices from time to time and have done a pretty good job doing that. So we stay long-term bullish. But short term, we stay very cautious and, in fact, sometimes nervous. That's why the company today is more than 50% hedged for the remainder of 2005 at some pretty nice prices.

OGI: *What's the company's strategy in terms of acquisitions?*

McClendon: We remain very active on the acquisitions front. We view that our strategy of growth through the drillbit and growth through acquisitions and integrating that approach has been one that has served us well, and we're likely to continue doing that.

There are at least a couple of distinguishing characteristics about our acquisition strategy. One, is we are very focused geographically. We are only looking for bolt-on or niche or strategic acquisitions in our focus areas that I mentioned earlier. Number two, we've never done a single transaction larger than $500 million. We also tend not to want to look at corporate acquisitions of any public companies, because we view it is difficult to integrate the two organizations. So I think it will be very much of what investors have seen from us in the past—gas-focused deals, geographically-focused deals and deals smaller than, say, $500 million in size.

OGI: *What do you expect for the rest of the year acquisitions-wise?*

McClendon: We've completed over $1 billion in acquisitions this year. If the past is any guide here, we would expect to make a few more as the year rolls on. But of course, that depends a lot on what sellers want to do and on what our competitors want to do as well.

A real advantage we have in acquisitions is the amount of drilling rigs that we have under contract. All acquisitions these days that we are interested in, and most acquisitions that we see overall, have a very high degree of drilling upside in them; a lot of proven undeveloped reserves, and a lot of probable and possible reserves. The key in being able to take advantage of those opportunities is to be able to have the drilling rigs to put to work; to get those non producing assets and turn them into valuable cash-producing assets. The fact that we operate roughly 75 rigs these days is actually quite helpful in allowing us to be able to more easily capture and accelerate the upside value associated with the acquisitions we make.

OGI: *What price deck are you using this year to put together the drilling program?*

McClendon: Well, I can't tell you the price deck we use to evaluate things, but I'll just tell you that we use a whole range of prices, and some of them are close to where the strip is whereas others are significantly below it. We have different risk parameters that we associate with those price decks and different returns expectations based on our view of risk inherent in the assets being acquired. So I'll just tell you that whether we drill or whether we buy, we don't make decisions assuming today's gas prices will continue, so that's why we tend to be an aggressive

Chesapeake employs over 2,100 people and centrally manages its operations from its headquarters in Oklahoma City.

hedger and on acquisitions where we try to lock in our returns in the first couple of years. That way, once you get the first couple of years right, it's a lot easier to get the rest of the years right.

OGI: *What's the budget this year, and how does it compare with last year's budget?*

McClendon: Our drilling budget is right around $1.8 billion this year. That includes about $300 million for land and seismic. That compares to about $1.2 billion for last year. That reflects the greater activity level in the company along with some oilfield service cost inflation. We don't budget for acquisitions.

OGI: *How many wells does the company anticipate drilling or participating in this year?*

McClendon: In 2005, the company expects to drill approximately 800 wells and participate in another over 600 additional non-operated wells.

OGI: *Do you have an estimate for production this year?*

McClendon: The midpoint of our production guidance is 449 billion cubic feet equivalent for 2005 and 506 billion cubic feet equivalent for 2006. That would equate to a 25% increase versus last year and another 13% increase in 2006.

OGI: *Is the company looking at one or two projects or wells that could have the most impact on it this year?*

McClendon: I think the company's size is such today that there's no single well that could influence our results this year. That's both good news and bad news. The better good news is that we do have a number of meaningful exploration projects, any one of which could be very important to us in being able to outperform our projections. Projects that are in the Anadarko Basin and the Permian Basin are the ones that are the most likely to generate performances that are greater than what we have been budgeting for.

OGI: *How are the higher drilling costs affecting the company?*

McClendon: It's certainly a very real concern of ours right now. As the nation's most active driller, we clearly have the highest exposure to increasing drilling costs. We really look at that problem in a couple of different ways. One is that it's a good problem to have because it means that natural gas and oil prices are stronger and are likely to be stronger for longer. We certainly believe that if there is a major correction in gas or oil prices, drilling activity would decline and therefore take pressure off drilling costs. Likewise, when we see ongoing pressure on service costs, we know it's because oil and gas prices are strong.

Number two, we try to mitigate our exposure to rising service costs in a couple of different ways. The first is through scale. For most of our service company providers, we are one of their top clients if not the number one customer they have. We believe that we do get the best equipment, the best people and, hopefully, the best pricing. We are a foundational element of most service companies. The second way is that we've hedged our cost through owning, directly or indirectly, interests in drilling rigs. Right now, we own 14 drilling rigs ourselves that are working for Chesapeake. We're building another 11, plus we own 17% of Pioneer Drilling, which, given the size of their rig fleet, gives us synthetic ownership of about 10 additional rigs.

And then, finally, we recently invested in a company called DHS Drilling, which is a Rocky Mountain focused company that invested a modest amount of cash for a 45% ownership stake in a company that owns five rigs and is in the process of using our capital to double its size over the remainder of 2005.

OGI: *What do you feel is the E&P industry's greatest challenge today?*

McClendon: There are several. First, oil and gas price volatility is always an issue. It prevents our and the stocks of other E&P companies, I think, from trading where it probably should, given the earnings being generated by E&P companies today. Investors fear volatility and question the sustainability of current strong returns. Investors grapple with how to mitigate and tolerate oil and gas price volatility that can be caused by a lot of different things.

Second, it's harder and harder to find new reserves of oil and gas. You have to be willing to invest the money and people and land and science to give yourself the best shot at being able to replace reserves at an attractive cost. In the U.S., that's increasingly difficult to do because of the increasing maturation of the resource base. But around the world, there's another challenge: it's hard to keep hold of what you have because the governments want to take more of what they previously let companies have in a much lower price environment.

And, finally, the other challenge that I think we all face is people. Key industry disciplines are engineering, land and geology. This aging workforce is generally now 45 to 65 year's old and that group's all going to be retiring in the next 10 to 20 years. And unfortunately very few graduates have entered the industry in the last two decades. So the industry needs to be aggressively courting younger people now to come in and learn the business and be ready to inherit the business before those waves of retirees begin to hit in the next 10 years or so. ■

Cimarex Energy Co.
(NYSE: XEC)

F.H. (Mick) Merelli, Chairman, CEO and President

F.H. (Mick) Merelli is chairman, CEO and president of Cimarex Energy Co. Prior to the formation of Cimarex in 2002, Merelli was chairman and CEO of Key Production; president and CEO of Apache Corp. from June 1988 to July 1991; and president of Terra Resources Inc. from 1979 to 1988. Additionally, he has been a director of Apache Corp. since July 1997.

Oil and Gas Investor: *You bought Magnum Hunter Resources in June. What was your interest in Magnum's assets?*

Merelli: We saw a nice base of potential drilling in the Permian; it looked like we could expand our moderate-risk drilling there. That is the main reason. It also had interesting properties in the Texas Panhandle and western Oklahoma. Magnum Hunter was an acquisition-oriented company—they were very busily buying things, not intensely focusing on drilling opportunities, though in the Permian, they had a growing drilling group that was very successful.

In the Gulf of Mexico, they have a joint venture with Remington Oil and Gas Corp. and a very small group working on interests in approximately 240 blocks. I always felt like we've wanted some activity in the Gulf of Mexico. We won't just jump in there, but this gives us a nice ticket to the dance.

OGI: *What are Cimarex's core areas now?*

Merelli: The Permian, Midcontinent, the Gulf of Mexico and the onshore Upper Gulf Coast areas of Texas and Louisiana. The Midcontinent is where the bulk of Cimarex's existing low- to moderate-risk activity is. Our higher-risk activity is the onshore Gulf Coast; that was Cimarex's blend.

Magnum Hunter gives us a greatly expanded low- to moderate-risk program in the Permian Basin because of what they already have out there. As for higher-risk, higher-reward projects, Magnum Hunter had the Gulf of Mexico.

Post-merger, we have two low- to moderate-risk-areas—the Permian Basin and the Midcontinent—and two higher-risk areas—onshore Gulf Coast and the continuation of Magnum Hunter's Gulf of Mexico program.

OGI: *Have you had Gulf of Mexico experience?*

Merelli: I was involved with Apache in the Gulf of Mexico. We had good results there. I'm not an expert, and it's easily the most competitive place for domestic E&P. We'll ease into it, and eventually it will become a meaningful core area for us.

OGI: *Will you expand outside your new focus areas?*

Merelli: We are continuously looking for our next core area. Right now, we have a program in California and in the Mississippi Salt Basin. We're also experimenting in Michigan. We just spud our first well out there, though this is not a core area for us at this point.

We like diversity. To the extent that something catches on, we put people out there to look after that area. We want to achieve consistent growth, so we have a portfolio approach to growth.

Cimarex has always been a company that generates most of its own drilling. Now we've acquired a company that has given us a chance to build a footprint in the Permian.

> **"We like diversity. To the extent that something catches on, we put people out there to look after that area."**

OGI: *Traditionally, Cimarex does not like to book PUDs and has very low debt. The Magnum deal changes that.*

Merelli: We have PUDs now because of Magnum Hunter. The majority of companies that have PUDs bought them. This is the biggest reason we never had PUDs, because we generate our own drilling opportunities. We have high cash flow and low operating costs. Everything about us makes us look like we have a lot of new wells. We'll drill through these PUDs and move them to the proved producing category.

Because Magnum Hunter was an acquisition company, it had debt. By most standards, our merged company is low-debt, but we'll lower it further. We like to drill through the cycles, and we don't want to be dragging debt through low commodity price cycles. We have to stay active. I don't want to be pulling throttles.

OGI: *Cimarex also doesn't hedge. Why?*

Merelli: We never have a lot of debt. If we don't have debt, we won't worry about hedging. To us, hedging is just insurance. If you don't have high debt, why buy insurance?

OGI: *How do you plan to lower your debt?*

Merelli: We will divest some assets and we're going to cash flow a lot. Our combined pro forma drilling budget is approximately $650 million. If prices stay high, we could spend more than that and still have cash to pay down debt.

OGI: *What will Cimarex look like a year from now?*

Merelli: We are doubling our size, and it will take some effort to get everything moving in the right direction, so we've really got our work cut out for us. A year from now, I want to see us starting to take advantage of the combination of the two companies. This year, we're just trying to keep everything on track. I'm optimistic about this year, but in another year, we should make significant progress.

The Cimarron Territory in western Oklahoma is an area from which Cimarex derives its name.

"Cimarex has always been a company that generates most of its own drilling. Now we've acquired a company that has given us a chance to build a footprint in the Permian."

OGI: *What does Wall Street not understand about the U.S.-focused independent oil and gas producer?*

Merelli: The market seems to do a pretty good job of figuring this stuff out. The truth is, our business is driven by commodity prices. If the commodity price stays up, companies' stock goes up. If the commodity price goes down, it doesn't make a difference how good the company is, the stock will most likely go down too. We just want to be good at the business, because we know we are not clairvoyant and don't have a bit of influence on the commodity price.

OGI: *Are there more acquisitions in the near future?*

Merelli: If something came along next year that we really liked, we'd probably have to look at it, but I kind of hope it doesn't. I feel like we wouldn't really be taking advantage of these assets if we did something else right away. But, we're not on a timetable, so if the right opportunity comes around, we'll take it.

We're entirely rate-of-return driven and that's what we like about drilling—we can control our own destiny and get good rates of return. There is more value added for us in drilling than with acquisitions. ■

COMPTON PETROLEUM CORP. (TORONTO: CMT)

Ernie Sapieha, President and CEO

ERNIE 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.

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

Sapieha: When you take a look at Compton with respect to our core drilling programs, we're a deep-basin, unconventional gas player; we've built up an expertise in unconventional gas. We have five resource plays going in Compton. Stratigraphically from Upper Cretaceous Edmonton coalbed methane [CBM], Plains Belly River, thrusted Belly River at Callum to the Lower Mannville Basal Quartz, Gething Sandstones at Hooker and Niton. Additionally, we have an unconventional carbonate Wabamun sour gas pool.

Mark Junghans, VP of Exploration: We basically deal with the same type of unconventional reservoirs that have been drilled within the U.S. for some time. We've been developing that same expertise in Compton. We feel the U.S. is generally ahead of Canadian companies in tight-gas expertise. Our G&G staff primarily have deep basin tight-gas backgrounds. Two of our senior engineers are ex-Canadian Hunter Deep Basin experts. We've basically gone the unconventional route, technically tougher plays requiring specialized knowledges, but we know the resource is there.

***OGI:** Considering any new core areas this year?*

Sapieha: We have five very significant resource plays going, and our concentration for 2005 will be primarily on these resource plays. However, we continually look around to expand in areas where we can take advantage of our technical expertise. For 2005, we will be expanding our core areas.

***OGI:** How can you maintain the earnings momentum?*

Sapieha: If you look at our profile, one of the things is that we have a large undeveloped land base in excess of 1.1 million acres, with five to ten years of drilling opportunities in Compton. Additionally, we internally generate all of our prospects, and operate our drill and production facilities. So we feel very comfortable with being able to continue the growth pace, adding reserves, production and asset value.

***OGI:** What price deck are you using this year?*

Corinna King, Manager, Investor Relations: In our budget, we used a figure of Cdn $6.47 per thousand cubic feet for gas and Cdn $42.07 per barrel oil.

***OGI:** What is the budget this year?*

Sapieha: We're budgeted 2005 cash flow of about Cdn $240- to $250 million. Our capital budget this year is approximately Cdn $400 million. This year, we plan to drill 390 wells, which is double the previous year.

> "WE HAVE A LARGE UNDEVELOPED LAND BASE IN EXCESS OF 1.1 MILLION ACRES WITH FIVE TO 10 YEARS WORTH OF DRILLING OPPORTUNITIES."
> —ERNIE SAPIEHA, PRESIDENT AND CEO

***OGI:** Everyone wants to find the next Jonah or Pinedale. Have you done that with Callum?*

Junghans: I'll explain what we understand right now. We know that Callum has 1,000 meters of gas-charged vertical section. We know the feature has 30 to 35 sands present in multiple-thrusted foothills-type environment. The sands are overpressured at 0.5 to 0.6 psi per foot and are a part of an Upper Cretaceous fluvial-type system. There is no water in the Callum system. When you look at Johan or Pinedale, they are Upper Cretaceous, 0.5 to 0.6 psi per foot, fluvial sands with about 1,000 meters of vertical section. Right now, the geological similarities are remarkable.

Looking at the history of Jonah, the first three or four wells IP'd between 300,000 and 400,000 cubic feet a day. Following detailed rock work, the next Jonah well that was drilled and completed IP'd at 3.7 million cubic feet per day. The nut was cracked. Compton's first wells IP'd between 300,000 cubic feet per day and 2.5 million cubic feet per day. What we need is more rock analysis to assist in optimizing our completions. We have a very experienced technical team working on it right now. In addition, we are working closely with our reserve evaluators Netherland Sewell, out of Dallas, who have extensive experience at Jonah-Pinedale and tight gas in general. We're using the best people, analogies and technology at Callum.

> "The two portions of our company that have a potential to really give us a huge boost and get recognized are CBM, which we feel will happen, and Callum, which we feel will crack, too."
>
> –Mark Junghans, VP Exploration

Sapieha: Callum is in the early stages, but we're very optimistic about its potential.

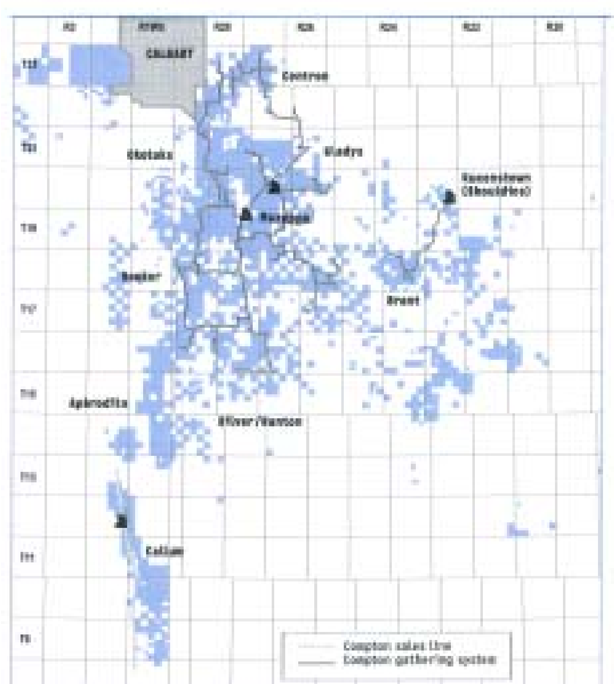
Junghans: The plan in 2005 is to drill 10 more wells, core them and get detailed rock analysis done. From there, we can design a completion program specific to the rock type. Once we have optimized our completions and have some additional production history, we can follow up with a larger drilling program. We have 110 gross sections (70,400 acres), 60 sections net, over the feature. We operate the drilling and associated 30 million cubic feet per day (capacity) gas plant. The lands and gas plant sit adjacent to the Nova pipeline to California, capacity should not be a problem. Everything is very positive. We are producing gas from existing wells and are drilling our first 2005 well right now.

OGI: *Which one or two wells or projects could have the most impact on the company this year?*

Sapieha: I think CBM and Callum could have huge impacts in terms of future development of the company, no question. They both have significant potential. Compton owns between 900 and 1,000 sections of land with CBM potential. We have the low-pressure pipelines and facilities in place to be able to handle the development. We have started drilling CBM pilot projects. The results will determine the resource potential. Similarly, at Callum, our 2005 exploration work is crucial to determining the resource potential. They both have huge potential for multiple wells, and significant reserves and production. We're looking to come up with a game plan for future development at the end of this year.

Junghans: I just wanted to add that we have no CBM reserves presently booked. Industry CBM development is occurring all around us. Like Ernie said, we've got six pilot projects underway, four wells per pilot (we're coring those). We are doing CBM rock work. We have no reserves booked to it, and yet, everyone else is producing around us. We have the infrastructure, compression and the land; so it's just a matter of getting organized. Ernie's absolutely right: the two portions of our company that have a potential to really give us a huge boost and get recognized are CBM, which we feel will happen, and Callum, which we feel will crack, too.

Sapieha: If you combine the overlaying CBM with our Plains Belly River, these two plays in combination are outstanding for the company. ■



Compton Southern Alberta lands

Core Laboratories (NYSE: CLB)

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 bachelor of science 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.

Oil and Gas Investor: *Describe your strategy.*

Demshur: At Core Laboratories, our mission is to help our clients do two things: number one, produce more oil and gas every day and, number two, produce more oil and gas over the life of the field. We do that by helping our clients produce the incremental barrel of oil and equivalent from their producing assets around the world. Core is providing new technologies that help characterize the reservoir and the three reservoir fluids, those being water, crude oil and natural gas. The interaction of these fluids in the rocks and the knowledge that Core Lab technology brings to our clients enables them to produce more oil and natural gas every day and over the life of their field.

OGI: *What technologies are you using?*

Demshur: The technologies are wide ranging. First, on the rocks side, Core is using technologies that characterize the pore system and the interconnectivity of the pore system. From the dynamics side, Core has a new technology called Saturation Monitoring by the Attenuation of X-rays (or SMAX). We use a large CAT scan and subject the core to reservoir temperature and pressure as it would be at depth and then move the three fluids through that rock. We're able to image exactly how the three fluids move in the porous medium. Core Lab engineers dope the three fluids with iodine, which absorbs x-rays. As the CAT scan images the rock, we can actually see the fluids moving through the rock. That's a good indication of how the reservoir will actually perform under field conditions. Core engineers take the data from several core floods and scale up for the for results for the entire field. This is a good way for our clients to design a field flood using water, carbon dioxide or steam.

OGI: *How sensitive is Core Lab to commodity price?*

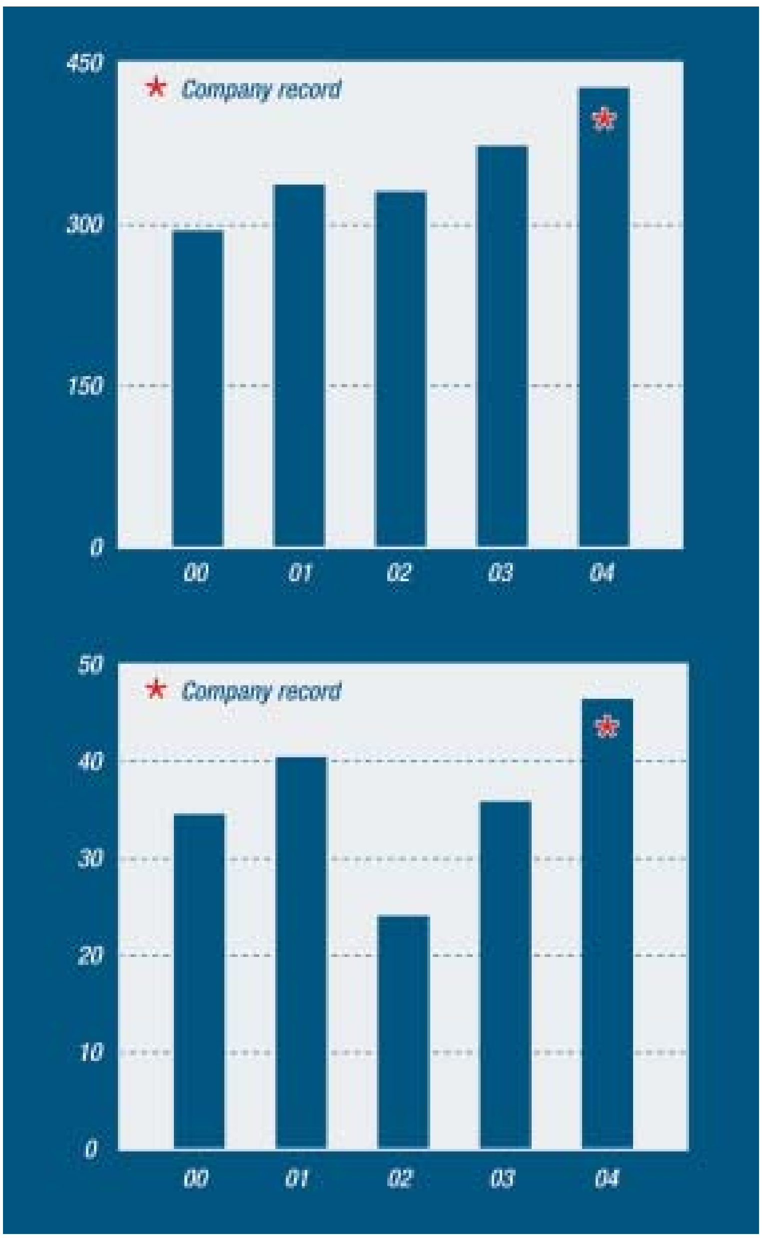
Demshur: In 2004, on worldwide average, it cost about $10 to find a new barrel of oil equivalent. Last year, to produce an incremental barrel cost between $4 and $5. The cost of an incremental barrel is about half of what it cost to find a new barrel. Logically, Core Lab services are less sensitive to commodity prices as the cost to produce an incremental barrel is significantly lower. During the past 10 years, Core's annual revenue has only decreased one time, a remarkable record for a service company in a cyclical business. With commodity prices in the mid-$50s, we're looking at technologies that should be utilized worldwide.

Currently, there are about 4,000 fields of size producing worldwide. Core Laboratories today works in about 800 of these fields. That's up from 400 fields that Core worked in 10 years ago. We've doubled the number of fields that we work in over the last 10 years, and our revenue is up almost ten-fold. Our mission is to have greater penetration of the market; read that the other 3,200 fields that Core Laboratories doesn't yet work in worldwide.

OGI: *What percentage of revenue comes from international?*

Demshur: GAAP accounting states that Core generates about 60% of our revenue from international, but in actuality, 70% of our revenue comes from international locations. About 60% is from overseas, but we do about 10% of international work here in the U.S. For instance, Core might do work from Nigeria in our Houston office, or we might do work from Angola in our California office. It depends on where the client is a resident, but when the company sends out the invoice from a domestic office, it is reported as U.S. revenue. In actuality, 70% of Core's revenue is from international locations. That is up significantly from 10 years ago. Core sees more and more importance of our network of international locations.

Moreover, Core's executive management team sees a growing importance of the national oil companies. Most recently, Core Lab has been asked by Saudi Aramco to enlarge our offices in Saudi because they're going to make a push to add additional capacity. We think international will become much more important for the entire oil industry, and more specifically, the oilfield service industry, and we've been planning for this over the last decade.



The top chart shows Core Laboratories revenue in the millions between 2000 and 2004. The bottom chart shows operating profit (millions) from continuing operations in the same years.

OGI: *What one or two markets may have great impact?*

Demshur: For company growth we have targeted the former Soviet Union, where Core currently has over 1,100 employees.We believe Asia Pacific also will be a big growth area for us. Core management recently had a global operations meeting in Singapore where we are targeting growth in the Asia Pacific market because we think the markets there will expand significantly over the next five years.

OGI: *How does the company deal with political and legal risk in international markets?*

Demshur: As we have over 70 offices in over 50 countries, Core has offices located in politically sensitive areas. However, our global diversity helps hedge that risk, so in any one area the amount of revenue Core generates from one country is really immaterial to the entire revenue-generating capacity of the company. Although we do have risk out there, it is minimized by the widespread nature of Core Labs' network.

OGI: *What do you think is the greatest difference working internationally as opposed to working in the U.S.?*

Demshur: It's a greater challenge internationally because some of the locations are remote, communications are not as good, transportation is not as good, and so it does take a little bit longer period of time to make sure we do the job right the first time. Core has been an international company for over 50 years, so a lot of our workforce in the international theater is used to these challenges and making sure that we can overcome them.

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

Demshur: I've been here at Core now for 27 years, and we've never seen our network of offices busier. During the last six quarters, Core has generated record revenues. For the second quarter of 2005, Core has given guidance for all-time records for revenue and earnings. As it stands right now, we are very busy, and much of the growth is from international crude oil-related projects. Here in North America, more and more of our projects are driven by natural gas and natural gas drilling in unconventional reservoirs—those being tight-gas sands and shale reservoirs.

OGI: *Does that lead to a backlog?*

Demshur: We, per se, don't have a backlog because we're primarily a service company, but the amount of service work we have is significant. Oil companies are spending more and more on capital expenditure dollars to recover the incremental barrel and barrel equivalent of oil, and that bodes well for a company named Core Laboratories. ■

Delta Petroleum Corp. (NASDAQ: DPTR)

John R. Wallace, Executive VP and COO

John R. Wallace, executive VP and COO, joined Delta Petroleum Corp. in October 2003. He was VP of Exploration and Acquisitions for United States Exploration Inc. from May 1998 to October 2003. Previously, Wallace was president of The Esperanza Corp., a privately held oil and gas acquisition company; and VP of Dual Resources Inc., a privately held oil and gas exploration company. He received a Bachelor of Science degree in Geology from Montana State University in 1982. He is a member of the American Association of Petroleum Geologists, the Rocky Mountain Association of Geologists and the Independent Petroleum Association of Mountain States.

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

Wallace: Our strategy is to simultaneously develop our drilling locations in both of our core areas, providing us with several years of continued development that should generate increases in both net proven reserves and cash flow. In addition, we are developing new resource play concepts that should allow us to have a large drilling inventory for many years to come.

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

Wallace: In the Gulf Coast region, we will be developing our Newton Field, which is a multiple stacked sand reservoir that is enhanced through hydraulic fracturing and thus exhibits long-lived production characteristics similar to many Rocky Mountain tight-gas sand fields. Our development projects in the Rocky Mountain region are typically characterized as long-lived reserves and will be focused in the Howard Ranch area of the Wind River Basin, and the Vega Unit in the Piceance Basin and Washington County area of the eastern DJ Basin.

OGI: *Would you like to, or do you anticipate, expanding to any new core areas this year?*

Wallace: We currently are not planning to expand into any new core areas. However, we are developing several new Rocky Mountain resource plays that would be very similar in geologic concept and would cause us to expand our Rocky Mountain core area.

OGI: *Where are you looking—what type of basin or play makes sense to you?*

Wallace: The types of plays that we develop at Delta are repeatable development projects with low geologic risk that we generally exploit through multi-zone, multi-stage fracture technology. Because of the low geologic risk associated with multi-zone targets, once we determine the economics of a well, we can repeat those same economics many times over generating tens if not hundreds of potential drilling locations.

OGI: *E&P companies are reporting stellar financial results in recent quarters. Can you keep up this earnings momentum, and how do you plan to do so?*

Wallace: We have enough drilling inventory to significantly grow the company's reserve base without having to purchase additional producing properties. By development of our vast drilling inventory, we will continually increase the company's reserve base over the next several years, which given a steady price climate will allow for continual earnings growth. Delta currently has 50% of its current daily production hedged through fiscal 2006, and 35% hedged through fiscal 2007. We hedge our production through costless collars whereby our average floor for oil is $37.50 per barrel and for gas $5.10, with corresponding ceilings of $53.40 per barrel of oil and $9.65 per million Btu. This hedging is meant to protect our capital expenditure budgets for the following year.

OGI: *What price deck are you using this year as you plan the drilling program?*

Wallace: Nymex flat prices of $5 for gas and $35 for oil.

OGI: *What is your budget?*

Wallace: Our fiscal year-end is June 30th, so this year's budget is getting close to being spent, and is projected to be $80 million. Next year's budget is projected to be $100 million.

OGI: *How many wells do you anticipate drilling or participating in this year compared with last?*

Wallace: For our fiscal year-end June 30th, 2004, we participated in 37 wells. For this fiscal year, we will participate in 92 operated and 17 non-operated wells. Next year, we plan to drill a similar amount of operated wells.

OGI: *What is your estimated production this year, and what percentage growth in production or earnings are you targeting?*

Wallace: We have not provided updated production or earnings guidance. However, we do expect to demonstrate quarter-over-quarter organic production growth going forward.

OGI: *Which one or two single projects or wells could have the most impact on the company this year?*

Wallace: The Howard Ranch area is typical of the type of resource play we are developing. Because the prospective interval is approximately 6,000 feet thick and targets numerous separate sand reservoirs that do not vary much over a large area, development of the project can be termed repeatable and predictable. Because essentially all of our reserves in this area are classified as probable or possible, development of this project area is expected to create significant increases in proven reserves. For every successful new well drilled, the new well itself will be a conversion of probable reserves to PDP reserves, and the four direct offsets to the new well will be a conversion of probable reserves to PUD reserves.

The Vega Unit in the Piceance Basin of western Colorado is similar to the Howard Ranch area in that it is a multiple stacked gas charged sand sequence that exhibits very little geologic variance and therefore very little economic risk at today's commodity prices. Similar to the Howard Ranch area, the Vega Unit will be a conversion of probable reserves to proven reserves.

Because of our significant acreage position in the Columbia River Basin and its similarity to the Howard Ranch area, any successful well in the play will have a very dramatic impact on how we view our drilling priority. The Columbia River Basin project is a very thick, gas-charged, multiple stacked sand reservoir that occurs over several thousand feet of gross interval. We are expecting higher permeability wells in the Columbia River Basin that may have reserves far in excess of similar types of fields in the Rocky Mountains.

OGI: *Drilling costs and acquisition costs are rising dramatically. How is that affecting you?*

Wallace: We could foresee a lack of drilling rig availability, especially in the Rocky Mountain states, and have addressed this issue by acquiring a significant interest in DHS Drilling with the express goal of having a preferential call on all the drilling rigs. DHS is a contract-drilling operator managed by Bill Sauer Jr. and Harold Hastings, formerly the managers of Sauer Drilling Co. DHS will initially have a fleet of 10 drilling rigs with depth capacities ranging between 7,500 feet and 20,000 feet. DHS expects to increase the number of drilling rigs owned by the company, and Delta will continue to have a preferential call upon all the rigs.

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

Wallace: We will always look for new acquisition opportunities that will either be accretive to the company or compliment our current proven reserves base. At this time, we are not actively pursuing a particular acquisition.

OGI: *What do you feel is the E&P industry's greatest challenge today?*

Wallace: We believe that a significant challenge for producers today is to overcome the general shortage of operational resources and services stemming from a lack of experienced personnel. The shortage of rigs and services is probably the largest constraint on growth, greater even than drilling opportunities and certainly more so than cash flow and capital given current commodity prices. ■

Delta's capital spending is focused in its Rocky Mountain core area and onshore Gulf Coast core area. The company also has leases and production in the Santa Barbara Channel of California and has significant leasehold in the Columbia River Basin in eastern Washington.

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 of Genesis Energy L.P., a public master limited partnership.

OGI: *Describe the strategy that drives your company.*

Roberts: We are an unusual company in that we own a large amount of naturally occurring carbon dioxide in the state of Mississippi, which we are using to extract additional oil from otherwise depleted oilfields in Mississippi and neighboring states. That gives us a real significant strategic advantage over any of our competitors who cannot get this carbon dioxide. We're able with this process to buy old fields and schedule them for tertiary carbon dioxide flooding. With that as our backbone, we feel we will be able to increase our basic production by over 10% a year for the next five years without acquisitions, which in our industry is going to be very unusual.

OGI: *Describe your core production areas.*

Roberts: Phase 1 of our carbon dioxide floods is in the southwest part of Mississippi. There are three major fields in production there and several more are undergoing flood. That area is producing close to 10,000 barrels a day net to the company. Phase 2 of our carbon dioxide floods will occur in East Mississippi when the pipeline from Jackson Dome reaches that area either late this year or early next year. Permitting for that pipeline is just about completed and construction will start later this summer. We're expecting to initially flood three fields and we've evaluated a total of six that gives us potential for adding another 80 million barrels of reserves just from the carbon dioxide flooding in that area.

We're also busy in south Louisiana where we're doing conventional drilling primarily for gas. And we're busy in the Barnett Shale play west of Fort Worth, Texas, where we've currently got one rig drilling horizontal wells. By the end of the summer, we expect to have four rigs working in that area.

OGI: *Will you expand to new production areas?*

Roberts: I think based on what we have at the moment, we have our plate full for the next five or 10 years even without expanding to anywhere else. If we see opportunities to use our expertise and our competitive advantage in other areas, we might consider it. But for the time being, at least, we have plenty to do in our current areas.

OGI: *How have high acquisition costs affected you?*

Roberts: While acquisition costs are rising, we generally buy depleted or nearly depleted fields, so our acquisition costs are relatively minor.

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

Roberts: We have been making small acquisitions on a continual basis, most of them acquisitions in the carbon dioxide areas where we think we can add reserves in the future. I've mentioned Phases 1 and 2, but we've also been planning—and we haven't announced where they're going to be yet—a Phase 3 and a Phase 4. We're buying some fields that would likely fit into one of these phases. We've also bought more acreage this year, almost doubling our acreage in the Barnett Shale.

OGI: *Can the earnings momentum be sustained?*

Roberts: I think at this point, it's all about price. We usually meet our production forecasts, so there's really no surprise there. But the prices for oil and gas are very strong. This year is the first year in many when our hedging hasn't taken away a significant portion of this upside. So now all of this extra revenue from higher prices is flowing down to the bottom line.

OGI: *Does your company hedge?*

Roberts: The only hedges we have in place of any significance are just pure floors, which means there is no limit to what we receive if the price is above that. Our floors are at a very low level, about $27.50, so they are obviously not much of a factor with oil prices well above $50.

***OGI:** What price deck is the company using?*

Roberts: We tend to use the current strip and then something a little bit less than that. We are trying to maintain our capital budget at equal to or less than our discretionary cash flow, excluding acquisitions.

***OGI:** What is the budget?*

Roberts: The budget for this year is now $350 million and that compares to approximately $210 million in 2004.

***OGI:** How many wells does the company anticipate drilling or participating in this year?*

Roberts: Most of our work is actually re-entering old wells, so we don't actually keep track of the number of wells that we drill per se. That's one advantage of the carbon dioxide tertiary play, we use old wellbores. Even if they have been plugged, we're often able to use the wellbore. Plus, we can re-enter using a workover rig, which is cheaper than a drilling rig. A lot of the steel is already in the wellbore, meaning we don't need to buy new steel, which has gotten significantly more expensive.

***OGI:** What is estimated production for this year?*

Roberts: We've been giving an estimate of an average of about 31,000 barrels a day for the year. That's about a 14% increase in production over last year if you take out the offshore component, which has been sold.

The Denbury Resources game lets players move to different fields and book reserves and show Wall Street the benefit of the company's strategy. "Dumb Luck" cards may move you ahead or cause you to lose a turn.

***OGI:** Could one or two wells have a great effect on performance this year?*

Roberts: Occasionally in south Louisiana, we drill wells that have significant upside potential. But we really don't focus on those because we do have projects, like the tertiary floods, that can be engineered and accurately forecasted. That really is the greatest upside for us, to be able to give a confident production. We anticipate oil production from carbon dioxide increasing from about 10,000 barrels a day net to us this year to about 30,000 barrels a day net to us in about four years' time. That's the most important thing. Any individual well would be nice, but it's never going to have an impact like that.

> **"There are a finite number of people who are trained that can work in this industry, we are experiencing a lack of experienced people in our industry."**

***OGI:** In the Barnett Shale, are you able to find rigs to meet your production targets?*

Roberts: Four rigs is the minimum that we need to develop our acreage. If we keep drilling, it will probably take about five years to develop our acreage with four rigs. That is the minimum that we felt we needed, and we did have to beat the bushes to get those four. I don't know where we would look right now if we wanted additional rigs, but at this point, we don't think we need them.

***OGI:** What is your greatest challenge this year?*

Roberts: It's the same challenge that's going to affect all the companies. Costs are rising, not just for drilling equipment, but for specialized fittings, compressors and all of the peripheral equipment, plus the availabiltiy is less. There are also a finite number of people who are trained that can work in this industry, and we are experiencing a lack of experienced people in our industry. Longer term, the lack of experienced personnel will probably be a more serious problem than a shortage of equipment. ■

Double Eagle Petroleum Co. (NASDAQ: DBLE)

Stephen H. Hollis, President and CEO

Stephen Hollis has served as the president and CEO of Double Eagle Petroleum since 1994 and previously served as a VP. He has served as a director of the company since 1989. Hollis has been the president of Hollis Oil & Gas Co., a small oil and gas company, since January 1994, has been an affiliate of United Nuclear Corp. from 1974 to 1977 and a consulting geologist from 1977 to 1979. In 1979, Hollis joined Marathon Oil Co. and held various positions until 1986 when he founded Hollis Oil & Gas Co. He is a past president of the Wyoming Geological Association and 1999 president of the Rocky Mountain section of the American Association of Petroleum Geologists. He received a Bachelor of Arts degree in geology from the University of Pennsylvania in 1972 and a Masters Degree in geology from Bryn Mawr College in 1974.

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

Hollis: Double Eagle has put together leaseholds in the Rocky Mountains, and we've been putting together projects to drill and develop, both operated and non-operated. We get them drilled and continue in the development drilling and have been able to grow the company significantly with that strategy — very little acquisition, but an occasional acquisition of a property that we feel is strategic to help get us along that route.

OGI: *Briefly describe your core production areas.*

Hollis: We have two core production areas. One is the eastern Washakie Basin in south central Wyoming. We have about 50,000 gross acres and about 30,000 net acres in that play. We've developed a coalbed-methane play that currently is producing about 6 million a day to the company. Second would be the Pinedale Anticline. We have an acreage position there that's non-operated and have been involved in the development of Pinedale. That represents probably about 3 million a day for us. Then we have about 1 million a day that's scattered around in other properties.

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

Hollis: Yes. We're currently acquiring acreage on a large play and have acquired 102,000 acres, gross and net, on a new play that we're currently developing. We haven't released the location yet, but it should be out fairly soon. We're always looking for new areas to go into.

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

Hollis: Really, with acreage prices the way they are in Wyoming, it's been difficult to put large acreage positions together. We've been looking for areas that have been overlooked for one reason or another, that we feel will be developed in the future. Occasionally, it's from pipeline infrastructure and getting to where we think there's going to be a major new line going in that will need gas. Or new electrical load needs in certain areas also have driven us to those areas.

OGI: *Some E&P companies have said acquisition costs are becoming prohibitively expensive. Are those factors important to you as you try to put together a new play?*

Hollis: Absolutely. I think purchasing existing production today, you just have to believe that oil and gas prices will continue on their upward trend, which we hope is true. But we don't have as much faith as others, apparently, on that.

OGI: *Can the earnings momentum be sustained?*

Hollis: We've certainly been growing our finances greatly. We've more than doubled our revenues in the last two years, and we're well on our way this year to do it again. So it appears we can keep it going. On the earnings end, we have a couple of things that came in this year, such as deferred tax (it's not a cash item) that affect our earnings per share, but our cash flow has just continued to grow. I believe that in the first quarter we had more than doubled our cash flow versus last year. So cash flow-wise, I believe we are in very good shape, and we should continue to be.

OGI: *What's the company's hedging strategy?*

Hollis: We have chosen to lock in gas prices for one to two years with between 40% and 50% of our production. We do that with fixed contracts where we just lock in 1 million a day for a set price for a year or two years.

OGI: *What kind of a price deck is the company using?*

Hollis: We look at two scenarios. One has a current price, which is retting a lot done economically. What we've done is tried to redesign production facilities to at least lessen the need for those kinds of equipment.

OGI: *Service costs also have been rising. How has that affected you?*

Hollis: It's amazing. They've been rising dramatically, and we worry about that and constantly rerun numbers. But the price of gas has been rising enough that it has more than compensated for it, so far.

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

Hollis: We have the money, and we have the projects, and now it's people and execution. That's where we are centered in on. It's difficult to get good people, and it's difficult to get the timing to work unning about $6 today. And then we also look at a price deck that would be more of a disaster scenario. Really, most of our projects are geared to still be profitable between $2.50 and $3.

Double Eagle drilling the 13-7A well at Cow Creek Field, Carbon County, Wyoming.

OGI: *What is the budget?*

Hollis: We're hoping to spend about $15 million this year. I don't know if we'll get that high or not. Last year we spent about $8- or $9 million, and so we're trying to up that quite a bit this year.

OGI: *Is the company giving any guidance on production for the year?*

Hollis: The first quarter was up 78% from 2004, and we hope we can continue that trend through the year.

OGI: *How many wells does the company anticipate drilling or participating in this year, and how does that compare with last year?*

Hollis: We participated in 110 wells last year. I believe we'll probably be within that number again this year.

OGI: *What accounts for the increase in production since last year?*

Hollis: Development drilling at Pinedale Anticline and on our eastern Washakie area.

OGI: *Does the company have one or two wells or projects it believes could have the most potential impact on its performance going forward?*

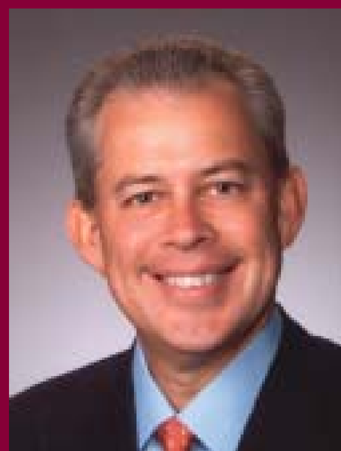
Hollis: We have the enviable position now that we basically can do our projects within cash flow, and so I don't see any of them being a huge roll for the sky there. We do have one project, Christmas Meadows, which is down in Utah, right on the northern flank of the Uinta Mountains, that has the potential for on the order of a ten-fold increase for the company. But it's extremely wild and it should get drilled either this summer or next summer.

OGI: *How is rig availability affecting the company?*

Hollis: It affects us gravely. It's incredible how the economics have stayed good with the price of gas where it is today; however, getting the equipment in a timely fashion is a very difficult problem for a small company. We're finding larger companies are contracting the rigs for two to three years and have tried to suck them up and keep them off the market. However, we're finding there are windows where they can't keep them busy. And if we get everything ready to go, we should be able to get our wells drilled. It's just never on our schedule. It makes us look at ways of getting things done without having to use a lot of rigs and equipment. Workover rigs have been very difficult to get, it's difficult to get rigs that are capable of gout. So it will be a constant challenge through the year. ■

Endeavour International Corp. (AMEX: END)

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, COO 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.

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

Transier: Our basic strategy is to build a balanced E&P company focused in the North Sea. The goal is to create the technical skill set and tools of an exploration company, combined with the ability to conduct mergers and acquisitions. That way we build a production base that can fund the exploration activity over a long period of time.

We believe that the North Sea represents a huge province of unfound reserves not unlike the Gulf of Mexico between 15 and 20 years ago. We plan to take advantage of the remaining infrastructure that the majors have left behind.

OGI: *You had some interests in Thailand and also in Norway. Have those been divested?*

Seitz: We sold our assets in Thailand to focus exclusively on the North Sea, the producing province of the United Kingdom, Norway, Netherlands, Denmark and Germany. Currently, we have a three-country strategy focused on the U.K., Norway and the Netherlands.

OGI: *Could you describe your core drilling and production areas?*

Seitz: Our efforts are focused in the Central North Sea, primarily an oil-producing province, where we believe the exploration effort is not anywhere complete. There's quite a bit of infrastructure in terms of producing facilities; floating production, storage and offloading vessels; and fixed platforms. More than half of our exploration licenses in the Central North Sea have been acquired in this area.

The other major producing province in the U.K. is the Southern Graben Basin and that is where we are focused on exploring for natural gas. We own interests in two oil-producing fields in Norway, the Njord and Brage, where we have production net to us of 2,000 barrels a day.

OGI: *Are you looking to expand to any additional core areas, or will these be the focus?*

Transier: We feel there is still plenty of work to be done in the North Sea. We enjoyed great success in the 22nd Seaward Licensing Round held last year in the U.K. As a start-up company, Endeavour was the third largest award winner of licenses. We now hold access to more than 600,000 acres of property. In August, we will begin a four-well drilling program that will begin to test some of this acreage.

Norway is a longer-term play with even more potential than the U.K. We positioned ourselves in that country late last year by buying a small company that has an excellent technical and commercial team to pursue energy opportunities. This year, we are expanding into the Netherlands. We believe there are significant reserves yet to be found in these three countries. There may be others, depending on where our exploration efforts lead us.

OGI: *The company is just beginning to report revenues. What are expectations?*

Transier: With 2,000 barrels of production a day in Norway, you can expect revenues between $30- and $35 million, depending on commodity prices, with a cash flow between $14- and $16 million. Our cash general and administration expenses for this start-up company are less than $1 million a month, so we expect to generate positive cash flow through the acquisition we made. That benefits the investors who put capital into us. John and I have raised $130 million in capital in the first year the company was in existence. That means that all those dollars will be spent toward growth in terms of drilling and mergers and acquisitions.

OGI: *Do you hedge at this point?*

Transier: Because of the tax rates in Norway, about one-third of our production is hedged at a mid-$40 price range. For us, it is just downside protection that does not have a big impact on the top line numbers.

Endeavour holds interests in two Norwegian producing assets, including the Njord Field pictured here. In 2004, the company and its partners were awarded working interests in two licenses near the Njord where it plans to conduct exploratory evaluations.

OGI: *What kind of a price deck are you using this year?*

Transier: We started out fairly conservative. With the increase in commmodity prices, we are now using, for internal purposes, a price deck of approximately $40 a barrel. That price may still be low, given the strength in the oil and gas prices, but we plan to run our business conservatively.

"We have raised $130 million in capital in the first year the company was in existence. That means that all those dollars will be spent toward growth in terms of drilling and mergers and acquisitions."

OGI: *What's the budget this year?*

Seitz: We expect to spend about $30 million this year for development drilling in Norway and the drilling of four exploration wells in the U.K. sector.

OGI: *How does that compare to last year?*

Seitz: The only capital outlays that we had last year were in Thailand, and that asset subsequently has been sold. It was between of $4- and $5 million.

OGI: *Could you discuss the role of technology in successfully exploiting a mature field?*

Seitz: The oil price crash of 1999 caused a greatly reduced period of wildcat drilling throughout the North Sea as the focus of majors moved to West Africa, deep-water provinces and Russia. There is much opportunity utilizing high technology reprocessing, and our exploratory team has identified a significant number between 50- and 100-million barrel prospects. There is new seismic being shot that will unveil even more. Remember, it was only three or four years ago that the giant Buzzard field was discovered. Discoveries are still being made on an annual basis in the U.K., Netherlands and Norway; many of these are the results of applying new technology.

Transier: That is how John and I started. We bought a large technical database called MegaMerge from PGS. It basically brings together all of the 3-D seismic that had been shot over the major producing areas in the North Sea, including Norway. That purchase was bought by us personally, and that is when we founded North Sea New Ventures. In February 2004, we merged into an existing public platform that owned Thailand assets and renamed the company Endeavour International Corp.

Our company is built around a strong exploration team. Here we are, 18 months later, and we have one of the largest exploration staffs of any company focused in the North Sea, including the majors, armed with the most extensive technical data available from the region. This year, Endeavour will participate in 10% of the exploration wells of the estimated 40 wells that will be drilled in the North Sea. We consider that quite an accomplishment in our short life.

Seitz: This MegaMerge product is the first time that a regional 3-D seismic survey was available across the entire North Sea, across the U.K., Norway and into Holland. That's very important to understand. Because of the length of the original leases—they were granted for, 46 years in the 1960s and 1970s—there was not much turnover in acreage. There was also very little incentive for seismic companies to shoot speculative 3-D data, unlike the Gulf of Mexico. Of course, it was these large-scale regional 3-Ds that fueled the explosive drilling surge in the late 1980s and drove the 1990s in the Gulf of Mexico. That's why we think the North Sea is positioned for a renaissance. In fact, that's already underway.

OGI: *Drilling costs and acquisition costs in North America have been rising fairly dramatically. What's been your experience working in the North Sea?*

Transier: There's no question that it's costing us more money to do business in the oil and gas arena. Services and steel are expensive; we've seen an across-the-board increase in the cost of drilling and completing wells. Fortunately, thus far, it has not kept pace with the dramatic increase in commodity prices. We're still well ahead of the game.

OGI: *If there's a readjustment in commodity prices, how would that affect your company?*

Transier: When we first started the company, we were running oil price scenarios of $25 per barrel, then $30 per barrel. There could be significant adjustment from where oil prices are today. However, because of the infrastructure in place and the fact that we are drilling near it, we believe we can generate very, very good rates of return for our investors in this company. Remember that the management team, including the two of us, own almost 24% of this company. I promise that we are focused on the same thing as our stockholders—good returns.

OGI: *What do you see as the greatest challenge facing your company this year?*

Seitz: The challenge is it just takes time to make things happen on the international front. However, we are now well positioned to see our first four wildcats drilled with activities slated in August and September. And we are already spooling up to prepare for the 2006 campaign where we anticipated drilling as many as six wildcats in the U.K. sector.

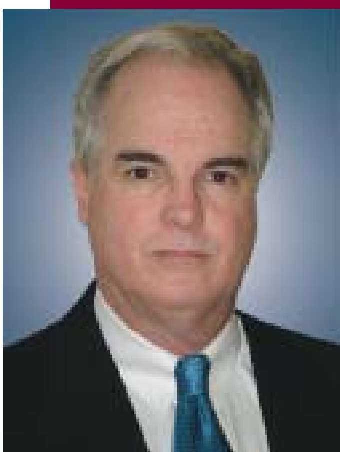
OGI: *Looking more broadly at the overall E&P industry, what do you think the greatest challenge is facing it today?*

Transier: Generally, the E&P industry is not spending money on exploration activity worldwide. Mostly because of high commodity prices. John and I have both been with E&P companies in the past that were beat up by investors and the analyst community for not managing their financial structure properly. In these times of better commodity prices, they are reaping the cash flow from their assets, but not really reinvesting in finding new reservoirs and to replacing reserves. The dilemma is that with such a strategy, they will not be able to grow their companies over time. More money and effort must be made to find exploration plays around the world and create real growth.

"Remember that the management team, including the two of us, own almost 24% of this company. I promise that we are focused on the same thing as our stockholders—good returns."

Seitz: The irony, of course, is that the industry has never had better or more effective tools to explore and develop. As an industry, we are not reinvesting a significant portion of the cash flows into exploration. This is worsened by a lack of industry access to prospective acreage in the U.S., off the Florida and California coasts and parts of Alaska. The world is not running out of oil; it is running out of will to reinvest in exploration and the political will to make new areas available to exploration. ■

Far East Energy Corp. (OTCBB: FEEC)



Michael R. McElwrath, President, CEO and Director

Michael R. McElwrath served as acting assistant secretary of energy in the first Bush Administration. He was responsible for development of the nation's coal, oil and gas policies as well as management of $2.1 billion in programs, including the Clean Coal Program, the National Oil and Gas Research Program and the Strategic Petroleum Reserve. He was an international negotiator and policy advisor in the Reagan Administration. Upon leaving the Bush Administration, he had stints as director of the National Institute for Petroleum and Energy Research and Director of British Petroleum's outsourced E&P lab for the Americas. McElwrath has held a number of senior executive positions in the energy industry and has a Juris Doctorate from the University of Texas School of Law, as well as a Bachelor of Arts Honors Program.

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

McElwrath: We are focused very narrowly, but on a project that is massive in potential. To be precise, we are intently focused on coalbed-methane development in China and have good reason for that intense focus because, through a series of fortunate events, we have managed to obtain production sharing contracts that cover over 1.3 million acres of coalbed-methane concessions in China. It is estimated that those projects contain somewhere between 9.2- and 12.4 trillion cubic feet of potentially recoverable coalbed-methane resource. Our biggest project comes from a million-plus-acre farm-out from ConocoPhillips in Shanxi Province, which was estimated by ConocoPhillips to contain between 13.1- and 19.6 trillion cubic feet of gas in place. To put this in perspective, the gas production of the entire U.S. for 2004 was approximately 22 trillion cubic feet.

OGI: *What steps will the company take to develop the resource and begin production?*

McElwrath: In China, there is good news and bad news when it comes to the coalbed-methane resource. The first piece of good news is that the Chinese coal seams are, in general, notoriously gassy in content; they have very high gas content. I say notoriously so because last year in China there were over 6,000 miners' lives lost in coalmine explosions caused by the high methane content. Six thousand lives lost—you don't have to go any further than that. Of course, there's a lot of empirical measurement data, but the bottom line is it's painfully obvious from the loss of life each year how much gas there is in these coal seams.

The bad news is, if you can call it bad, that the coals in China—generally speaking again—are of relatively low permeability, so conventional vertical wells and conventional fracing technology often produce mediocre results. You frequently get gas, but the results are less than optimal because of the tightness, the low permeability. On the other hand, the low permeability is in part responsible for the high gas content, and many of the coal seams are 8 to 16 feet thick. Thick coal seams with high gas content but low permeability represent a fertile target for underbalanced, multilateral horizontal wells. And that's precisely how we are tackling things. We are drilling three big, underbalanced, multilateral horizontal wells this year in China—two in our ConocoPhillips project in Shanxi and one in our South China project in Yunnan Province.

OGI: *What's the timing for production to begin?*

McElwrath: Assuming that we have success, we would hope to achieve production in the latter part of the year.

OGI: *What additional infrastructure needs to be added to fully develop the fields?*

McElwrath: We are quite fortunate on that account. Our million-acre ConocoPhillips tract is attractive because it is split into two blocks of roughly a half-million acres each. Those two blocks sit on two large trunklines leading to the two largest cities in China. Our southern block sits within 10 kilometers of the famous west-east pipeline to Shanghai. The northern half-million acres sit between 40 and 50 kilometers south of the Shanjing II pipeline to Beijing, which is scheduled for completion in August. We are very nicely situated. Couple that with recent the announcement that the provincial government of Shanxi—like other provincial governments—is now constructing its own intraprovincial pipeline network of three pipelines running west-to-east within the province and three pipelines running north-to-south, and it appears that we will have very good transport options.

China has moved rapidly from a situation of little or no transportation infrastructure, which of course is fundamental to marketability, to a situation where they will soon have a very viable transportation network.

OGI: *Is the price for natural gas set by the market or the government?*

McElwrath: This is an interesting dynamic in China right now. Let me first say that the Chinese have stated that coalbed methane is to have market-based pricing based upon supply and demand and not upon government-established prices. That is fundamental. Overall in China, the gas industry—from production, to transport, to pricing—is literally being born as we speak. It's like transporting yourself back 60-plus years in the U.S. The difference is that the Chinese are showing a strong inclination to compress 60 years into a decade or so. The way they are accomplishing this is to carefully study the U.S. and European gas markets—most particularly the U.S. and Norwegian gas markets and transportation systems—and to look carefully at things that took us decades to evolve. China needs true open-market pricing and open access to the pipelines. That seems to be the direction they are headed in.

OGI: *Do you see the local delivery infrastructure developing at a similar pace as the pipeline takeaway capacity?*

McElwrath: They're getting there quite rapidly. There's nice infrastructure already developed in the Beijing and Shanghai areas. You're now starting to see that spread out to a lot of the cities not only along the eastern seaboard, but also in east-central China and in the industrial areas.

The nice thing about the coalbed methane, and I think the reason the government has indicated strongly that it will encourage market pricing, is that it really addresses multiple aspects of China's energy/environmental needs. That's the big rub in China, how to fuel the racing economic engine without exacerbating already severe environmental problems. They've got between 8% and 10% year-over-year GDP growth; their economic growth is threatened by insufficient energy. At the same time, they have seven of the 10 most polluted cities in the world, largely caused by burning the fuel (coal) that feeds their energy appetite. As a maturing nation and one that is acting in a very responsible fashion, they are trying to reduce pollution.

What makes coalbed methane so unique in addressing this energy/environmental dilemma? Well, coalbed methane is one of those rare commodities that can both provide energy and reduce pollution because (a) it is probably China's most plentiful domestic energy resource next to coal and (b) the coalbed methane produced would otherwise be vented into the atmosphere during mining operations. Methane is a very potent greenhouse gas, with 20 times the heat trapping potential of carbon dioxide.

When we produce methane in advance of mining operations, we are not only reducing the likelihood of loss of life in mining operations, but definitively reducing methane emissions into the atmosphere and producing a fuel that obviously burns substantially cleaner than coal.

OGI: *What do you see as the greatest challenge facing your company this year?*

McElwrath: For us, our very strong focus has to be on bringing in these first few wells. As I said, we are drilling three critical horizontal wells this year. It's our goal to clearly demonstrate that the gas we have is producible in substantial quantities and to begin to get an indication that the large numbers that have been projected may indeed be confirmed. So, that has to be our major focus. The other thing we will do as we are drilling these wells—assuming and planning for success—will be to identify potential markets and customers. Because of the rapidly burgeoning pipeline system and strong demand, we are feeling pretty confident in that regard. ■

Far East Energy EH-01 well-test in Yunnan Province, China.

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 for two years. Previously,at Banc of America Securities LLC, he held a managing director position in the Energy and Power group, which included responsibilities for originating and supporting distribution of energy-related debt and common stock issues as well as providing M&A advisory services. Prior to that Hansen was a managing director for the corporate finance department at Howard, Weil, Labouisse, Friedrichs Inc., where he provided execution of more than 50 equity and high-yield offerings and corporate advisory assignments. He received a joint degree in politics and economics from Princeton University.

***Oil and Gas Investor:** What price deck are you using for this year and next year?*

Hansen: For this year, we're using $44.75 WTI and $6.05 Henry Hub. We haven't published for 2006 yet.

***OGI:** What is your general outlook for the E&P industry?*

Hansen: My general outlook is continuing volatility but long-term strength in the commodities, primarily due to the lack of the traditional large supply influx, which is generally the response to high commodity prices.

***OGI:** In general, are you a boutique investment firm working mainly with mid-sized companies and independents?*

Hansen: Yes, we're looking for excellent growth stories in both the small-cap and mid-cap range where seasoned management teams with either excellent exploratory talent and prospective acreage or companies have begun high-profile projects but are unknown, under-followed and lack sponsorship.

A lot of the small-cap names might have a very good story, but have limited trading liquidity and are looking for broader coverage. We're focused on taking names that we think have very good upside and potential for growth and trying to work for them to provide research, and sales and trading sponsorship along with corporate finance expertise.

***OGI:** What is your favorite type of company to work with?*

Hansen: What we like is really what Wall Street is looking for right now, which are long-term, repeatable plays with excellent potential to add reserves and production over a long period of time. Gasco Energy and Carrizo Oil & Gas are two of our favorite stories that we think qualify. Gasco has a big acreage play, and they're doing a lot of traditional drilling to validate their development model, and Carrizo has an excellent inventory of drilling locations in the Barnett Shale.

***OGI:** With the healthy climate we have given the high commodity prices, what are companies looking to do with your capital?*

Hansen: In most cases, it's to fund capital expenditures that are in excess of existing cash flow. Because of the strong commodity price deck, generally cash flows are very strong, so only those that have significant success would generally need to outspend their cash flow unless there are particular acquisitions.

We're looking for companies that aren't necessarily just making acquisitions, because everybody knows when there's an acquisition someone makes, those are the names that will need financing. We're looking for ones that are actually being so successful in their organic growth that they need to raise capital because they're outspending their cash flow for development drilling or picking up additional lease acreage in promising areas, but not necessarily just acquisition-related.

***OGI:** Is it rare for you to provide funding for someone trying to do an acquisition?*

Hansen: We'll do that too, and we like to spend a lot of time suggesting acquisitions to out existing client base. Understanding the strategic direction and vision of a client is very important so you do not waste a lot of management's time suggesting ideas that don't add to the overall long-term valuation of the company.

***OGI:** Why do you prefer to capitalize companies like that?*

Hansen: We think it's critical to the growth of the industry longer term to provide capital for growth companies that continue to be aggressively searching for new pockets of acreage, exploration or development drilling activity that may be passed over by larger companies.

OGI: *What is an interesting deal you've done recently?*

Hansen: One we worked on last year was the sale of Inland Resources to Newfield Exploration for $575 million. That was an important transaction for us. The challenges were to find the right fit for the Inland Resource asset-base. It was a manufacturing-type, long-lived reserve base that dovetailed very nicely with Newfield's long-term strategic plan.

Newfield had the capital to be able to accelerate the already successful drilling efforts by Inland. Inland had a nice acreage position—they'd done a lot of drilling on it but they had been cash-constrained in the past. So, when Newfield bought them, they dedicated a lot more resources to developing their asset base.

"A LOT OF WHAT WE LOOK FOR IS BASICALLY TRACK RECORD, EITHER IN THE EXISTING ASSET BASE OR FROM PAST DEALINGS OR PAST PERFORMANCE."

OGI: *When a deal comes across your desk, what is something you hate to see?*

Hansen: I'd have to say this is more of a historical comment, because recently, because of the high commodity prices, the cash has been coming in, allowing most companies to reduce debt substantially. But I think historically the biggest problem for the industry and the independents has been an over-leveraged balance sheet.

I think the issue is most companies get constrained by high leverage so they can't seize good opportunities because they're fighting their balance sheet. This is as opposed to companies with more financial flexibility that can more easily develop their prospects and their potential. Most of the companies today are in pretty good shape because the industry is doing so well.

OGI: *What do you like to see?*

Hansen: A lot of what we look for is basically track record, either in the existing asset base or from past dealings or past performance. If these management teams come to us and they've done a lot of similar transactions and they've been very successful, that lends their track record credibility, which is extremely important to us and to potential investors.

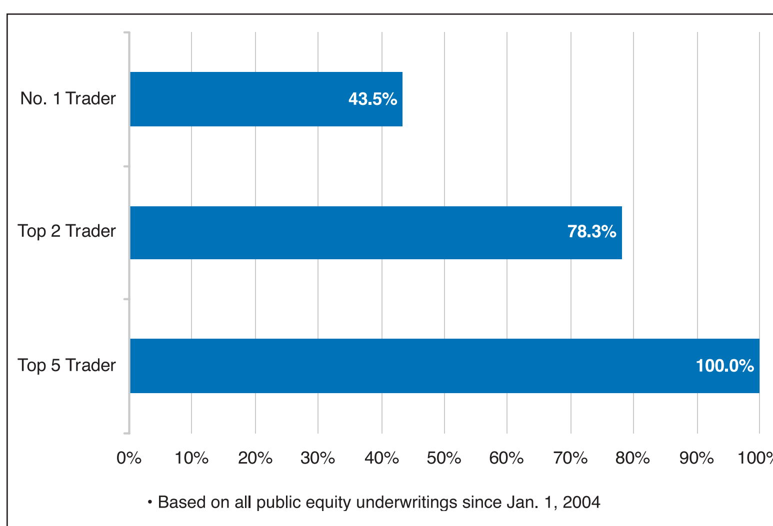
OGI: *What is the greatest challenge for your clients right now?*

Hansen: I think the greatest challenge is to be able to make an impression. There's a lot of people out there who are in the small-cap and mid-cap domain, all of which think they have very good chances for increased shareholder growth. It's difficult for investors to decide where to invest your time and money versus a lot of other stories with strong potential growth upside.

We're all in the same boat. If you have a conference like EnerCom, you'll have 50 or 60 names out there, all saying to the investors, "Buy my stock because we have a better chance than the other people of doing well." There's a limited amount of time to be able to provide a real, hard look at all of these companies. I think the trade-off in the industry is you can't cover them all and be experts about everybody, so you have to pick and choose a smaller number that you can really become comfortable with because no one has the time to really understand all of these small-cap and mid-cap companies.

OGI: *What is the mood of industry investors right now?*

Hansen: I think they feel comfortable with the long-term commodity price prospects. However, the short-term volatility, particularly in oil prices, will continue to drive share prices. Investors want to be in the sector, they know it's a good place to be. I think they'll try to find inflection points to get in and out of the marketplace for the short term, but I think they believe in the long-term fundamentals. ■



First Albany Capital Inc. public equity underwritings—strong post-deal support.

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 Bachelor of Science degree in general studies, with a business major and minor in natural sciences from Louisiana State University.

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

Dumas: Very simply, we made a decision to focus and discipline ourselves in three segments of the industry: specialty chemicals, downhole production tools and downhole drilling tools. Within specialty chemicals, we have disciplined ourselves to stay in higher value-added areas of cementing, stimulation, acidizing and fracturing. As we have matured, we've moved into production chemicals, including what we call capillary foam additive, which utilizes capillary tubing inserted into wells—primarily brownfields—and injecting specialty chemicals, which we developed in our research facilities in Marlow, Oklahoma, and Denver, Colorado.

In our downhole production tools, we have a patented rod-pump valve called a Petrovalve, which demonstrated tremendous success throughout the world and is now being adopted by various major international oil companies. We've focused our marketing internationally because there are larger applications than the fragmented uses in the U.S. This valve has been very successful in increasing production, and Petrovalve has performed successfully in countries like Russia, Oman, Venezuela, Argentina, Indonesia and Canada.

In our downhole tool sales and service group, we have grown very rapidly and successfully. We manufacture, sell and/or rent any kind of downhole tool that's used in drilling, whether it be in the oil and gas, water well or mining industry. It's become a very important facet to our business. Our strategic growth and our acquisitions strictly adhere to these three segments.

OGI: *There's been increased interest in producing from nonconventional plays in places like the Rocky Mountains. Has that affected the company's business strategy?*

Dumas: We have put a great deal of emphasis in the Rocky Mountains, including the completion of a strategic acquisition in that area at the beginning of this year, which is a tremendous boost to our profitability in that part of the world, and is now moving us further into coalbed-methane drilling. With the acquisition of Spidle, our overall Rocky Mountain business is expanding very rapidly and, I might add, very profitably.

OGI: *What capabilities does the Spidle Sales & Service acquisition bring to the company?*

Dumas: Before we acquired Spidle, we were primarily in the casing centralization business and had developed a very low-cost packer for coalbed-methane drilling. But it was a much smaller segment of our overall company. Acquiring Spidle expanded our business significantly and that gave us the offering of downhole drilling stabilization, mining tools and bits.

OGI: *Tell us about your R&D priorities.*

Dumas: We have begun to forecast our R&D more diligently than in the past, and right now it appears that R&D is going to run somewhere in the neighborhood of $1 million this year. The majority of that R&D will be spent in the chemical area. We have developed two very successful specialty chemicals. One of which is an environmentally safe green chemical that we brought into the fold, and it is doing extremely well. Because it's patented on a worldwide basis, we're seeing significant growth—we've doubled sales each year and anticipate that the sales of that product will double again this year.

The other R&D area is our engineering group in Houston. We're spending time developing modifications to our downhole Petrovalve business as well as expanding the product offerings of our downhole drilling tools, particularly developing equipment that allows us to present a total package in the casing-cementing business.

OGI: *Tell us about your international business.*

Dumas: That began to evolve quite seriously in 2004. Prior to that time, we only had a few orders that would go abroad. However, in 2004, we ended up doing about 15% of our total revenues of $22 million. This year, we anticipate that our international sales will be closer to 25% of a much larger revenue base of approximately $50 million. We're doing a lot of business in the Middle East and Russia with our Petrovalve business, in Russia with our chemical business and Southeast Asia with our downhole casing centralizer business. We're doing quite a bit of business in Mexico as well.

OGI: *Your specialty chemicals group also is evaluating the possibility of expanding manufacturing operations in new geographic locations. What's being contemplated there?*

Dumas: We are moving our chemical business very vigorously and aggressively into the Rocky Mountains. In addition, we're currently setting up an office in the Netherlands, because we have been given orders to start producing and providing our specialty chemicals to various operators in the North Sea as well as on the European continent. Our office and company in the Netherlands will be our first foreign-based company.

OGI: *In keeping up with demand, are you facing challenges securing materials and personnel?*

Dumas: If anyone analyzes our revenue base, they will note that our revenue per employee is extremely high and growing. We're not looking for a lot of people. We're looking only for individuals who fit our culture and fit our specific needs. While we have taken great pains to hire those people, which sometimes takes longer than normal, we have been able to hire some highly qualified people. Interestingly enough, the departures of senior and good-quality middle management people out of some of the larger oilfield services companies have given us the pick of the litter, if you will, in many instances. We've been able to add probably 20 people just this year that have extraordinary talents that, because of changes in management or management styles at other companies, they ended up leaving or being eliminated from their company. We found them to be the kind of people who we want in Flotek. We're still not a large company in terms of personnel; we've got less than 120 people in our organization, generating around $50 million in revenue. We're not looking to build a large employment group. What we're looking to build is a very strong net profit-focused organization.

OGI: *Are you gaining pricing power?*

Dumas: We've been able to pass along savings to our customers because we have matured in terms of the way we do business and produce our products. As a result, our margins are growing, primarily due to the ability to produce our product at a lesser cost than we were, let us say, a year ago. However, we have recently passed on price increases in our chemical business because we buy a lot of material from suppliers, and they don't seem to have the same discipline we have; they just run the prices up, and as a result, unless we've been able to change our chemistry, we've had to raise our prices. We had a price increase in our chemical business in June of this year, which was the first one we'd had in 18 months, and yet our margins have continued to improve in the chemical area.

With regard to our downhole drilling tool business, as we become more self-sufficient in producing our products, we've been able to reduce our costs. Therefore, we've been able to hold our costs and pass those savings on to our customers. ■

Flotek's Chemical division's dry blending facility in Marlow, Oklahoma.

Gasco Energy Inc. (AMEX: GSX)

Mark Erickson, President and CEO

Mark Erickson is president and CEO of Gasco Energy Inc. He was founder and a senior officer 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). Erickson, a registered petroleum engineer with 17 years of experience in business development, finance, strategic planning, marketing, project management and petroleum engineering, received his masters of science degree in mineral economics from the Colorado School of Mines.

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

Erickson: Increasing shareholder value through the exploitation of unconventional gas resources—primarily tight-gas sands. We've put together a large acreage position in two strategic areas in the Rocky Mountains.

Our primary focus is in the Uinta Basin in Utah where we have approximately 135,000 gross acres, 68,000 net acres under lease. To date, we've drilled 30 wells there. That play is emerging, we've demonstrated commerciality, and it's moving more into an exploitation window for us. In 2005, we're currently targeting a $38-million budget. We're looking at drilling about 20 gross wells in the Uinta Basin versus 10 last year, so we're trying to double the activity level. We're in a strong capital position with about $46 million cash on hand at the end of the first quarter. Our investment should result in strong production and reserve growth.

In the Green River Basin, we've put together another similarly large acreage position of approximately 130,000 gross acres and 65,000 net acres. We've acquired a lot of 2-D and 3-D seismic data, participated in nine wells and identified a couple of interesting opportunities but haven't demonstrated commerciality yet. As a small company, we can't do everything we want to do. So, we've preserved the Green River Basin opportunity as best we can while we focus our limited capital and manpower on the Uinta Basin.

We believe the Uinta Basin may yield Gasco up to 3,000 gross drilling locations and about 1,500 net locations on 40-acre spacing. We've retained operations on about two-thirds of what we own in the Uinta Basin. Our acreage there is about 30 miles from one end to the other and between 5 and 10 miles wide. It is a large contiguous acreage block. The formations we're targeting are the Wasatch, Mesaverde and Blackhawk at depths between 7,000 and 13,000 feet. It's primarily natural gas with condensate and some oil upside in the shallower Green River Formation.

OGI: *Would the company like to, or does it anticipate, expanding to any new core areas this year?*

Erickson: We've looked at other plays and will continue to do so. However, our primary focus is going to remain in the Uinta Basin. That play has demonstrated low geologic risk. The key to successful exploitation is technology. The technology Gasco is using is stage-fracing techniques, similar to what's being used in the Piceance and Green River basins.

OGI: *What type of basin or play would make sense to you to expand into?*

Erickson: I'm sure most companies would look at a good oil play these days, and we would too. We'd also look at plays that are complementary to our knowledge and technology base. But new plays are not something that we'd risk a lot of capital on. To look at other opportunities, it would have to be something that we felt we had an advantage in, could be put together on a low budget and had enough potential to bring in an industry partner to invest additional dollars into it.

OGI: *Does the company hedge?*

Erickson: We don't currently hedge. We'll look at it in the future. Because we don't have firm transportation right now, it would not be a true hedge. We've been marketing our gas through third parties that have firm transportation. As we strengthen those contracts to make them more long term, we'll investigate some hedging strategies.

OGI: *What kind of a price deck does the company use as it prepares its drilling program?*

Erickson: Gasco uses a $5-Nymex price for planning purposes and runs sensitivities between $4 and $6.

***OGI:** The company has reported some financial losses in recent quarters. Could you characterize the nature of those losses?*

Erickson: Primarily the losses that we've had are start-up type related losses. With a small production base, we're using equity while building cash flow. Gasco will start to make the transition to positive cash flow in 2006. However, future development and increasing our activity level will require additional funding.

***OGI:** As the company commented on first quarter financial results, it mentioned some challenges in the Riverbend Project in terms of completion efficiency and drilling performance. Have those been issues that affected the company financially?*

Erickson: They definitely affected the growth rate of our production and reserves. Gasco entered 2004 with one rig that we had just brought into service. The rig had been stacked for several years, so we had to work the kinks out of that rig and train crews. We went through that cycle three times in 2004. Entering 2005, we had three drilling rigs up and running with trained crews that were performing much better, although there is still optimization opportunities remaining. We are now drilling wells much faster. Blackhawk wells are approximately 13,000-feet deep. The early wells averaged about 58 days to drill. Currently drilling those wells is taking 40 days or less. We've made tremendous improvements there on drilling times.

The other area where we've gone through a learning process is with respect to fracing techniques. Because these wells are deep, between 12,500 and 13,000 feet, and over-pressured, they treat at very high pressures. The technology envelope in the Uinta Basin is being expanded, which requires special equipment and techniques. Gasco has made big gains in this areas as well.

In 2004, we also put in service over 40 miles of gathering system along with four compressor stations. The construction process caused delays that slowed our ramping up of production.

In summary, we entered 2005 with three rigs running, a much better understanding of completion techniques and the gathering systems in place. Gasco is at an "inflection point" where there should be steady ramping up of production going forward.

***OGI:** Any expectation as to when that inflection point could take place?*

Erickson: It is demonstrated in the first quarter results. It will continue and may even accelerate in future quarters.

***OGI:** Drilling costs have been rising fairly dramatically. How is that affecting the company?*

Erickson: Constant price increases put constant pressure on overall costs. Unconventional resource plays, in particular tight gas, are very capital intensive. We're dealing with marginal reservoirs, and the things we have to worry about are. "How much are you getting out of the wells?" and "How much are they costing us?" We've been able to offset some price increases by reducing drilling days and completion efficiencies, but there will be a limit to what we can do. We also need to stay focused on improving well performance.

***OGI:** Which one or two wells do you think will have the most significant impact on the company this year?*

Erickson: There's no doubt that our Riverbend Project in the Uinta Basin is going to have a dramatic impact on the company this year. The impact will come from increased drilling activity, improved completion techniques and the discovery of an additional producing horizon—the Blackhawk Formation. That formation is important to Gasco success because it has the potential to double productivity and double the reserves on a per-well basis. When you have a nice base from the Wasatch and Mesaverde formations and you add another producing horizon to the well, it can have a dramatic impact on the economics. How successful we are with the Blackhawk will have a big impact on our growth rate and also how successful Gasco is in the future. ■

Gasco drilling in the Uinta Basin.

Harris Nesbitt

Raymond Deacon, CFA

Raymond Deacon, CFA, joined Harris Nesbitt in 2004 as a senior research analyst in the energy and power group, focusing on E&P companies. Previously, he worked at First Albany where he was a principal and senior analyst covering the E&P sector. He held the same titles at RBC Dain Rauscher, where he worked previously, responsible for the oil and gas producer group. Earlier analyst positions include Standard & Poor's where he was head of the oil and gas team. Deacon earned a bachelor of arts from Colgate University, an MBA from NYU's Stern School of Business and a master of arts from Columbia University. He has served as a board member for the National Association of Petroleum Analysts.

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 2005?*

Deacon: The major theme we see playing is that OPEC's spare capacity is going to fall below 1 million barrels a day by the end of the fourth quarter, so prices are going to continue to move up in the near term—given that we see increased demand growth of about 1.9- to 2 million barrels a day this year and something fairly similar next year. So OPEC spare capacity combined with strong demand growth, mainly driven by the U.S. and China, is going to keep markets tight.

The basis we're using for valuation on the stocks is that \$42-oil is going to provide the long-term floor for oil. The global finding and development costs for oil have moved up about 50% in the last three years, and so \$42-oil is the Nymex price we believe producers need to justify new investments and earn a 10% rate on return. We don't think that the stocks are yet discounting that.

Going into 2006, the futures market says they will be above \$60 per barrel, but we're assuming oil is \$50 next year.

OGI: *What's the greatest challenge for companies in the sector right now?*

Deacon: The biggest challenge is being able to redeploy cash flow in politically stable areas where companies can earn a rate of return that exceeds their cost of capital. The opportunity set of conventional drilling prospects is getting smaller for U.S. companies operating within North America.

OGI: *Are we really running out of prospects?*

I think in politically stable areas, yes. We've got Russia, where it looks like larger companies are moving away because of the political uncertainty, and there are very large bottlenecks with the transportation of crude oil. Nearly 1 million barrels a day being transported by rail, which is very costly, on top of a very shaky political situation. Venezuela's government is not an ally of the U.S. at all. You've seen the tax regime change in the last two months. You've seen it become much more difficult to replace a drilling inventory in areas where political and market risks present significant deterrants.

OGI: *In today's market, some E&Ps have become very aggressive in their spending/drilling plans while others have gone conservative. Who's making the smarter move?*

Deacon: Most of these management teams—for the last 20 years—have not been able to reinvest their capital and earn a return in excess of their cost of capital, so it's very hard to change their mentality. I think that's going to keep prices high going forward, given that most of the larger companies are not reinvesting their cash flows, or are focusing on share buybacks and selling assets that are noncore to the smaller companies.

You did have BP come out and say it thought the new long-term oil price was going to be \$40, which is a fairly major statement.

OGI: *In your opinion, which geographic areas hold the most potential for further development?*

Deacon: Our biggest focus is on companies with unconventional natural gas exposure in the Rocky Mountain region and in Appalachia. Unconventional gas is really three things: it's "tight" (low permeability) gas sands where you have to use hydraulic fracturing to create permeability within very impermeable rock; you also have coalbed-methane gas production and shale gas. The areas we think have the most promise are the Rockies and extending up into Canada in Alberta, and also in Appalachia, where you've got a very large, economically recoverable resource base between the \$4 and \$4.50 gas price. The only two states with any meaningful production growth have been Wyoming and Colorado and we expect that, along with Utah, these will be the centers of growth plays in North America, since that is where the resources are located.

The industry as a whole is seeing rising costs and every year we drill more gas wells. Since 2003, the gas rig count has increased 50% and during that time period, production has actually declined 8%. Last year, the number of gas completions rose 10% versus 2003 and production fell 1.5%. You're clearly drilling more marginal wells that produce less and less.

"Refinery stocks need to be valued more on a replacement-cost basis than an earnings basis to encourage companies to take on the task of expanding capacity."

Among the unconventional players, technology is improving, and several of the companies we follow can grow between 10% and 12% organically and do so with roughly half to two-thirds of their cash flow. On the unconventional side, where the technology improves each year, the cost to add another million cubic feet of gas is going down, where the industry as a whole is seeing costs rise dramatically.

The guy who can add the most reserves at the lowest cost is going to be the guy who wins.

OGI: *What do you expect from OPEC regarding quotas in 2005? You've noted the need for OPEC to make immediate and material investments in refining.*

Deacon: The incremental crude oil that will be coming to the markets and will need to be refined is getting more and more sour, and the refining capacity to handle it just isn't there. Saudi Arabia is seeking to build refineries in India and their own country, and those plans are slowly moving forward. If you look at what U.S. refining stocks are being valued at, it's about $10,000 per daily barrel of refining capacity. The cost to build a new refinery is about $15,000 per daily barrel if you could even get the permits. The increase in refining capacity is going to be pretty slow to come until the market recognizes these things need to get filled. Refinery stocks need to be valued more on a replacement-cost basis than an earnings basis to encourage companies to take on the task of expanding capacity.

OGI: *How do you see China's oil consumption playing a role in the global balance of inventories?*

Deacon: We see continued strengthening in Chinese demand growth estimates versus current consensus numbers. The most obvious signs of this robust demand currently are expanding Singapore refining margins and low levels of distillate inventories in the U.S.

By the end of this year, China will start building a strategic petroleum reserve, which could come at the worst possible time for oil prices because we think OPEC is basically going to be out of capacity then. That would make you think prices will be moving up.

During the next three to five years, you're going to see 10 million people move from rural areas in China to more urban areas, and it's going to drive significant growth in the demand for oil, mostly for power generation. You'll see continued expansion of population and activity in cities and new and large cities being built, which will create demand for automobiles and infrastructure, all of which will be characterized by a highly energy-intensive environment.

OGI: *Are there companies in your universe doing some impressive things right now?*

Deacon: Our favorite stock is Murphy Oil. What makes it attractive is there are not many companies where you can look out beyond 2006 and see where the production growth is going to be coming from. They've made a world-class discovery in deepwater Malaysia that's going to increase production by about 60% between now and 2006. They also have plenty of capital to develop the discovery.

They're also very active explorers in the deepwater Gulf in some of the more interesting frontier areas. They have some core assets in the Canadian oil sands and offshore eastern Canada that have very low decline rates and generate significant amounts of free cash flow. They have 3 million undeveloped acres in Malaysia. There's also a 100-million-barrel discovery in deepwater Congo and what may be up to a 200-million-barrel discovery in the Thunderhawk Field in the deepwater Gulf of Mexico, neither of which is in our numbers now. ■

Kodiak Oil & Gas Corp. (Toronto Venture: KOG.V)

Lynn A. Peterson, CEO and President

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 employed by Ernst and Whitney as a certified public accountant. He received a bachelor of science degree in accounting fro the University of Northern Colorado in 1975.

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

Peterson: Our company is really focused in two areas. We're trying to balance our gas and our oil plays. We're in southwest Wyoming and up in Montana and North Dakota in the Williston Basin. Our strategy is to develop prospects, bring investment partners in and participate in the development of these plays.

OGI: *What are your core drilling and production areas?*

Peterson: We're focused in two specific areas. First is the Green River Basin on the west side of the Washakie Basin at the southern end of the Rock Spring uplift. We have a series of unconventional gas prospects that include coalbed methane and tight-gas sands. The other area that we're working is in the Williston Basin where we're involved in the horizontal Bakken play as well as conventional Williston plays in Mission Canyon and the Red River.

OGI: *Do you anticipate expanding into any new core areas this year?*

Peterson: Probably not this year. We're going to maintain our focus and try to develop these two areas.

OGI: *If expansion were to take place, when might that happen and where might you be looking?*

Peterson: The third area that we're actually involved in is the Overthrust Belt in western Wyoming and northeastern Utah. We have some lease holdings covering a deep subthrust structure and are watching some wells that are scheduled to be drilled this year. That would be our next area to try to develop.

OGI: *What type of basin or play makes the most sense to you?*

Peterson: Typically, we're looking for shallow plays, shallow being less than 10,000 feet in most cases (this is for the tight-gas sands we're looking for). In the Williston Basin, we're looking to get into trend plays where our risk is limited during the exploratory phase.

OGI: *E&P companies have been reporting some stellar financial results lately. Is your company participating at this point?*

Peterson: We are still in the startup development stage. This is only our third year. Up to this point, we have been assembling prospect acreage. This year, we plan to participate in 23 gross and seven net wells, and we expect to report our first earnings from oil and gas sales.

OGI: *You've been assembling properties during a time of fairly high acquisition prices. How is that affecting your strategy?*

Peterson: Well, up until recently we have focused on trying to obtain leases that are nearing their expiration term in Wyoming, typically federal leases. We've taken farm-outs in a lot of cases. Recently, we have acquired leases jointly with other independents. Bakken acreage in the Williston Basin certainly has been higher priced, and this is something we always take into consideration in our economics.

OGI: *What kind of a price deck are you using this year as you plan the drilling program?*

Peterson: We're looking at gas in the \$5- range and oil in the \$40- range.

OGI: What kind of a budget do you have this year, and how does it compare to last year?

Peterson: It's dramatically increased from last year. We have a \$6.5 million budget for 2005, and last year we were less than \$1 million.

OGI: *And that's simply a function of where you are in the development cycle?*

Peterson: That's correct. We completed some financing last year and the first of 2005, which put us in a position to move the projects ahead and to begin our drilling operations.

OGI: *How many wells will you drill this year?*

Peterson: It will be about 23 gross wells and 7 net.

OGI: *Do you have an estimate of what production could look like this year?*

Peterson: We hope to have a year-end production base between 200 and 400 barrels of oil equivalent a day. That's dependent upon rig availability.

> "What we've done is just build location, and then you find a window here and there on a rig and grab it. You've got to be ready to go, though."

OGI: *Rig availability seems to be a key concern. How is that affecting your company?*

Peterson: It's a difficult situation. It has certainly slowed us up in developing our corporate plan. We find in the Green River Basin we're able to contract shallower rigs, and we seem to be able to do our drilling program pretty orderly there. In the Williston Basin, we're definitely subject to working with other companies and trying to contract rigs on a long-term basis as a group. We're just in the process of trying to develop that strategy.

There's a difference between big and smaller companies. So many companies have got rigs under contract for several years and it's a difficult situation. What we're finding as we talk to people, is there are companies similar in size to us that are forming groups to try to get a rig under contract.

OGI: *How would that work?*

Peterson: Well, say you have a handful of companies and probably one group would contract it but then everybody would slot their drilling program in to try to accomplish it over the year. At least you'd have a rig lined up, and you could determine when you'd get your hands on it.

OGI: *And you've seen that in Wyoming?*

Peterson: Mostly in the Williston. Two companies have approached us, and that makes it kind of interesting. I think it's probably the only way we could play this game. Other than that, what we've done is just build location, and then you find a window here and there on a rig and grab it. You've got to be ready to go, though. Interesting time, but with prices the way they are, you certainly can't complain too much. You've got to take it all in a total package.

OGI: *Have the costs for drilling and rigs been within budget, or have they been moving targets that have made you go back and refigure?*

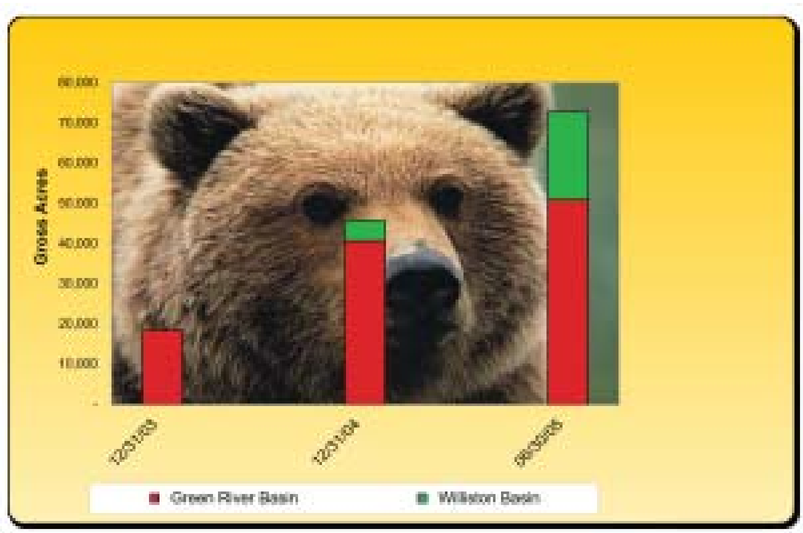
Peterson: I think it's a moving target. Steel prices and everything has gone up. The cost of operations continues to increase.

OGI: *What do you see as the biggest challenge facing your company this year?*

Peterson: Our biggest challenge is going to be rigs and being able to get the prospects drilled when we'd like to get them drilled.

OGI: *Looking more broadly at the E&P sector, what do you think the major challenge is?*

Peterson: Again, I think services are going to continue to be a major problem in the Rockies. And that goes not only for rig availability, but all your service companies, availability of pipe and continuing on in that direction. ■



Acreage growth by basin in the Green River and Williston basins.

Michael Baker Corp. (AMEX: BKR)

Donald P. Fusilli Jr., P.E., J.D., President and CEO

Donald P. Fusilli Jr. was elected president and CEO of Michael Baker Corp. on April 25, 2001. A registered professional engineer in Illinois and Pennsylvania, he joined the company in 1973 as an assistant engineer. He spent six years in Baker's General Civil Engineering Department before obtaining his law degree in 1979 and taking the position of assistant general counsel. He became general counsel in 1984 and corporate secretary in 1987. He moved to Houston in 1994 as executive VP-administration of the energy segment, and was appointed executive VP and general manager in 1995. Fusilli was elected president and CEO of the company in March 2000. 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 the 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. He serves on the boards of directors of RTI International Metals Inc., Robert Morris University and the Greater Pittsburgh Council-Boy Scouts of America.

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

Fusilli: Our vision is based on four principles: pursue and win the biggest and most challenging projects in our targeted markets; position ourselves to be paid for content, not the hours we charge; share knowledge and resources across our entire organization; and, of course, the bottom line is to make money.

Strategically, how we achieve that vision is to follow four supporting principles: first, we must maximize our growth in our traditional markets and the markets that we have identified as our future. Secondly, optimize—again, that comes back to entering functionally different types of contracts that are more performance-based rather than the hours charged. We're prepared to assume a degree of risk in negotiating contracts that are driven by goals—key performance indicators—that if we meet and or exceed, we are then compensated based on the knowledge we bring to the project. Thirdly, we must constantly strive to innovate. We recognize that ideas still drive the success of an organization, as well as our customers' organizations, so we constantly pressure ourselves to do that—to ask, "How do we come up with new ideas that fit the demands of our customers?" Last, but not least, we seek opportunities to leverage the skills and talents of our people across the entire business, which is structured around two core segments: engineering and energy.

We're discovering that leveraging our geography, relationships and skills as "One Baker" provides viable opportunities and is a great door opener for us. We are focused on the lifecycle of programs, projects and assets, rather than any one aspect of projects, so that we can use these skills to help our customers meet their strategic goals, whether it's planning, design, construction services, operations, maintenance and even renewal or strategic reuse of an asset. So that's the big picture for us.

OGI: *You mentioned core areas in the business and then some emerging areas. Could you describe those more fully?*

Fusilli: Our core area remains civil infrastructure engineering. We currently focus on several markets, including transportation, aviation, water/wastewater, pipelines, environmental, facilities and geographic information technologies. Of course, I'm just giving you a brief overview of our core engineering business. We provide a number of support services to each of these focused markets, as well. In our energy segment, we operate and maintain oil and gas production facilities. For example, we: operate over 300 fixed oil and gas platforms in the Gulf of Mexico; have over 800 people offshore in the Gulf of Mexico; have 100 or so people in onshore areas such as the Powder River Basin in Wyoming and the Panhandle in Texas. Overseas, we provide services for one of the world's largest LNG plants in Nigeria, and have about 1,200 employees—most of whom are non-Americans—in Nigeria, Algeria, Venezuela and Thailand. These projects represent the physical application of our skill sets—the labor component. Other core competencies in our energy segment include applied technologies, such as computerized maintenance management systems design and implementation, operations engineering, training and others.

Going forward, we are placing added focus on program management, where we would help drive and manage an entire program, including managing subcontractors, schedules and budgets. These are very high-value, highly compensated positions, and we are currently involved with the Federal Emergency Management Agency, the Department of Defense's Base Realignment and Closure efforts and the Department of Homeland Security's US-VISIT border control initiative, providing program management roles for these federal sector customers. Program management also bodes well for our strategy to plug ourselves into a customer's project, program or asset lifecycle. For example, using our core competencies of planning and design, we position ourselves to provide the follow-on construction services, operations, maintenance and renewal aspects of projects.

OGI: *What percent of the company's revenue on the oil and gas side comes from international work?*

Fusilli: Approximately 12% of total contract revenues are currently derived from international work, which includes both energy and engineering segments. This percentage has increased over time, since we prefer to follow our energy clients to wherever their E&P efforts take them, and as you are aware, they have been going international for some time now. We have received considerable work through engineering contracts for the rebuilding efforts in Iraq and Afghanistan, but the energy segment is responsible for a majority of that total of international revenues. Ultimately, we view the potential for international revenues to account for as much as 50% of our total energy revenues.

High commodity prices are motivating the super majors and majors to invest in international E&P and sell off properties in the Gulf of Mexico to firms that traditionally don't have vertical integration or operational capability. This positions us well to provide unconventional services to these "investors"—anything from supporting due diligence as it relates to property acquisitions, providing consulting for O&M procedures, training, HSE&C and other aspects of making these investments profitable for those customers.

I think the commodity prices are also forcing firms to consider different ways to manage their assets, which is opening doors for us with other, nontraditional organizations.

OGI: *How are your costs being affected by current energy market conditions?*

Fusilli: We're forced, like everyone else, because of resource demand, to attempt to control costs and perform efficiently. One way of helping to control operations costs is to share services across a network of producers. OPCO, a concept we came up with several years ago, was a programmatic approach to operating facilities for and sharing services across several different offshore Gulf of Mexico customers rather than just one. That model, if done properly, helped drive down total costs because we are eliminating redundancies in nearly every aspect of operations. Now, we're taking a Managed Services approach and find that to be a little bit of a challenge for customers because it is so functionally different. We have good examples that, if done correctly, provide significant savings for customers—savings that can be shared in the way of performance bonuses and provide higher margins than our basic supplemental labor offering. ■

Michael Baker Corp.—A professional services firm providing complete project/program/asset lifecycle expertise for our clients, most complex challenges.

NATCO Group Inc. (NYSE: NTG)

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: NATCO is a company that has been around for well over 75 years and has evolved into a leading technology provider as it relates to, in the broadest sense, separation equipment and process solutions. We have recently embarked upon a restructuring plan that we kicked off at the beginning of the year that is designed to take advantage of those technologies in the marketplace in order to grow our topline revenue and to improve the profitability of the company going forward.

OGI: *What prompted the restructuring, and what effect do you expect it will have on your customers?*

Clarke: It was needed to bring a bit more clarity to our strategy, to our customer markets and our shareholders. What we did was to organize our business around three technologies that have the greatest importance to our customer base, which resulted in the creation of three clearly defined operating segments.

The first and largest is the Oil and Water Technologies Group, which includes everything from standard and traditional separation equipment to large process systems that are installed around the world. The second is the Gas Technologies Group, which focuses on gas treatment, particularly on carbon dioxide separation utilizing proprietary membrane technology. Then, finally, we have an Automation and Controls segment, which is focused on E&I control panels and field service work.

By becoming better organized, we can be more responsive to our customers and manage the business better and also improve our profitability going forward.

OGI: *Within those business segments, do you see one as being particularly stronger than the others this year?*

Clarke: We're fortunate in that the strength of the industry is really going to benefit all three of the major business segments. If you look at the Oil and Water Technologies, we not only participate in a big way in the North American market, which has continued to be strong as rig activity continues to expand, but it's also big in the international markets where you're seeing more and more capital invested into long lead-time development projects, whether it's Southeast Asia, West Africa or the Middle East.

In Gas Technologies, that market continues to be strong as operators look at enhanced oil recovery. Automation Controls continues to benefit from increased industry activity, in particular the pick-up that we're seeing in the Gulf of Mexico and a new field service project in Angola.

OGI: *Tell us about your international business.*

Clarke: It's all about getting a better-coordinated approach to the market utilizing the strengths of both our U.K.-based engineering group and our Houston-based engineering group. By more closely aligning the Axsia organization with the Houston organization, we are able to do a couple of things, one of which is to get our overall cost structure in line and yet still have an integrated face to the marketplace that allows us to sell our whole portfolio of equipment and technology to global markets.

OGI: *Your backlog for North American operations at the end of 2004 was much larger than it was at the end of 2003. What is the current status of the backlog and its effect on your customers?*

Clarke: The backlog for our business is at record levels. Markets have definitely gotten tighter with respect to delivery schedules and having adequate technicians and people able to provide service at these heightened levels of activity.

OGI: *Is that better news for service companies than for E&P companies?*

Clarke: It's good news for everyone in the sense that it's a very robust time in the market. There's plenty of opportunity, whether you're on the upstream side or the service side as we are. Clearly, looking at the oil service side, it's a better market than we've had in the last five years, and we are beginning to see some price increases and margin improvements that have been hard to come by.

OGI: *How will you grow to meet demand?*

Clarke: We've done several things, probably the most significant of which is to adopt a lean management as a philosophy across our organization, beginning with an effort to lean up our manufacturing facilities. We operate four primary manufacturing and fabrication facilities throughout North America. By adopting the principles of lean manufacturing, we've been able to lower the cost per unit of equipment being manufactured in our facilities while at the same time we've freed up shop hours, which creates capacity to address the needs of the growing marketplace.

> "Our facilities [location] in West Texas, in Electra, is our home base for our traditional and standard equipment manufacturing. We have a facility in New Iberia, La., and in Calgary that does both standard and traditional, as well as the larger process systems."

On the field personnel side, we're increasing our field utilization rates of our technicians that are in our 39 branch locations across North America. This has been a big benefit to our being able to keep up with the operators, who are increasingly pursuing aggressive drilling plans that cover multiple rigs, multiple well sites and large capital budgets.

The better integration of our engineering resources has also allowed us to be more efficient. In doing so, we hope to enhance our win rate in going after new business.

OGI: *How do you plan for the possibility of a decline in commodity prices?*

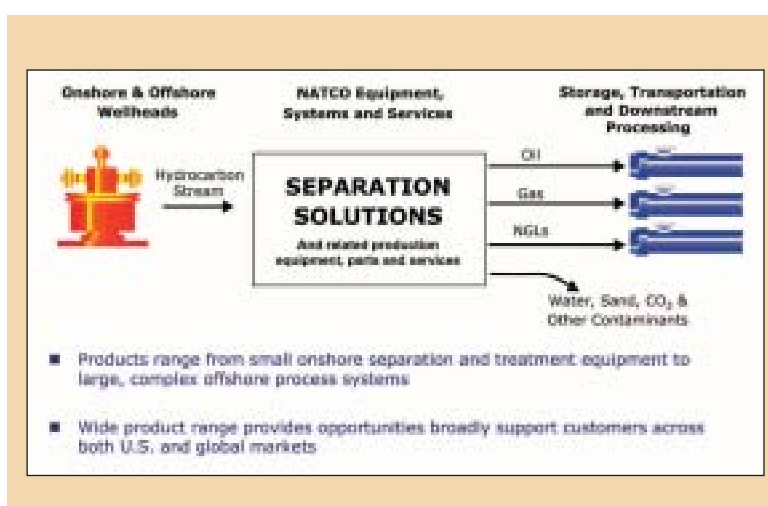
Clarke: We obviously are part of the oil and gas price cycle. We are typically a later-stage player. A lot of our work goes in the development side of the oil and gas value chain. We would expect to see oil and gas prices remain at rather healthy levels for a while. But as those prices correct, we still believe that we will see fairly strong demand coming out of the E&P sector because energy demand in this country and worldwide continues to be strong. The supply side of the equation is still one of scarcity.

OGI: *Do your manufacturing facilities meet just North American demand, or are they also serving the global market?*

Clarke: They serve the global market, but the facilities themselves are dedicated to a large degree to a specific equipment or systems. Our facilities [location] in West Texas, in Electra, is our home base for our traditional and standard equipment manufacturing. We have a facility in New Iberia, La., and in Calgary that does both standard and traditional, as well as the larger process systems. Those are typically international projects.

OGI: *Do you anticipate putting any of those facilities closer to your international market?*

Clarke: Well, none that we would own, but we do take advantage of local market conditions when we can, and we will fabricate in a foreign country either because it is required under the contract that we have some in-country content, or if we believe that we can build more economically away from our facilities. We will do that as well. ■



Strategic Focus—NATCO is a supplier of choice in its worldwide markets.

NETHERLAND, SEWELL & ASSOCIATES INC.

Frederic D. Sewell,
Chairman and CEO

FREDERIC D. SEWELL is chairman and CEO of Netherland, Sewell & Associates Inc. (NSAI), a company originally founded by Clarence M. Netherland in 1961 and renamed after Sewell joined the firm in 1969. Prior to working for NSAI, he was district chief engineer with Exxon Co. U.S.A. (now ExxonMobil) and VP of McCommons Oil Co. in Dallas. Sewell received his bachelor of science degree in petroleum engineering from the University of Texas at Austin in 1957. He is a member of the Society of Petroleum Engineers of AIME and the Independent Petroleum Association of America. He also is a registered professional engineer in the state of Texas.

As CEO of NSAI, Sewell is responsible for appraisal of oil and gas properties, integrated geological and engineering field studies, and economic evaluation of exploration and exploitation programs throughout the world. He also is involved in conflict resolution, expert witness testimony, advisory services and equity determinations.

Oil and Gas Investor: *Describe the key activities of Netherland Sewell & Associates.*

Sewell: The firm has been providing petroleum consulting services to a large number of energy clients for 44 years. These clients include independents, majors, national oil companies and financial institutions. About half of our work is domestic and the other half international—and that is by design. Since the mid-1980s, we have built a strong integrated team of reservoir engineers, operations engineers, geologists, geophysicists and petrophysicists, as well as experts in simulation.

This integrated expertise has resulted in NSAI working some of the most technically challenging projects in the world, from the Middle East to Africa, to Asia as well as North America.

OGI: *In addition to certifying year-end proved oil and gas reserves for E&P companies, what other projects do you do?*

Sewell: When a company gets ready to finance a major project, we may be selected to certify the underlying reserves. Normally, this involves a field study with production projections to ensure that the reserves and deliverability are adequate to support the financial commitment required for the project. Other projects include evaluations of major acquisitions or divestitures, certification of reserves that will support the financing of major new international pipelines, and evaluation of the reserves that will support the financial commitments for new LNG projects.

OGI: *You've seen, more than most people, the affect of new technologies and new practices on the reserve numbers for specific fields and companies. Do you think oil production is peaking, as some experts say?*

Sewell: We really did run out of cheap domestic oil a long time ago, and U.S. oil production has peaked and is declining OPEC's excess capacity, which exceeded 25% of world production in 1983 and has declined to between 1% and 1.5% in 2005.

However, such declines in production are being mitigated by the development of new technology and new practices, which have enabled the industry to improve exploration and exploitation results and control costs. These new developments have resulted in reserves being discovered and economically produced in extremely hostile environments. An example is the successful discoveries and high production rates from the deepwater Gulf of Mexico.

Other examples of the results of new technology and practices are production from tight reservoirs such as those of the Jonah and Pinedale fields of the Rockies and coalbed methane (CBM) production in areas such as the Powder River Basin. Also, there is increasing production from unconventional reservoirs such as the Barnett Shale play in the Fort Worth Basin.

OGI: *What do you think of the Hubbert's Peak theory [about world oil production decline]?*

Sewell: I've looked at Hubbert's study. He did an incredible job in predicting the peak for U.S. oil production. Although the Prudhoe Bay Field of Alaska was not discovered when he did his work, the peak occurred in the timeframe that Hubbert predicted.

However, applying Hubbert's approach to predict the peak for world oil production is difficult due to the much greater number of variables. Some of the unknowns include development of new technology for finding petroleum, drilling, simulation of reservoirs, and secondary and tertiary recovery. Other variables include new unconventional sources of petroleum and the effect of new technology for improving conservation.

In addition, many of the more prolific petroleum basins around the world have not been drilled below relatively moderate depths to establish the potential for deeper discoveries, nor have such areas experienced the effect of the latest technology to increase their reserves. This may be the biggest difficulty in applying Hubbert's approach internationally as it is difficult to predict the effect of a competitive free market on these prolific petroleum basins.

Another major variable is the effect of new methods to transport previously stranded energy such as LNG. This is already a substantial source of energy for Europe, Japan and China and will continually become significant for the U.S. when the necessary infrastructure is in place.

OGI: *Do we have the manpower to achieve these things?*

Sewell: This is an incredibly serious problem. According to the API, the industry's manpower peaked in 1982 at 860,000 jobs. That includes E&P, refining, and supporting industries and services. Then through 2000, the industry lost over a half a million jobs. Much expertise was lost—engineers, geologists, drillers, field personnel, etc. The oil price collapse of 1986 forced E&P companies to produce more efficiently with fewer people.

People may not recognize the magnitude of this problem. In 1983, we had 33,000 petroleum engineers in the U.S., according to the U.S. Bureau of Labor. By 2002, we had only 18,000. And in geology and geophysics, we had 65,000 in 1983 but 48,000 in 2002.

Keep in mind that all this time production was going up worldwide. The remaining people have been handling more and more projects. The technology will be developed to keep doing so, but the industry will need the experts who know how to use it.

By the way, the Labor Department numbers indicate that the number of computer systems analysts rose from 276,000 in 1983 to 1.7 million in 2002—more than six-fold growth.

OGI: *It's a very changed world.*

Sewell: Yes, it is. Demand is pushing supply and forcing prices up to new levels. However, such prices will spur new exploration and exploitation as well as accelerate the development of new technologies. New oil and gas will be discovered and brought to market.

Also, companies are making it more attractive for new talent to enter the industry. It will take time and money to rebuild the infrastructure, but the result will be a more efficient industry.

OGI: *How has this affected Netherland Sewell?*

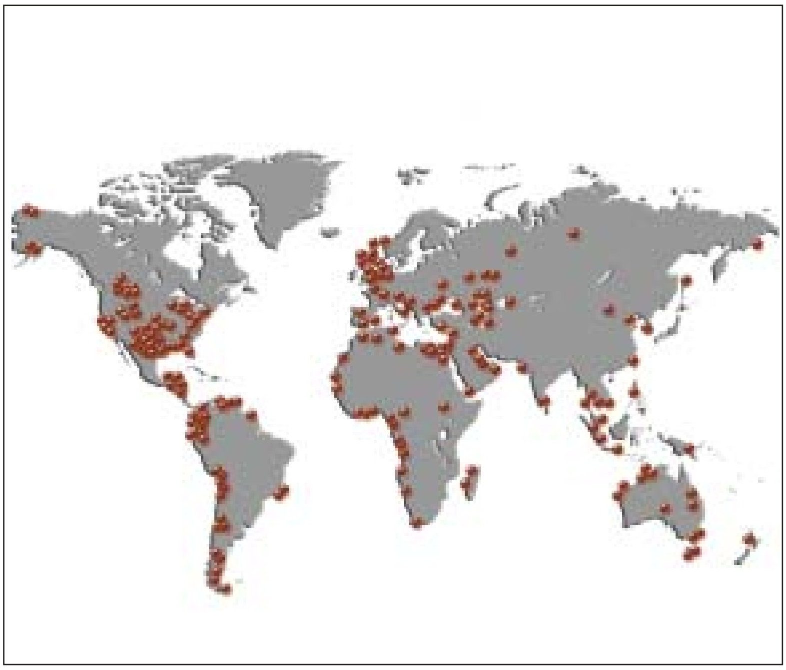
Sewell: We only grow when we find top people, but it also means we work hard to get and retain them. It's a definite balancing act, and we try to avoid overloading our people while at the same time meeting the needs of our clients.

OGI: *From your point of view, the whole question of reserves reporting has to be the most important issue the industry faces.*

Sewell: Yes, it is a critical issue. We are encouraged by the serious efforts the industry is making to follow the SEC regulations, especially since the Shell [reserves-writedown] debacle. Improvements should be made in these regulations, because the system was put in place in 1978. At that time, the emphasis was on U.S. "energy security" or security of supply, rather than on providing a basis for investment and financial decisions.

OGI: *What do you recommend?*

Sewell: An ideal system to regulate reserve reporting should meet several requirements. It should provide a level playing field for the assessment of all energy companies on the same basis. It should ensure that estimates of reserves and future net revenue are credible and reliable, to establish trust with all parties concerned. It should provide a basis for measuring a company's performance to allow a comparison with previous predictions by the company's management. It's about accountability and how well a company has executed its plans.



A world of experience for Netherland, Sewell & Associates Inc.

It should provide the information needed by government agencies to ensure compliance with existing regulations.

For investors, it should provide a basis for them to make informed decisions as well as for the financial community to make decisions regarding the value of a company's collateral.

Truly informed investment decisions can only really be made when the reserves are based on all the engineering and geologic data, and the estimates have neither a conservative nor optimistic bias. To ensure estimates are without bias, reserves would be calculated only after considering all data, including that provided by new technology such as 3-D seismic data.

"OVER THE YEARS, I HAVE FOUND THE KEY TO OUR WORK, BOTH BY COMPANY ENGINEERS AND CONSULTANTS, IS HAVING PEOPLE WHO HAVE THE INTELLIGENCE, SKILL, INTEGRITY AND JUDGEMENT TO MAKE REASONABLE AND RELIABLE RESERVE ESTIMATES IN A CONSISTENT MANNER."

OGI: *One problem is the SEC requirement to use year-end oil pricing.*

Sewell: Yes, this problem was identified in the recent study by CERA (Cambridge Energy Research Associates) and a recommendation for change will probably be developed. One possibility discussed is use of a rolling average price for the prior three to five years to honor the general price trend and to minimize the volatility inherent in the year-end, one-day price. Perhaps the SEC could publish such rolling average price or price guidelines to facilitate conformance to the new standard.

Another problem that the SEC is reticent to address is the affect new technology has on reserve estimates.

OGI: *What do you mean?*

Sewell: Developments in technology such as 3-D seismic data have enhanced our ability to define reservoirs. Seismic data is normally used with logs, cores and other subsurface control to establish a confluence of data that results in better description of reservoirs and thereby improves our reserve estimates. However, the SEC has yet to allow the use of 3-D seismic data in the estimate of reserves.

OGI: *What do you make of buyers placing so much more value on proved undeveloped reserves today?*

Sewell: The acquisition of oil and gas properties is a highly competitive area of the industry. Therefore, those attempting to buy properties must identify all the reserves (proved, probable and possible) and submit a reasonably "full measure" bid for such reserves to be successful. Normally, buyers are interested in acquiring properties with PUDs that provide potential for enhancement of production and reserves.

It is important to recognize that proved reserves by definition are conservative. According to the SPE and World Petroleum Congresses' probabilistic definition, proved reserves have at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Also, the SEC regulations limit PUD reserves to drilling units directly offsetting producing wells. Therefore, in view of the conservatism inherent in PUD reserves, bidders may pay a substantial premium when they believe the properties have unidentified potential beyond the estimated PUD reserves. Unfortunately, the SEC currently does not allow the disclosure of reserve potential beyond the inherently conservative proved category.

OGI: *Do you think petroleum engineers who do reserve evaluations should be certified, as some are suggesting?*

Sewell: I don't think there's been enough study of this yet to establish whether it would accomplish its intended goal of improving the reliability of reserve evaluations or whether it would be cost-effective. NSAI will have some involvement in this issue through one of our officers who chairs a committee about this for the SPEE [Society of Petroleum Evaluation Engineers].

Over the years, I have found the key to our work, both by company engineers and consultants, is having people who have the intelligence, skill, integrity and judgment to make reasonable and reliable reserve estimates in a consistent manner. ■

Newpark Resources Inc.
(NYSE: NR)

James D. Cole, CEO

James D. Cole has been CEO of Newpark Resources Inc. since May 1977. Previously, he was president, executive VP and COO. He has been a director since 1976.
On May 2, 2005, Jim Cole announced that he will step down as CEO on December 31, 2005, (or upon the earlier engagement of a new CEO). He then will serve as chairman of Newpark Environmental Water Solutions, a wholly owned Delaware limited liability company established to focus on the application of sonochemistry to provide water treatment solutions. Cole holds an MBA from the California State University at Fullerton.

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

Cole: I've been with the company 35 1/2 years today. Our strategy has changed as the industry has changed. We have adapted our services and business to a changing industry. Change includes both the requirements of our customers for the service we provide and changes in the geographic area where services are provided. The whole climate of the industry is changing; you have to adapt to that.

For the past five years, our strategy has been to diversify our product offerings from our historic Gulf Coast market across North America and globally, into foreign markets. We are, by strategy, a niche player, meaning we try to find a niche market where we can differentiate ourselves, either through product development or unique kinds of service, We have three basic segments, and we're entering a fourth one at this point.

***OGI:** Could you offer more detail about your business segments?*

Cole: Newpark operates in three distinct segments. Newpark Drilling Fluids is the largest segment and is about eight years old. It has been growing between 22% and 25% a year and is focused on a high-performance, water-based drilling fluid systems. Though we provide all types of fluid systems, our differentiation comes from the water-based FlexDrill® and DeepDrill® drilling fluid systems, which offer high performance and are friendly to the environment.

The second segment by revenue size is the matting business, which provides temporary access roads and work sites on a rental basis in a number of key markets and sells mats outside of those rental markets. It's a niche where we're the dominant player. The business started in the Louisiana and Texas coastal wetlands, and we are now expanding it to a worldwide market.

The third segment is our environmental business. Throughout North America, we provide environmental services—recycling, processing and disposal of waste, principally in the oil and gas E&P industry.

This year, Newpark Drilling Fluids will generate between $360- and $380 million in revenues. Our matting business will generate about $120 million in revenue; Newpark Environmental will provide in the neighborhood of $65 million of revenue in 2005. Those are the current business segments.

***OGI:** And what is the fourth area of business?*

Cole: Our newest opportunity comes from the application of a unique, patented-process technology to process contaminated water from the oil and gas production industry, creating a beneficial reuse product: good water. It's not yet a business segment, but it is rapidly gaining interest in the industry because its positive results have not been previously achieved. Our first plant is now going into production at Boulder, Wyoming, serving the needs of customers producing natural gas from the Jonah and Pinedale fields. The second plant, well along the process of construction and soon to be placed in service, is near Gillette, Wyoming, and will process water associated with the production of natural gas from coal seams. Later this summer, we plan to test the technology in water processing applications in a third market, the Canadian oil sands near Ft. McMurray, Canada.

***OGI:** How does that process work?*

Cole: At the heart of the technology is the ARMEL activator. In the ARMEL, principles of sonochemistry are employed to focus ultrasonic waves on the fluid stream. The ultrasonic energy is generated within the activator from the fluid flow without any external input of energy. At the molecular level, cavitation—the formation of microscopic bubbles—is induced, inside of which occur rapid increases in temperature and pressure. This all takes place in a fraction of a second and impacts dissolved solids, such as sodium chloride and other dissolved minerals in the water, allowing that compound to be broken apart so the contaminants can be separated from the water. At that point, you can filter out the mineralization and make the water suitable for beneficial reuse. That's a summary of the process; however, the capabilities of the process are much more extensive than I can convey in a short explanation.

OGI: *Who is your customer in the Jonah Pinedale?*

Cole: Newpark's Boulder facility is a commercial site servicing the entire gas production industry in the Jonah and Pinedale fields. We can either discharge the water into the environment, or return it to the customer as drilling or fracturing fluid make-up water or for other uses.

OGI: *What will it cost?*

Cole: It would be difficult to generalize an answer, since it will vary based on the volume of water involved, the level of contaminants and the applicable regulations. In many cases, the cost to the customer will be less than current methods, since it eliminates environmental waste streams and facilitates reuse of the water.

OGI: *How much does the company spend on research and development and what are its current R&D priorities?*

Newpark built the above temporary road and drilling location in the wetlands in Vermilion Parish, Louisiana. The company also supplies drilling fluids and environmental services (waste disposal).

Cole: Newpark does not report R&D separately in its operating results. Most of what we do is apply technology developed internally and by others. In the case of matting, for instance, we built the first plant of its kind, applying established technology on a scale that no one had previously attempted. In a sense, the entire product line is an R&D project that has been up and working for six years now. In drilling fluids, we have an outstanding laboratory assisting the continuing development of our water-based fluid systems. They constantly look at new ideas to solve specific drilling problems through application of new products and technology. Most of the products that differentiate Newpark from its competitors result from our culture, which encourages differentiating ourselves from our competition. We have a reputation of being open to new ideas, and therefore, get to see many new products and technologies, some of which fit into our product lines. So, we really don't have an R&D budget per se. We're basically always looking at new products, and then we're verifying the technology in our laboratories and applying it in the field. We've actually set a culture that fosters innovation and the application of new solutions to our customer's problems.

OGI: *What are the priorities in product development?*

Cole: The newest and potentially largest product line is the introduction of our new water treatment technology, which holds by far the largest market potential of any technology we've ever been involved with. It can impact many markets that require water treatment, recycling or beneficial reuse.

The capabilities of our drilling fluid systems are continually being developed as we take them to new markets and introduce the products to different environments. And there's crossover of our specialty products designed as components of our water-based fluids back to the conventional oil-based systems as well.

In addition to the heavy-duty DuraBase™ mat we introduced six years ago, we've recently introduced a new 55-pound mat that can be used around the world in light-duty applications. The Bravo™ system can be installed by hand rather than requiring heavy equipment.

As we broaden our marketing efforts around the world and discover different needs, we continually adapt and expand the matting product line to meet to those needs. We're the leader in this niche market, but we have a strategy in place to expand it around the world.

OGI: *What percentage of the company's revenues is international and how has that evolved?*

Cole: We're about 12% international right now. As we began to diversify, we first expanded across

North America from the Gulf Coast and are now expanding into international markets. International markets will provide the largest future growth opportunity in our conventional oil service businesses.

OGI: *Have you had to modify your drilling fluid product line to enter international markets?*

Cole: One development has been the acquisition of a small company in the Mediterranean area a number of years ago. It gave us a base from which to move our specialty fluids products into Europe and Africa. By broadening their product offerings, we've improved their market position and have begun to build an international presence. Secondly, the six-year history and the continuing track record we've developed with the product has fostered customer acceptance in the U.S. We're now gaining notoriety with our water-based products, and we're being offered opportunities to enter markets on a technical basis, providing those high-level, high-end products. That's been brought about by (a) performance for the customer and (b) because the products are environmentally safe. There's a growing need in the world to look for alternatives to the more environmentally difficult oil-based products, and so we're getting opportunities now internationally to prove our products in those markets.

OGI: *How sensitive are your company's revenues to high commodity prices?*

Cole: I think every service company has sensitivity to commodity prices. I don't think we need \$55 or \$60 oil or \$7 natural gas to be successful, but I think we'd all be damaged if oil went below \$30 or gas dropped below \$3.50. Today's high commodity prices provide increased cash flow for our customers. And in today's environment, they need higher prices to explore the more difficult "frontier" areas to find hydrocarbons. If we had a collapse of prices, it certainly would hurt every service company.

OGI: *Service companies for years had relatively little pricing power in the market. Has that changed?*

Cole: Yes, I think we've gained some pricing power in part due to increasing demand for services in the industry. Recent margins in the service market have been depressed. We've recently been able to raise prices in the drilling fluids and matting businesses. I think there's an opportunity now for us to make a return on capital that over the last several years haven't been earned. The high commodity price has given our customer an opportunity to make a return on their invested capital, and as a service company, I think we will get the opportunity to share in the benefit, but only if we perform to keep our customers achieving their objectives.

OGI: *Are you able to find professionals to hire to help you expand at the rate you'd like?*

Cole: Quality people have always been in short supply in the industry. We do have sufficient people to perform and continue to grow, but we must be selective because we must perform for the customer. People are extremely important; several years ago when the market was slack, we were hiring and training people. Over the next several years at Newpark, we'll be able to continue to grow because we began to invest in people several years ago and have continued to do so. Across the industry, the supply of people, is very tight.

OGI: *Do you see the greatest potential for growth for the company in North America or international markets?*

Cole: The answer will vary within each product line. In the fluids segment, the worldwide market is larger than in North America where we've built a strong market position. But we have a very small part of the international market, so we'll have more growth internationally in that business. We've just been engaged in serious discussions that should lead to new opportunities in several foreign markets.

In the matting business, international markets will present the largest growth opportunity. We've enjoyed some early success introducing the mats in Canada, Russia, Indonesia and South America, but we've only begun to scratch the surface of these markets.

Growth in our new water treatment business will be focused in the U.S. and Canada for now, taking advantage of the market position we've developed over the years as a leading environmental company to the oil and gas E&P industry. Over time, we believe the technology has application to many other markets, and will pursue them as our capabilities allow.

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

Cole: We have to demonstrate the strategy we've followed the last four or five years will yield a return to our shareholders. As we've broadened our geographic markets and added new products and services, we've underperformed. Our earnings are just gaining traction driven by our new products and services. We have to demonstrate a return to the shareholders from the effort of the last few years. ■

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 bachelor of science degree from Berea College.

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

Daugherty: NGAS is an Appalachian natural gas producer with interests in 680 oil and gas wells. At year-end 2004, we had 66 billion cubic feet of proven gas reserves in the Appalachian Basin. Our drilling is concentrated in large tracts of properties that are near other producing wells, but have not been drilled primarily because of coal mining operations going on in the area in the past years. As a result, the oil and gas reserves have not been developed. Many times the oil and gas minerals are owned by entities separate from the coal mineral owners and the surface owners. We target areas that have significant potential for oil and gas development, and importantly, we try to control as much acreage in those particular areas as possible. It is a simple strategy. Last year, we drilled 155 wells, and this year we expect to drill around 170 wells on 255,000 acres that we control.

OGI: *Do you have plans to expand to any new core areas?*

Daugherty: Our area of expertise and key focus is the Appalachian Basin. So, when we look to add properties, we're looking at other areas that are primarily located in the Appalachian Basin, but in other states, such as Pennsylvania, West Virginia and Ohio. Currently, most of our operations are in the southern portion of the Appalachian Basin, and that's where we're working hardest to expand.

OGI: *What type of basin or play makes sense to you?*

Daugherty: Since the majority of our reserves and production is natural gas rather than oil, we want to acquire areas where we can control large tracts with gas potential and multiple drilling opportunities.

OGI: *E&P companies have been reporting stellar financial results. Can NGAS Resources keep up the earnings momentum?*

Daugherty: I think so. In addition to the wells we are currently operating, we have about 150 other wells that are awaiting connection into a new pipeline system. Most of these wells are expected to be connected to our pipeline and start producing by the end of the year. In addition to our current production, we have four rigs drilling new wells right now. We're in the process of installing a 23-mile, 8-in. steel pipeline in an area of interest where we have about 100,000 acres. When completed, this pipeline will open that entire area up for development. As prior to our pipeline, the area lacked pipeline to move the gas out. We're also in the process of upgrading several portions of our current gathering system.

We just came off a $20-million quarter; that's the largest quarter in the history of the company.

OGI: *Does NGAS have a hedging strategy?*

Daugherty: We have about 40% of our gas marketed on physical delivery contracts. We really don't employ hedging in real terms, but we sell gas directly. Sixty percent of our gas is on some type of spot basis.

OGI: *What kind of price deck are you using this year as you plan the drilling program?*

Daugherty: We're planning in the neighborhood of $6.50. The largest portion of those physical delivery contracts is based on a $7-contract price.

OGI: *What is the budget this year, and how does it compare to last year's?*

Daugherty: This year, we expect to spend about $30 million total: $22 million will be on drilling, $8 million will be on pipeline. That's up about 25% from last year. In addition, last year we spent $35 million on acquisitions. We've targeted a few potential acquisitions, but we haven't put those in our budget yet.

OGI: *Do you think those acquisitions will take place this year?*

Daugherty: We're hoping so. We're always looking at two or three acquisition opportunities that will increase our acreage and production.

OGI: *How is the Stone Mountain Energy acquisition, which was made in 2004, fitting into the company's strategy?*

Daugherty: It's going very well. We bumped up our daily production substantially, but it also gave us 75,000 acres for development, and we're just finishing our second well on those acres. We think with the geology, and the past production history, we are optimistic that there are many proved undeveloped locations in Stone Mountain. In addition to the production and the acreage, we took on some of Stone Mountain's best employees. Since that property is within 30 miles of other operations, we've been able to incorporate the daily operations there with a minimal amount of effort.

OGI: *How many wells will the company be drilling and participating in this year?*

Daugherty: We're going to try to do at least 170 wells this year versus 155 last year.

OGI: *What is the estimated production this year compared to last year?*

Daugherty: I think we're going to exit the year with about 2 billion cubic feet produced. Last year, production was 860 million cubic feet of gas.

OGI: *The Leatherwood Field appears to be one of the more important assets for the company. Is that one of the properties that will have the most impact this year?*

Daugherty: In my opinion, it's our crown jewel. We've identified about 600 drilling locations at Leatherwood, and with the installation of our new pipeline, we'll be able to get the wells drilled and into the pipeline in a reasonably short period of time. We expect that over the next two to three years, the majority of our drilling will be in the Leatherwood Field. From the success that we've had to date, we're very excited about that property.

OGI: *Drilling costs and acquisition costs have been rising fairly dramatically. How are those factors affecting you?*

Daugherty: Drilling costs have basically settled, which helped our drilling programs a lot the first quarter of this year as compared to last year. We've seen steel casing prices moderate a little bit as well. We haven't had any trouble getting the rigs that we need to run, although we are paying a little more this year than we were last year.

Acquisitions are a totally different story. We have bid on a few acquisitions, but we didn't even come close to the final sales price. For our company to get excited about some of the potential acquisitions we're looking at, we're going to have to find additional value than what we've looked at in the past.

OGI: *How do you do that?*

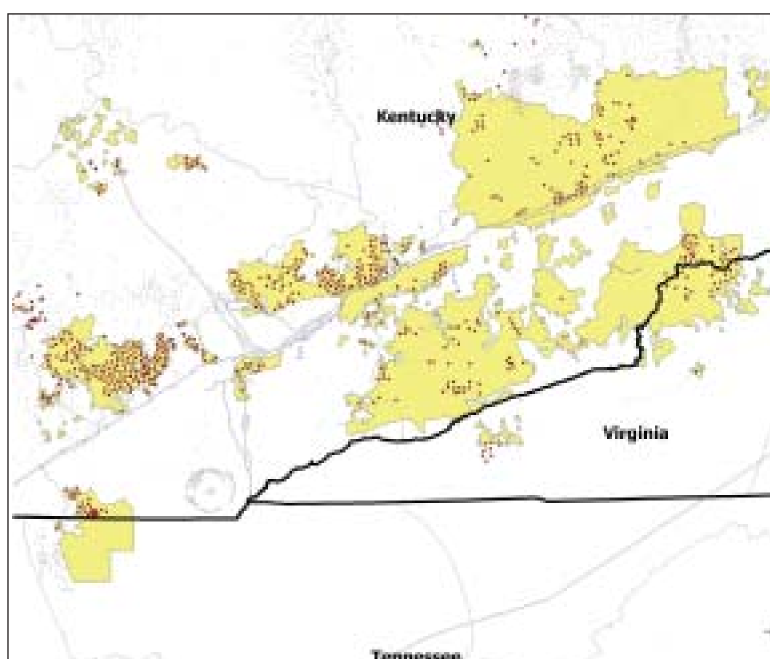
Daugherty: On several of the acquisitions that we've completed, we've looked at primarily the proven properties. We haven't valued the probable and possible reserves very high. Now, we're going to have to give more value to the raw acreage that comes with some of these acquisitions and increase our probable and possible reserve values.

OGI: *What do you see as the greatest challenge currently facing your company?*

Daugherty: Clearing drilling locations with the coal companies that are operating in the areas where our leases are. In the past year and a half, we've seen coal prices go from $25 to $60 per ton, which has created a lot of additional coal reserves that are now economical to take from the ground. We now have to work around those coal reserves to locate the proper drilling locations.

OGI: *As far as the larger E&P industry is concerned, what is the major challenge there?*

Daugherty: Finding good drilling locations that make sense. A lot of CEOs I speak to these days are looking for acquisition opportunities that have additional drilling potential, as the easy gas has been found. ■



NGAS Resources' lease acreage with drilled wells in red.

Noble Royalties Inc.

Scott Noble, President

Scott Noble is president of Dallas-based Noble Royalties Inc., an owner of royalty interests in 23 states and nearly 40,000 wells. Prior to forming the company in 1997, Noble was in the oil and gas drilling business for 12 years and determined that diversified royalty ownership presented the most attractive risk-reward profile in the energy sector. The company also has offices in Denver, Houston and Midland, Texas, and employs some 40 engineering and other professionals.

***Oil and Gas Investor:** Why did you form Noble Royalties?*

Noble: After experiencing the normal cycles of highs and lows associated with the drilling and operations side of energy, I decided that investors need a more conservative approach to energy without subjecting themselves to significant risks normally found in this industry. Acquiring royalties satisfied those needs, and we built a company around what we feel is missing in the industry.

***OGI:** Why is it more interesting?*

Noble: We have the pleasure and challenge of evaluating almost every producing field in America. That is exciting. Then we target the large reserves with longevity. It is much more diversified. I operate 72 wells, and we now own royalties on 39,000 wells. If properly evaluated, we should never run out of revenue, technically.

***OGI:** How do folks invest?*

Noble: We are a private company, but we may set up an MLP in the near future to attract specific funds. Currently, we buy a property in advance with our money and then we bring in the long-term relationships we've earned. These are people seeking lower returns with lower risk in the energy sector. They do not want to have the excitement of drilling or the returns of drilling; they seek a safer avenue in the energy sector.

***OGI:** Are the investors mostly in Dallas?*

Noble: They started out in the Dallas community, but we have a lot of heavy real estate investors nationwide. They're heavy in real estate and light in energy, and they would like to be more diversified.

***OGI:** What rate of return are investors seeking?*

Noble: Between 9% and 15%.

***OGI:** That's as good as or better than the stock market and certainly better than bonds.*

Noble: Yes. When you study the publicly traded royalty trusts out there, they trade between a 7.5% and 12% yield, which tells you that's where the public market puts royalties when comparing them with fixed-income rates. It puts them fairly close to a risk-free return, if you buy royalties in bulk.

***OGI:** Are the assets depleting?*

Noble: If you were to buy royalties on a small scale, that's a pretty true statement. If you buy them on a large scale, it is different. We rarely buy anything with less than 500 wells and typically seek packages of more than 1,000 wells, and we buy packages with developed acreage attached to undeveloped acreage. Historically, there are enough new wells on that undeveloped acreage to offset the decline on the developed acreage.

Our two largest competitors are really Stanford and Harvard, and they understand that is a quintessential serendipity of royalties. To get serendipity on the operations side, you have to have a capital call—you have to drill additional wells. To get serendipity in the royalty business, you just have to have undeveloped acreage. So it is a renewable asset.

***OGI:** How many acquisitions has Noble Royalties had since 1997?*

Noble: 52

***OGI:** Where are your royalty interests today?*

Noble: Primarily in the U.S. with a small package, in the Gulf of Mexico, only. Onshore, we're in 23 states.

***OGI:** Are any your favorite?*

Noble: I love oil in West Texas and southeastern New Mexico. I love gas in the Rocky Mountains. We buy everywhere, but those are my preferences. I actually love oil in California but we're just now breaking into that market.

***OGI:** What was a particularly difficult deal to close?*

Noble: Most people who bid on royalty packages just say, "You're making $100,000 a month. We'll give you $7 million. Let's get you to a letter agreement." Then they do due diligence. We're just the opposite. We have acquisition teams in Houston, Denver, Midland and Dallas. These teams do the full engineering, look at all the checks for the last six months, look at all the title to the best you can in royalties, and that allows us to be very confident with a bid. It makes the closing go easy, rather than difficult. We don't have to have 30 lines of "subject to." We've already done our homework. We do not believe in "drawbacks." From that standpoint, our closings have been fairly easy.

Now outside of that, one of the most difficult ones was our first closing at Pinedale, a pretty famous field, because nobody would believe us that it would grow that much—meaning our partners. Therefore it was an oil and gas sale and mostly oil and gas partners/investors because they were the only people who understood an engineering report.

So, our first Pinedale closing was most difficult because it was such a growth story. It was almost too good to be true, therefore it was a difficult close.

OGI: *What was one of the least complicated deals?*

Noble: That would be the latest deal: an $80-million transaction with Petrohawk Energy Corp. Very easy to work with. They were very professional. No games were played. Everyone was very honest. It was done in two hours.

OGI: *Is the marketplace for royalty interests much more competitive today?*

Noble: I think there are some people trying. They don't understand what we call institutional properties—the properties that are 500 wells and above. They'll buy the 20 wells and the 50 wells. We'll buy those here and there. We'll buy a 20- or 50-well deal to get to the 500-well deal, through relationships and kind of knowing where it's heading. But it's not really what we're after.

OGI: *You don't go after everything?*

Noble: No. Our properties have to have third-party verification from Netherland Sewell and 25 years of life and longer. So, we're not interested in the chalks or the Gulf Coast. We own royalties offshore but that was one of my few hiccups back in 1998. Luckily I only put a couple million into it. I'll break even, but I won't make any money off it.

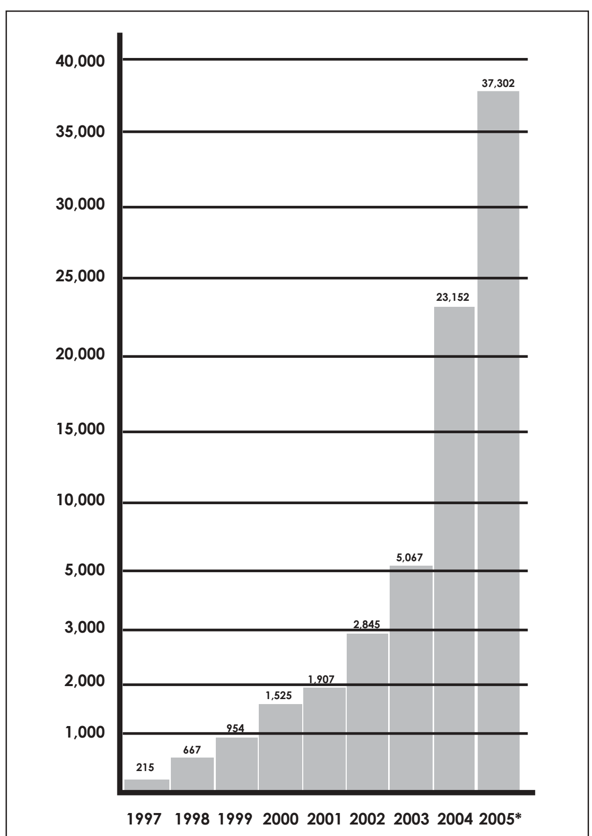
So, south Louisiana/offshore/Gulf Coast are not targeted areas for us. They're just too short of life. You can rarely get those to engineer out past 11 or 15 years.

You end up targeting the good West Texas long-term production or New Mexico or the Rockies. These are 30- and 50-year-life properties. We pay a premium to be involved, but then we don't have to put up the capital for the ongoing developments. It's the Ultra Petroleums and EnCanas and XTO Energys that are willing to spend more money for the 30- and 50-year-life reserves. We buy the same part of that underlying asset without the capital cost and the capital expenditures. So we're extremely focused on long-life reserves. I don't want to go back to work in eight or 15 years.

OGI: *What advantage does Noble Royalties have when competing for royalty packages?*

Noble: Our superior fundamental research. Our engineers have no less than 30 years of experience. They're involved in any negotiation. We're not in there trying to call a seller's deal a bad deal. We're trying to get our arms around the value of it and pay him the most value we can for proven developed and undeveloped reserves, and get into the probables and possibles and give him some great value for that as well.

We want the seller to walk away and say, "We got good value, and we want to give you a referral to a friend." If you go into the business being a low-baller, people would complain they sold to you or not tell anyone.



Since 1997, the amount of wells acquired annually has climbed exponentially.

OGI: *What additional advantages do you have?*

Noble: We look at the revenue stream quickly and efficiently. Also, we don't use banks when we close. We use cash. We're not trying to lock in a hedge. We're not trying to lock in an interest rate. We're not moving the closing date around or the price down. When we agree on a price, we show up with that amount in cash and always close within 36 days of our offer. When buyers use a bank, they can't close that fast. It takes about 45 days.

So we're faster and with cash, and we get our arms around the asset to give full value. That's the advantage to a seller.

From an investor standpoint, they know there is in-house engineering by seasoned pros and third-party engineering by seasoned pros, that we've tracked all of the financials for at least the past six months and traditionally a lot longer, and they really know what they're getting.

OGI: *What is your outlook for commodity prices?*

Noble: We used to have 85% of rigs drilling for oil back in 1986, so let's call it 3,500 rigs used to drill for oil. Now, only 200 rigs are trying to do the work of 3,500 rigs of yesteryear for oil alone. That alone tells me oil is in trouble, and not only for the short haul but for the long haul. When we have the average depth going from 7,000 feet down to 15,000 feet, you don't find oil at deep depths either, you find natural gas. This also tells me oil is in trouble.

I think oil will stay up much higher and longer than natural gas. Gas has competition coming onboard—coalbed methane, unconventional gas resources and LNG, and you'll see the margins go down.

We have $60 oil, but you're not seeing $10 gas right now. The disparity will eventually come back to the $4.50 to low-$5 range for gas very long term. Oil has a chance to balance off at $40 to $42 but the underlying fundamentals, with nobody drilling for oil, will drive it back into the $50s and lower $60s.

OGI: *How many deals will you do this year?*

Noble: We will buy another $250 million in royalties this year. We've already acquired $165 million this year. We're buying in all times. We believe in that. We believe the futures strip reflects what people would get in their checks. All we're doing is replacing what people would get in their checks, slightly discounted. So, we're not afraid of any price environment.

OGI: *Why should royalty owners sell their interests?*

Noble: I don't think they will receive a higher value than right now. I really don't. Interest rates are coming up, and they will continue to come up. That means our competitors will eventually have to lower their competitive bids. Also, investors eventually would rather put money into a fixed-income, 7% or 8%, elsewhere. Why would they want to risk being in oil and gas? It is a perfect storm to sell right now.

You have people liquidating real estate for that reason right now. They're afraid of it. As soon as interest rates flatten out, that just isn't going to happen. The money just moves back and forth from real estate to oil and gas.

Why would somebody sell? They usually have another place to put it. They think they can make more money elsewhere. Royalties bore the heck out of people. They just do the same thing every month, production-wise more or less. That 9%-to-15% return doesn't have a whole lot of upside. In 52 purchases, we've only bought three large growth properties: Jonah, Pinedale and Sacroc. The other 49 acquisitions were just stable properties.

OGI: *Why sell to Noble Royalties in particular?*

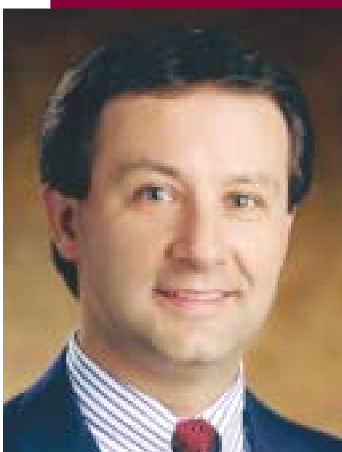
Noble: We're easy to work with. We pay a premium price. We do all of our work in advance, and we close quickly with cash.

I started this company because I thought somebody should write a check into any property that I buy and feel like they have an oil and gas estate, a legitimate one with no capital calls and no underlying risk. It was to get people out of losing their money in drilling wells one at a time and get them into acquiring wells 500 at a time. It's the stay-rich business, not the get-rich business. But it's a great place to be—the underlying assets of all the oil and gas fields in the country.

On top of that, we hand-target what fields we want to own. There are a million wells in America, and we only think 100,000 are worth it. We're at 39,000 wells, and it has taken us eight years to get to that level. It may take us another three, four or five to get where we want to be.

We're serious about being the premium royalty player in the country, as an acquirer and a manager. We will be the best at both. We are at $350 million now, and there is no doubt in my mind that at the end of 2006 we'll be at $1 billion. And once we reach that level, we will prove to the supermajors that they have a place to liquidate. They don't believe anyone right now. As soon as we can prove to the large independents and the supermajors that there is a place to liquidate for full value, then Noble and even our competitors will prove that we can close on $250-million deals, $500-million deals and $1-billion deals. It's one of those things where you have to crawl before you walk, before you run. We're building that resume to attract the big boys to sell to us. ■

NS Group (NYSE: NSS)



Rene J. Robichaud, President and CEO

Rene J. Robichaud joined NS Group in 1999 as the company's president and COO, and was elected to the board of directors soon afterward. In February 2000, he was promoted to president and CEO. Prior to joining NS Group, Robichaud spent more than 14 years in investment banking. He has held the positions of managing director with Salomon Smith Barney and principal with Morgan Stanley & Co. He has worked on capital raising and strategic transactions involving many basic materials and steel companies around the world. He received his BBA from the University of Ottawa, Magna Cum Laude, and his MBA from Harvard University.

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

Robichaud: Low-cost and high-quality oilfield service supplier specializing in tubular products today.

OGI: *Do you see steel costs continuing to rise?*

Robichaud: The cost of steel has been coming down. We had very high costs in August, September, October of last year, but since then, they've been coming down.

OGI: *What's been responsible for the decline?*

Robichaud: It's just like oil and gas. You have more supply than you have demand. Because of that, extra supply came on the market, some imports were coming in (depends on the kind of steel you're talking about); a little softness in the growth of steel consumption, primarily because General Motors and Ford had too many cars that weren't selling, and so they weren't going to build as many. So the growth in consumption slowed down. You have that kind of phase where the pricing of steel, which was extraordinarily high between six and nine months ago, is now only high today, as opposed to extraordinarily high.

OGI: *So that's good news?*

Robichaud: Well, it is for steel consumers like ourselves, absolutely.

OGI: *Are you feeling competitive pressure from European or Asian steel makers such as Tenaris and others?*

Robichaud: No, but China is selling a great deal of product at very low prices. Something that we didn't expect this much. At the low end of the value-added product line, China is affecting prices. Tenaris is a good competitor; they know how to service their customers but not give the product away. We simply offer a higher, consistent quality and much better service. You cannot take on their strategy of simply dumping a lot of cheap product. A lot of it, we understand, is causing heartache for oil and gas users because the product is not that good, and it hurts their ability to quickly drill wells.

OGI: *Are you adding manufacturing capacity?*

Robichaud: No, we're not. We have enough. On our welded side, we're at less than half utilization. On the seamless side, we're at virtually 100% utilization and have been there for 18 months. We're not about to materially increase our capacity. We can, by attacking some bottlenecks along the supply chain at the margin, increase capacity, and we always attack it that way. But on the seamless side of the business, it's a very high capital-intensive business.

OGI: *How have your company's margins changed over the past couple of years?*

Robichaud: Those are public, and the margins have exploded. In 2003, we were losing money, and in 2004, we had a record year. In my view, 2005 is going to be a very attractive year as well.

OGI: *Are you seeing any pressure on wage costs?*

Robichaud: No. If you're talking about labor costs increasing, if they increase at a typical inflation rate, we have contractual terms for that. So that is not affecting our business for the last several decades. Our margins have expanded dramatically, and wage changes do not affect us today more significantly than they have in the past.

OGI: *What is your greatest challenge facing this year?*

Robichaud: Trying to beat 2004, which was a great year, but we're always looking to do better. We want to deliver even more value to shareholders. We think it's certainly possible. We're encouraged with the market. Very high natural gas and oil prices mean that we're going to be drilling just a tremendous amount of oil and, particularly, natural gas wells. Demand should be very good. ■

Panhandle Royalty Co.
(AMEX: PHX)

H.W. Peace II, President, CEO and a Director

H.W. Peace II is president and CEO of Panhandle Royalty Co. as well as president and CEO of Wood Oil Co., a subsidiary. Previously he worked for Union Oil Co. of California as a geologist and exploration manager, Cotton Petroleum Corp. as exploration manager and Hadson Petroleum Corp. as executive VP, COO and director. He operated his own consulting business from 1988 to 1991 under the name EXAD in Oklahoma City. In 1991, he became president and CEO of Panhandle Royalty Co. of Oklahoma City. He attended the University of Oklahoma and received a B.S. in geology. After active duty service in the U.S. Navy, he returned to school and earned an M.S. in geology.

Oil and Gas Investor: *What drives your company forward.*

Peace: Our company is a mineral-owning company first, but we use those minerals to participate in wells with a working interest instead of leasing them out to other companies. We do lease to them if the economics do not look good enough to us.

Our business is that we own 259,000-plus net acres of minerals in the U.S., with a considerable amount being in Oklahoma. With that spread of ownership, we participate and pay our share of the well cost. We have better net revenue than the operator, who has taken leases from other people and paid them three-sixteenths royalty. We should make a better rate of return than the operator who pays royalty.

This is a substantially funded company, not just something that occurred overnight. We do not operate a single well, but we do have a working interest right now in over 1,250 producing wells, and we have a royalty interest in about another 3,700 wells. Over the years, we have been growing and accumulating, particularly since 1991 with working interest participation.

OGI: *Where are you currently active?*

Peace: Most of our activity is in Oklahoma. Our single most active county is Roger Mills, which is in the west-central part of the state near the Texas Panhandle. About 25% of our revenue comes off of wells that are producing there, mostly gas. Then Beckham County, immediately to the south, is next where we are probably getting somewhere between 7% and 8% of our revenue. These are counties where we have owned minerals since the late 1920s and did not even realize any lease bonus money until the early 1950s. Now they are our largest producers.

We also have production located in West Texas in the Permian Basin and in southeast New Mexico, also in the Permian Basin.

OGI: *Are you expanding to new core areas?*

Peace: This year, we have been active in some wells in East Texas that are being drilled for the Cotton Valley. That is a relatively new area for us, and it is occurring because we purchased Wood Oil Co. back in late 2001. They owned minerals as well as had some production and leaseholds in that area. The wells seem to be fairly reasonable in costs and reserves.

OGI: *What type of basin makes most sense to you?*

Peace: Any basin that has oil and gas production, if it's within a reasonable distance of where our headquarters are and we have some familiarity with it. Our familiarity comes from who the people are that are on our staff working for us as geologists. It is because we feel you need experience in an area to actually determine what your risk and economics might be to decide whether to participate.

OGI: *Can you keep up the earnings momentum?*

Peace: I believe we can. If you look at our financials for our last fiscal year, which ended September 30, 2004, it was our best year in history. We had over $24.5 million in revenue and over $6 million in net profit. We paid dividends again as we have for the last 58 years. Through the first six months of this year (through March 31), We are doing better than we were for the first six months of last year. So if that continues the second six months, I think there is a good possibility we will have a better year than we did last year. This success, if coupled with continued high prices, will provide more funds for further drilling and concomitant further increases in production, reserves and earnings.

OGI: *Do you hedge?*

Peace: No. Because of our scattering of minerals and the number of wells that we are in, we do not have a large concentration of wells in any one place.

***OGI*: The company has said that this is the first year of a five-year goal to double average yearly working interests to between 8% and 10%. Explain the strategy behind that.**

Peace: On average, a drilling unit in Oklahoma for natural gas is 640 acres. Where we own minerals in that unit, normally we own 30 acres. That comes out to be 4.87% of the unit. That is where we have been getting our 4% to 5% average. We do own lesser numbers of minerals in some sections and in others we owned more minerals. Generally, in past years if we owned more minerals, we would lease a portion of them to bring ourselves down to that 4.87%. If we owned fewer minerals, we did not attempt to acquire any leasehold or farm-ins. If we were participating, we would just go ahead and participate with our 10 or 15 acres.

Our idea now is that if we own more minerals and we elect to participate, we are going to participate with our full interest. That could be 60 acres, which would be 9.375% of the well; in some cases we have 120 acres, so it could be a much larger interest.

We will still continue to have what they call here in Oklahoma "increased density wells" where we are already in an older well and we only have a $1\frac{1}{2}$% interest and have no opportunity to increase that interest because of it being established by the initial well. So we must average those with this larger interest. That is why we have said this is a five-year plan. We are always going to be averaging some of the older increased density, low interest wells to a higher interest well to come out with the average for the year. Additionally, we are leasing for participation 40- to 80-acre offset tracts to our minerals where the potential is high.

***OGI*: What is the budget this year?**

Peace: Our budget's quite a bit more. Last year, we had a budget of $8.8 million, and we actually ended up spending a little over $10 million for wells. The board approved that increase step by step as it went up because they were good wells to participate in. We began this year with a $12.25 million budget. At mid-year, we have spent $8.164 million. However, that did include $1 million for an oil and gas property acquisition. So if you took that acquisition out, it would be about $7.1 million.

If you were to double the seven-point-one, it would say we were going to spend over $14 million this year, which is going to be over the budget. We do not know for sure whether we will spend that much or not. If we need to spend that much more, we do have the cash flow to take care of it. We will spend whatever is necessary to be in the wells that we feel are economically feasible for us.

OGI: How many wells will you participate in this year?

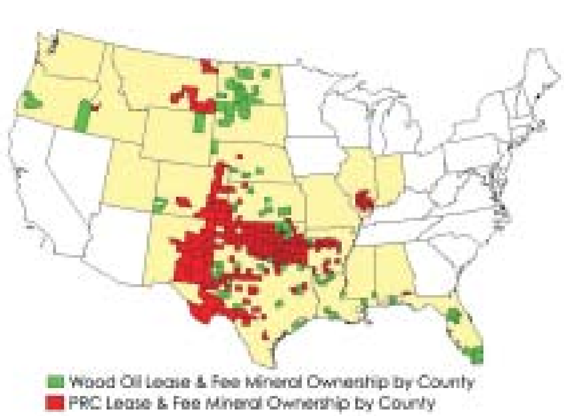
Peace: We think it will probably be the same number of wells as last year. Through the first six months of this year, we participated in 65 working interest wells that were completed as well as 84 royalty interest only wells. We had a 92% success out of those. At mid-year, we had 38 working interest wells and 37 royalty interest wells that were drilling or testing, and we have another 60 working interest wells that we had approved to participate in, which had not spudded. This is because some companies are having trouble getting rigs and must wait to get on the drilling contractors schedule. We should be somewhere around 200 working interest wells completed with several others drilling and testing at year-end.

***OGI*: What is your estimated production this year?**

Peace: It should be about what it was last year, which would be for gas slightly at or under 4 billion cubic feet net to the company. Oil production should be somewhere in the 100,000 to 110,000 barrel range.

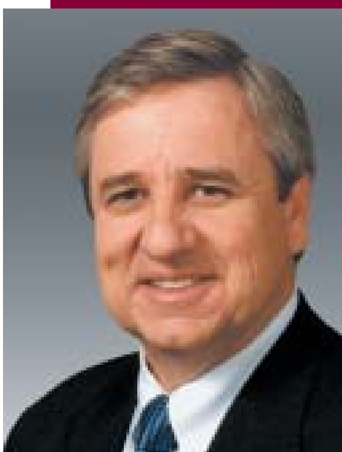
***OGI*: Which one or two single projects or wells could have the most impact on the company this year?**

Peace: There is not really any one well that does. Because of our small interest in wells, it's the number of wells that are impacting us. In the two areas where we have larger interests and a larger number of wells to participate in—our Carbonate Wash Trend, which is primarily in Roger Mills County in western Oklahoma, and the Mayfield area, which is in Beckham County—there we have interests ranging from 1% to 10% in wells and somewhere between 15 and 25 wells where we will participate in this year. So as a group, those are our two most active areas. ■



Panhandle Royalty Co. and Wood Oil mineral ownership by county in the U.S.

Parallel Petroleum (NASDAQ: PLLL)



Larry Oldham, President and CEO

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.

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

Oldham: Our strategy is an acquire-and-exploit strategy whereby we have acquired a number of properties, primarily in the Permian Basin, and then with our engineering expertise, we're exploiting the undeveloped upside related to those assets.

OGI: *Could you more fully 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, which is in the Fort Worth Basin, and we have an ongoing gas development project offshore Gulf Coast of south Texas. We have a couple of higher risk projects, one in the Cotton Valley of East Texas and one in Utah/Colorado that we really haven't talked very much about; it's in the early stages.

OGI: *Would you like to, or do you anticipate, expanding to any new core areas this year?*

Oldham: We do not. We're just going to stay very focused on our existing core areas of our operation that we currently have.

OGI: *Do you see some future potential in Utah and Colorado?*

Oldham: Yes we do. We have a nice project there. We have in excess of 100,000 acres that we've accumulated over the last four years and we're in early stages of shooting 3-D seismic. It's a long-term project, so it's more of an exploratory-type venture. It'll take us another year before we have anything proven there.

OGI: *In general, what type of basin or play makes the most sense to the company?*

Oldham: In the Permian Basin, these are long-life oil properties with secondary recovery potential, so that's one of our primary focuses. The other focus is on horizontal drilling like in the Barnett Shale in the Fort Worth Basin. And then we do have a horizontal gas project in West Texas that we are focusing on. It's more technology driven with respect to horizontal drilling and fracture stimulation and then secondary recovery on our old basin properties in the Permian Basin.

OGI: *The company sold some properties during the first quarter. Was that part of normal culling or is there a strategic refocus going on?*

Oldham: No, that was just basically a garage sale.

OGI: *The company reported a $600,000 loss during the first quarter. What were the causes of that?*

Oldham: The primary driver was the ineffective portion of our hedges, which was about $2.3 million.

OGI: *And how does the company approach hedging?*

Oldham: Future new volumes will probably not be hedged. The hedges that we have in place were a function of acquisitions that we made in December 2002 and in the third quarter of 2004.

OGI: *Why don't you anticipate using hedges?*

Oldham: The company is in great financial shape. We have a great borrowing base with a lot of unused availability. We did an equity offering in the spring and raised about $30 million of equity infusion. Now that we have a strong equity base, there's not a strong desire to go hedge our upside.

OGI: *How is that equity infusion going to be used?*

Oldham: Reinvestment in our existing asset base through infill drilling of our base properties.

OGI: *What kind of a price is the company using this year as it puts together the drilling program?*

Oldham: We use a $40 oil and a $6.50 gas. That's our basic price deck.

OGI: *What is the budget, and how does it compare to last year's?*

Oldham: This year's budget is $45 million. Last year, we ended up with a total of $60 million; 40 million of that was for drilling and completion and 20 million of it was for acquisitions.

OGI: *How many wells do you anticipate drilling or participating in this year?*

Oldham: This year, we'll be involved in about 65 workovers and 78 new drills and a total budget of about $45 million. Last year, we were involved in about 68 new drills and 49 workovers for a total capital budget of about $40 million.

OGI: *And estimated production this year?*

Oldham: Our first quarter production was 3,400 barrels of oil equivalent per day, and we really do not give out guidance as to what we think our volumes are going to be.

OGI: *Do you give any guidance on earnings?*

Oldham: No, we do not.

OGI: *Which one or two projects could have the greatest impact on the company this year?*

Oldham: As far as gas projects, our Barnett Shale project in the Fort Worth Basin and our shallow Wolfcamp project in New Mexico. As far as oil projects, we have a project called Diamond M in Scurry County, Texas, and we have another called the Carm-Ann San Andres project in Gaines County, Texas.

OGI: *What do you find particularly exciting about those four projects?*

Oldham: We believe they are all very low risk. It's more like a manufacturing process. We have a lot of acreage position, we have ongoing operations, and it's more like a cookie cutter project—very low risk.

OGI: *Drilling costs and acquisition costs have been rising fairly dramatically. How are those affecting your company?*

Oldham: Acquisitions are pretty difficult today. Prices have gone up so dramatically, so it's very difficult to make a quality acquisition in our core areas. As far as drilling costs, yes, they have gone up, but when you're dealing with $50 oil and $7 gas, you expect them to go up. We're dealing with that on a project-by-project basis.

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

Oldham: We would like to make an acquisition obviously in our core area. But so far, we haven't seen anything that fits us or is close to our existing operations.

OGI: *Has the company had any difficulty getting rigs?*

Oldham: Absolutely. In certain areas, rigs are a challenge. The biggest challenge is service providers, rigs in certain areas, and also, what's causing the issue with the service providers, is the fact that—people—I believe that service providers are pretty well stretched at this point in time.

OGI: *Where are you finding the most difficulty?*

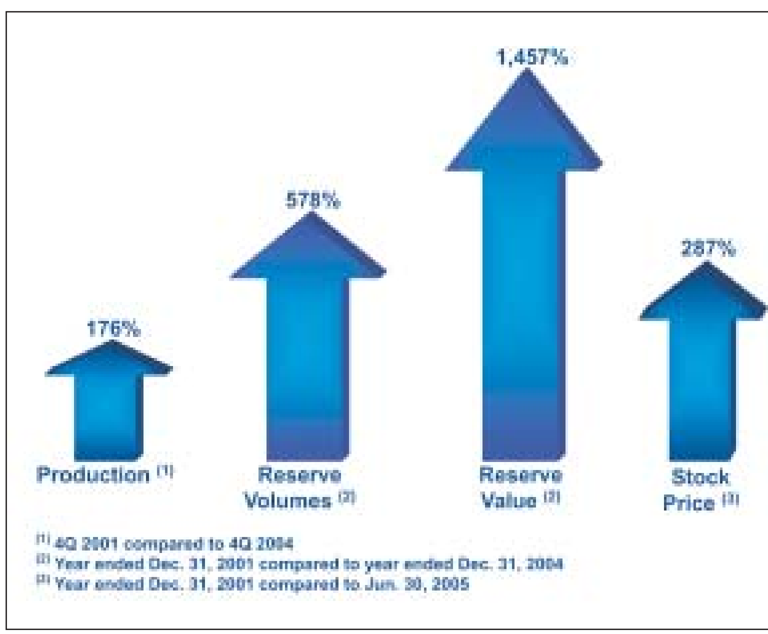
Oldham: It's in all areas, especially from the rig standpoint and then completion standpoint. Tubulars seem to be in pretty good supply. The other would be your stimulation services, fracture stimulations. You really have to get on a waiting list today. So, basically, we have large programs that we're carrying over and having continuous operations. Single-well projects are going to be pretty difficult to get done.

OGI: *What affect does all that have on the company?*

Oldham: Where you have an isolated situation like in Utah, and you're going to have to get one well to drill to begin with that will make it more difficult, whereas with all of our other projects, they're multi-well, and it's easier to get your operations established and ongoing. So from that respect, we're in pretty good shape.

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

Oldham: Just execution and timing. ■



Parallel's performance since 2001.

Parker Drilling Co. (NYSE: PKD)

Robert L. Parker Jr., CEO

Robert L. Parker Jr. was elected CEO of Parker Drilling Co. in December 1991. After receiving an undergraduate business degree and an MBA from The University of Texas at Austin, Parker joined the company in 1973 as a contract representative and was named manager of U.S. operations later that year. He was elected a VP in 1973, executive VP in 1976, and in October 1977, Parker was named president and COO.

He is a member of the International Association of Drilling Contractors and is also on the American Petroleum Institute's Upstream Committee. He has served as a Parker director since 1973.

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

Parker: Our strategy has been to reduce debt to achieve a stated goal of $200 million debt reduction, primarily through asset sales. To date, we have paid down 75% of that stated goal. Once the proceeds from the announced sale of our Latin American assets are applied to our debt, we'll have achieved approximately 90% of our goal. We will strive to continue to reduce debt as a percentage of total capitalization with the long-term goal targeted to the mid-30% range, which is typical of companies in our line of business.

A second, and very high priority for Parker, is to focus on growth with an emphasis on expanding our core businesses; those being our U.S. barge market, our rental tool company and our land efforts internationally. In addition to our existing international land markets, we're pursuing opportunities in the Middle East and northern Africa. Currently, and more specifically, we are looking at opportunities for expansion in Saudi Arabia, Algeria and Libya. Finally, we are seeking ways to increase utilization and day rates for our existing fleet as well as manage our costs and being selective with our capital expenses.

OGI: *Please talk a bit more about the financial restructuring and the key drivers behind that.*

Parker: We are an over-leveraged company. Two years ago, we had a stated goal that in order to begin correcting our over-leverage, we would sell certain assets to achieve a $200-million debt paydown goal. That was a first step. We are in that process right now. That is a goal we communicated to Wall Street to show that we are very serious about reducing our over-leveraged situation. After this initial step, we feel like we will start growing our company with very select opportunities and those will have to be equity-backed. We will grow using equity very prudently, and that will also increase the equity side of our balance sheet, which will obviously continue to help our debt/equity ratio.

OGI: *Where is the most growth potential for Parker?*

Parker: We've got a very robust market in the Gulf of Mexico with our barge rigs and then also in the U.S. in general. In addition, even though we are exiting the Latin American market, we have gone into the Mexican drilling market and have an eight-rig operation under long-term work in Mexico itself. However, most of our growth will happen in the Far East part of the world and then what we would call the CIS and Mideast part of the world: we have a presence in Kazakhstan, Turkmenistan and also a presence in the Far East, which includes Papua New Guinea, New Zealand, Indonesia and Bangladesh.

Our presence in Russia right now involves maintenance and operations contracts. We do not have any specific drilling rig assets in Russia, but we operate large maintenance and operations contracts on the Sakhalin Islands north of Japan, and then we're also continuing to discuss possible ventures with Russian oil companies, which would involve our expertise and their drilling rigs.

OGI: *What percentage of your business is international and how has it changed during time?*

Parker: Last year in 2004 it was about 50-50 U.S. and international. Also in 2003, we operated some jackup rigs in the Gulf of Mexico, which since have been sold. Looking forward in 2005, it looks like it would be more like 60% international and 40% U.S.

OGI: *The company has gone from the mid-40% utilization rate a year ago to over 80% in the first quarter of 2005. Is there a trigger for additional capital outlay for expansion?*

Parker: We're at 82% utilization today and we, like the industry, have seen a fairly steep increase in average utilization. In time, the industry's going to have to build new rigs. We want to participate in that, but we want to have them backed by long-term contracts. As we look at our growth going forward, we know, in time, we're going to have to build new rigs for different markets around the world. You have the choice of building them on speculation where we, the contractor, take the risk that once the rigs are completed they will be employed and at a profitable rate somewhere in the world. Or, you can wait and work with operators where they issue a long-term contract, which allows you to back in a sense a lot of the funding of the rig and build a rig for that operator for that job. That clearly is the strategy that we're following right now. We are bidding some new rigs that would be backed by long-term contracts.

***OGI:** Do you expect to be adding rigs under long-term contracts for North American producers, or is it more likely to happen internationally?*

Parker: More likely internationally, but we would not rule out additional barge rigs in the Gulf of Mexico, too. We've had a lot more inquiries from international markets than we have had from the Gulf of Mexico.

***OGI:** Given the increase in utilization, have you been able to add crews and equipment as you would like?*

Parker: There are always constraints, especially on the people side. We have added crews as we have reactivated rigs. A couple of points have helped us here. First of all, our Gulf of Mexico barge rigs have increased utilization, and therefore we've had to go out and add employees. We've been able to do that, but it's not been easy, and it has been a very selective process. Internationally, where we activate rigs and increase our utilization, it's a much easier job on the personnel side because it requires fewer expatriates or fewer U.S.-based people to work overseas, and we use a lot of the local labor, which is much more readily available. Clearly, we're able to expand easier in the international sector in regards to people than we are in the Gulf of Mexico.

***OGI:** Your company's day rates in the Gulf of Mexico increased on average 24% during the first quarter. How does that compare with other core areas, and is it desirable to maintain that rate of growth?*

Parker: I don't know that we can maintain that rate of growth because there's been a significant day rate increase, and we certainly expect day rate-pressure to continue going up. From the first quarter of 2003 to the first quarter of 2005, our day rates in the deep drilling market of the Gulf of Mexico have gone up 34%. That's a very hefty increase, and I doubt if we can really maintain that quite large of an increase, but I still see pressure upward on day rates.

Internationally, they have grown, but not at quite that rate. We've got much longer-term contracts internationally, which gives security knowing you've got the revenue coming in, but you've got to wait much longer to have your day rate increase as the contracts roll over.

***OGI:** For a long time, service companies had relatively little pricing power. Are you now able to justify passing along price increases to customers?*

Parker: Yes we are. As cost increases happen in terms of labor and materials, parts and steel, we are able to pass the costs along. In terms of our Gulf of Mexico market, we do that on a well-by-well contract day rate. In terms of our long-term contracts around the world, we're able to do it through the contract while we're operating. ■

Parker Drilling is currently working a seven-rig, 31-well contract for land drilling services in southern Mexico.

Petrie Parkman & Co.

Thomas A. Petrie, Chairman and CEO

Thomas A. Petrie is chairman and CEO of Petrie Parkman & Co., an energy investment-banking firm based in Denver and Houston. He is the former managing director and senior oil analyst of The First Boston Corp.

During his career, Petrie has been an active advisor on more than $130 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 number one oil analyst in the exploration/independent sector by *Institutional Investor* magazine.

He is a Chartered Financial Analyst and past president and member of the board of the National Association of Petroleum Investment Analysts. Petrie earned a bachelor of science degree from the U.S. Military Academy at West Point and an MBA from Boston University.

Oil and Gas Investor: *Tom, our first question has to be, is this [change in commodity prices] for real, or just a momentary blip?*

Petrie: I believe it is real. In terms of oil pricing, the new reality is $40- to $60-oil, 80% of the time, and occasionally going higher than $60, but very rarely below $40.

So, this is real. It's a step function and it's significant. That certainly doesn't say that the price is sustainable at that high level no matter what. Can high $50s or $60-oil become $40 or $45 again? You bet. And it probably will, because volatility does characterize this environment.

But at $60, it doesn't really appear we've had a shock affect to the economy that would cause a downside test much lower than $40 a barrel. To get that low I'm guessing we might have to see $80- or $100-oil to change the patterns of consumption sufficiently to send us back to lower oil prices well into the $30s. But I think that has a pretty low probability.

OGI: *Why are you so bullish?*

Petrie: OPEC itself is struggling to develop new productive capacity. Can they do it? Yes. Will they do it? Yes, probably. But how much can they do? Not all that much compared to the overall growth in global demand that's going on as a function of China and India emerging, and not all that much when you consider what's going on with respect to ongoing declines in the existing world oil reserve base.

You know, if oil production declines 5% annually from the 85 million barrels or so that we produce today, by the close of the decade we'll be down by 19 million barrels. So we'd better hope that there is a lot of new production coming from deepwater West Africa and deepwater Gulf of Mexico, deepwater Indonesia, the Caspian Sea, the Middle East and Russia, to fill that gap.

OGI: *Despite high prices, oil demand is still rising around the world.*

Petrie: When you look at per-capita oil use numbers, you see that China is moving into a South Korean model of oil consumption or will be well on the road to that by the end of the decade—that alone is 8 million to 10 million barrels of new consumption. India is moving to a Brazilian model, which is another 2- to 4 million barrels a day. Russia is moving to a German model. That means Russian production could go up by another 2- or so million barrels a day, but at least a million of that will be for their domestic consumption and the rising expectations of Russia's middle class, so that oil is not fully available for export to the world market.

The bottom line conclusion is, we have to stay tuned over time to see what the cumulative effect does to demand patterns.

There is no question there will be some demand elasticity—but there is a self-correcting aspect to that too, given that OPEC is struggling to develop new supply and given the population growth in some of those countries such as Saudi Arabia, Iran, Iraq, Nigeria and Venezuela. They are going to be powerfully motivated to keep production at a reasonably balanced level, so we don't get into a downside price test beyond the low $40s.

OGI: *U.S. gasoline demand was up in July. It's amazing.*

Petrie: Yes, it is. You know that in London, even before the bombs went off, the price of gasoline was 4 pounds to the gallon, which is just under $8 a gallon. It used to be considered high when it was $4.50 or $5, but it's stepped up significantly since then. So when you hear complaining in this country about $2- or $2.75-gas—we're in a different world.

OGI: *What affect might high gasoline prices have?*

Petrie: I think we're at a point where, at the consumer level, we'll have a rough replay of the late 1970s, that is, where Detroit loses market share to the Japanese, who have many more fuel-efficient vehicles and hydrides. Detroit is behind the curve once again and won't be able to play catch up for three or four years at least.

OGI: *What about analysts? Are they also playing catch up with these high oil prices?*

Petrie: We have a chart that we've been using for some time now that shows the difference between the Nymex futures strip and First Call consensus estimates. What is interesting is that analysts continue to systematically discount [the commodity price] they are willing to use to make their earnings and cash flow forecasts, vis a vis that futures strip price.

OGI: *Aren't they smart to be so cautious?*

Petrie: It's hard to say, so I'm not going to judge that. I was an analyst once, and I know that there's a tendency not to be wrong by being too optimistic, and that's not unreasonable. It's a prudent investment attribute. But because of that disparity, it is arguable that the energy stocks are not fully discounting the forward strip.

OGI: *How do these disparities affect the M&A market?*

Petrie: The winners on deals are very often companies or enterprises that are willing to hedge out [future cash flows on acquisitions]. On its conference call, El Paso [talking about its $814-million acquisition of privately held Medicine Bow Energy] said they are hedging out the rest of 2005, all of 2006, 2007 and 2008. That's three and half years of future cash flows being hedged, and at great prices—high $50s oil—and if they use a collar, with better than$50-oil for a floor. It's phenomenal.

OGI: *You've seen so many M&A deals in your career. Is M&A the only way for a U.S. E&P to grow?*

Petrie: No, no. I actually think the opposite. I think M&A deals in general are getting tougher and tougher to do and more creativity is required to do them. And, a number of the smart players are concluding that they are better off figuring out how to grow on a grass-roots basis, or at least, capture an opportunity and figure out how to exploit it for the value added in operating. By that I mean by drilling, refracing or whatever else they can do to add to supply.

OGI: *Speaking of adding supply, what do you make of recent Saudi statements that they are ordering new rigs and stepping up drilling ?*

Petrie: They are doing that, but if you read between the lines, it's a struggle for them too. The oil they are bringing on is lower quality. It's heavier, more difficult to develop, more capital-intensive.

That's why the new refinery partnership announced by ExxonMobil, the Chinese and the Saudis is so important—because the oil reserves the Saudis are developing don't have a natural market in the world today. Valero's refining system [to handle such heavy oils] is full. It's going to take a fully integrated approach and therefore, a reasonable return—so they are not going to be motivated to flood the world with oil.

OGI: *To what extent do you think the run-up in prices on Nymex is due to hedging speculation?*

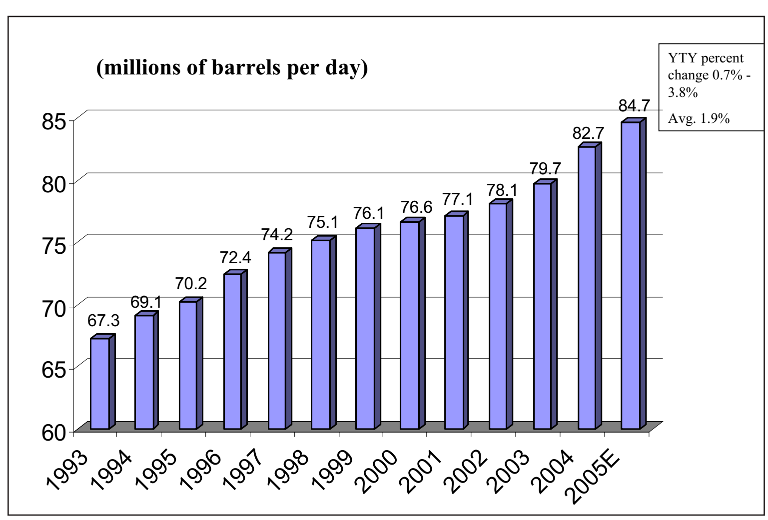
Petrie: I tend to believe that on a day-to-day basis, hedge funds buying or selling can move the price some, but that's not the reason oil is at this high level.

OGI: *What do you hear about the energy bill?*

Petrie: I don't know. But I have said publicly that I am not really convinced an energy bill would be a big help. A lot of what's proposed in it is five, eight, 10 years away—and we have a here-and-now problem that is crying out for a solution. But it's important that they try to get a bill because it contains some ideas we need to start working on now.

This is a bill we should have had five or 10 years ago.

As an aside, I've never heard it refuted that it takes more energy to produce a gallon of ethanol than it creates. It makes you wonder how we are going to come out ahead by growing more corn, and using diesel for the tractors, if you only get 80% of the energy out that it took to create it. ■



World Oil Demand 1993-2005E.

Petroleum Development Corp. (NASDAQ: PETD)

Steven R. Williams, Chairman and CEO

Steven R. Williams was elected chairman and CEO of Petroleum Development Corp. (PDC) in January of last year. 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.

Oil and Gas Investor: *What drives your company?*

Williams: We're committed to growing the company in a way that maximizes shareholder value. We historically have done that both through traditional oil and gas activities—drilling and completing wells for our own interest—and also by using public partnerships, where we drill wells for outside investors earning a profit for that, and then using the profit to allow us to grow faster than we would be able to grow otherwise.

OGI: *Describe your core areas.*

Williams: We operate in three different regions of the country. Our historic operations began in the Appalachian Basin. The Appalachian region currently represents about 15% of our production. Our second area of operations was in Michigan. That also represents about 15% of our production. And currently about 70% of our production—probably a bit more than that—is in the Rocky Mountain area, in particular in Colorado. Colorado is also the focus for all of our current drilling in the Rocky Mountain area. Colorado is likely to continue to be a primary focus of our drilling activity going forward.

OGI: *Why is that?*

Williams: We've had very good results since we moved our drilling operations to Colorado. It's a good area in that it builds on our experience both in the Appalachian Basin and in Michigan in tight formation-type work and unconventional reservoirs. But we think there's more undeveloped potential in the Rockies than in the other areas that we operate. So we are able to leverage our past experience in an area where there's a great deal more opportunity.

OGI: *The company had some initial disappointment in the Rockies in the late 1990s in northern Colorado and Montana with some exploratory wells. Do you see yourself doing any future exploration?*

Williams: In fact, we are currently engaged in an exploratory program. We've drilled two exploratory wells recently, one in the last part of last year and one the first part of this year. We have additional exploratory wells planned going forward in the year. At this point in time, we have determined that the first well was a dry hole. We haven't completed the evaluation of the other well. We do think that with the increase in the cost of proved undeveloped locations, the relative attractiveness of drilling exploratory projects where there's greater risk but potential for opening up a significant number of additional proved undeveloped locations for future development, has shifted in favor of exploratory compared to just purchasing proved undeveloped locations. It's just gotten too expensive.

OGI: *Considering any new core areas this year?*

Williams: At this point in time, I think our focus will still remain the three core areas we already have. Our Rocky Mountain activity may be expanded somewhat into the surrounding states. We've also made additional acquisition of undeveloped acreage up in North Dakota in the Bakken Shale prospect. We hope to be able to begin drilling a well there in the near future. Other new areas are also a possibility.

OGI: *E&P companies have been reporting some stellar financial results in the last couple of quarters. How can you keep up the earnings momentum?*

Williams: If the prices remain high, I think it's possible because there is so much cash flow to reinvest. Obviously, our industry is always dependent on energy prices. If they turn down, it's going to be very difficult if not impossible to maintain current results. If prices remain strong and we all generate a lot of free cash flow, the challenge becomes finding prospects and the services to put that money to work in interesting projects.

OGI: *Does your company hedge?*

Williams: We do. The hedging that we're doing currently is generally some form of collars, typically an asymmetrical collar where we're selling one call at a level that allows us to buy two puts, so we give up one-third of the upside potential and protect against two-thirds of a downside potential. We have been purchasing puts on no more than two-thirds of our production, selling calls on one-third and leaving a third unhedged.

OGI: *What price deck are you using this year as you plan the drilling program?*

Williams: We typically use the forward futures market as a starting point.

OGI: *What's the budget this year?*

Williams: The budget is a little over $100 million. It's significantly increased from last year. The budget last year was about $40 million.

OGI: *How many wells do you anticipate participating in or drilling this year compared to last year?*

Williams: We expect to drill about 200 wells this year. We drilled about 130 wells last year.

OGI: *What is your projected production this year, and what sort of revenue growth are you anticipating?*

Williams: We have not made those projections public.

OGI: *Which one or two projects or wells could have the most impact on the company this year?*

Williams: The exploratory projects potentially could have the greatest impact on PDC in terms of long-term prospects. We're looking for one or more of these exploratory projects to turn out to be successful, and each of them has the potential to open significant acreage blocks. This would give us additional areas to add to our drilling inventory and, hopefully, some good potential for the future.

OGI: *Drilling costs and acquisition costs have been rising fairly dramatically. How are those factors affecting your company?*

Williams: On the acquisition side, last year we were completely on the sidelines. We continue to look for opportunities this year, but we have certain standards, and if acquisition prices are above our standards, we are not going to be acquirers. We don't set a target at the beginning of each year for our acquisitions. Rather, we look for targets that meet our economic and financial requirements. In this environment, that may be difficult to do. That being said, you never know. There certainly are opportunities out there, and there may be a match that works for us better than anybody else and allows us to be successful in an acquisition.

On the drilling side, the prices are still ahead of the cost side of the equation. On the downside, when the costs go up the risk increases. If there is a price downturn, you will have locked in higher drilling costs than you would have otherwise, and you don't have the same opportunity to protect against price movements as you would have with an acquisition because the production from drilling is so much less predictable.

OGI: *What is E&P industry's greatest challenge today?*

Williams: I think it's the same challenge that we've had for a number of years, particularly as the activity picks up. It's that huge gap in our experience curve. There are a lot of oil and gas professionals between 45 and 60 years of age, and there are people with no experience coming into the business, but there are very few people in the middle tier. That's going to be a huge problem for our industry going forward, and you certainly can see it reflected in the relatively slow growth in the number of additional rigs that are available and in the level of drilling that's being done given the prices.

OGI: *With that as background, then, what do you see as the greatest challenge for your company?*

Williams: It's finding the right people to allow us to continue to grow and being able to integrate them into our system. ■

(Photo by Tom Carpenter, geologist, Petroleum Development Corp.)

Grand Valley Field—Petroleum Development Corp. has drilled more than 100 wells with only one dry hole. The company has about 13,000 acres in the area that it believes is prospective for the Mesa Verde formation.

PetroQuest Energy Inc. (NASDAQ: PQUE)

Charles T. Goodson, Chairman, CEO and President

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 became 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.

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

Goodson: Since we started the company in 1998, it was originally focused as a Gulf Coast, Gulf of Mexico company. At the beginning of 2003, we developed a strategy to grow into unconventional long-life reserves. The strategy is to grow those three areas: Oklahoma (Arkoma Basin), which is unconventional primarily—Hartshorne Coal and the various shale plays that are there that are kind of sandwiched between the Barnett and the Fayetteville. Secondly, East Texas where we have core position in the Carthage Field and have a number of years of drilling there. It's a fairly undeveloped piece of property, but it's no different than what's going on with other companies in the Lower Crutaceous and the Cotton Valley plays. And third, our core base was south Louisiana and offshore, which is something I've been involved in my entire career. I started in the late 1970s, and it's something I've watched evolve.

OGI: *The company just closed in the first quarter on a $22 million acquisition in the Arkoma Basin in Oklahoma. How does that fit into your strategy?*

Goodson: When we got into the Arkoma Basin, we were initially going to make an acquisition in the area of about 6,000 net acres, which was operated by a private company. We struggled with that acquisition and could never get it closed, so we leased about 6,000 acres, built a pipeline system, started drilling, learned how to drill these wells, got it down to a fairly organized manufacturing process having drilled 30-some-odd wells. We then were able to go back to our circle of friends and make that acquisition, which brought us up to about 12,000 acres.

Now we are about to close on this next transaction, which takes us up to about 21,000 net acres. We have about 100,000 gross acres, so we have a fairly substantial position in that area. We've gone from zero to 108 miles of pipeline, we have approximately $1 million of EBITDA per year flowing in from those systems. We have 300-plus defined locations within this area, so what this acquisition did was to get us up to a very comfortable level of not only the long-term reserves, but also long-term activity and long-term production.

It's probably the fifth acquisition we've made in the Arkoma Basin, so it's just more of the same. Today, the sum of those parts is a significant growth engine for this company.

OGI: *What makes the economics work for you?*

Goodson: Every acquisition is made differently, built on a different set of facts. We agree there are a number of acquisitions, primarily the fully-developed acquisitions, that are very pricey. Where you might have the same economics today on those fully-developed acquisitions as you did three or four years ago there's a lot more downside probability than upside probability. If you're making an acquisition based on the same metrics three years ago, I think the industry felt a bias to the upside in the commodity price. Today, the same metrics would say that the bias is on the downside of price over time, or at least it's no where near the ramp-up. And so it is what it is. You've got to protect yourself with hedging.

But on the other side, if you're able to acquire something where, maybe a private company has moved into the state, they're not interested in a drilling program as much as they are in developing a property at will, then handing off the baton, as they say, from a private company to a public company is a whole different strategy and mentality in how you develop a property. We have found that in the Arkoma Basin where there are, let's call it, half a dozen public companies, there are between 60 and 80 active private companies. We're able to go in and have been able to successfully sit down and negotiate with those private companies and make attractive acquisitions. In many cases, they establish the price; all we had to do was sit down and build facts around that because in most cases, those companies don't have reserve reports, they don't have a whole lot of data.

> **"If you look over time there always are, there always have been and there always will be ongoing attractive acquisitions."**

If you look over time there always are, there always have been, and there always will be ongoing, attractive acquisitions. It doesn't matter if the commodity price were $0.50 or $10 per thousand cubic feet, you can still lose money on acquisitions. In this environment, there's probably more chance of a win-win situation where the seller is able to get his price that is meaningful to him, where at $2, some of these unconventional and long-life plays really weren't seeing a whole lot of cash flow. Their service costs were eating up so much of the profit; when you look at a three-year payout, there wasn't much left for the seller. Today, they're able to get a lot more money for it and still there's a lot of upside.

OGI: *What price deck do you use?*

Goodson: We're using $6 gas and $40 oil. We certainly run a lot of sensitivities between $25 and $30 oil. We also look at the potential for spikes in gas prices.

OGI: *How many wells does the company anticipate drilling or participating in this year?*

Goodson: Last year, we drilled about 33. This year, we've forecast and are on budget to drill about 74 gross wells. So a substantial increase in activity this year.

OGI: *Which projects are generating the most buzz?*

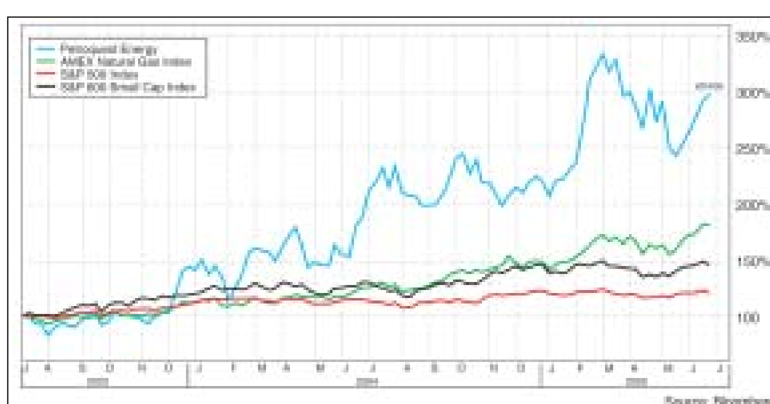
Goodson: It's really those two areas: East Texas and Oklahoma, which really have been working very well. Is there one big exploratory well? We've got our Oakbourne project drilling right now, which is a high potential well, and we'll have several other high-potential wells later this year.

We really feel that for the market to understand the somewhat restructured PetroQuest that began in late 2002/early 2003, you've got to look at the results that we're starting to see in the Arkoma Basin and East Texas. We have substantial acreage positions in both areas, substantial activity today and in the future. The way we articulate this company, is our goal is to have reserves 60% longer life, 40% shorter life, high cash flow. The daily production from the long-lived areas will just continue to grow. Today, it's between 25% and 30%, East Texas and Oklahoma and that will continue to grow. Right now, we have active three drilling rigs—two operated, one not operated—in the Arkoma Basin. We have one operated rig in East Texas on a continuous basis. We're increasing our East Texas/Oklahoma production; we're increasing it every week. As opposed to one significant Gulf Coast, Gulf of Mexico well, I think we want to articulate more the program that we put in place in East Texas and Oklahoma.

OGI: *What is your greatest challenge this year?*

Goodson: This company has been built around people. We've been able to attract very talented people. Keeping those people motivated and focused on what this company wants to do is something that we wake up with every morning and we think about. Keeping their families happy is the most important challenge that we have.

We are at a segment of time in this industry, and I think the challenge of increasing costs is certainly something that we live with every day. We don't have any major problems as far as environmental or health safety problems in the company. Certainly between July and September/October, we've got an eye on every storm that comes off the west coast of Africa or forms in the Gulf of Mexico. Those are challenges we have every year. Trying to anticipate the unanticipated is important in doing a what-if game. What is it that could hurt you the most? We sit as a management group and try to evaluate that, and it all boils down to a risk process for every project that we drill we have an approval package that has about 70 attributes and all the senior vice presidents sign off on it. As long as we do our part of the business and keep it moving in the right direction and focus on what we're trying to do—grow an E&P company—then those challenges are being met. ■



Stock performance since July 4, 2003. Base equals 100.

Petsec Energy Ltd.
(Pink Sheets: PSJEY)

Terry Fern,
Chairman and CEO

Terry Fern is chairman and CEO of Petsec Energy Ltd, an oil and gas exploration and production company he established in 1981. He also is a director of Climax Mining Ltd., a company he established in 1985. Fern has more than 30 years experience in petroleum and minerals exploration, development and financing. He holds a B.S. degree from the University of Sydney and has followed careers in exploration geophysics and natural resource investment.

Oil and Gas Investor: *What drives your company?*

Fern: We were formed as an exploration company, and we operate in the Gulf of Mexico—in the Shelf, predominantly. We do have some interests onshore, which we've done recently, but our focus has been on the Gulf Coast and on the Shelf on high-margin gas, predominantly, lease sales, and we also have farm-ins. The strategy is to get a prospect inventory that's always about three years out where we can increase our reserve position by a good 30% a year.

OGI: *What are your core areas?*

Fern: We're on the Shelf, and we're operating in the West Cameron, Vermilion and Main Pass. Onshore we've recently taken a rather large area, about 94 square miles that is optioned for seismic, in the College Bend area; College Point, which is about 50 miles west of New Orleans.

We also have an interest in China. That's outside what we've done in the past. We took that up in 2002. It's a property of 450 square kilometers, and it's entirely operated by Australian companies—medium-sized, small, Australian companies in the Tonkin Gulf. The southern coast of China between Hainan Island and Vietnam. In the last 10 years, China's national offshore oil company has found something on the order of 300 million barrels, and we have small discoveries on our block, and we are hoping to bring one of those—it's about 10 million barrels—into development sometime late this year or early next year.

OGI: *Do you hedge?*

Fern: Yes we do. We've always had a tradition of hedging. Australians tend to be a more conservative lot. I found when we started operations in the U.S. in the early 1990s, not many U.S. companies had hedged. We tend to hedge somewhere between 30% and 50% of our production each year forward, and it depends on how we see the pricing. When gas prices went over $7 last year, we felt that was a pretty reasonable price, so effectively we have solved forward through 2005 about 45% of our production. We expect to produce in excess of 7 billion cubic feet and about half of that has been hedged at about $7 per million cubic feet.

OGI: *What price deck are you using this year?*

Fern: We've been using $4 as our price deck. And in many cases, we use $3.50 as the basis for going into any sort of deal. Somewhat low, but if it can work at that level, we like to operate with a pretty high margin. Over the last several years, we've managed to maintain an index margin of just under 80%. I like that there is a lot of flexibility that a project is going to work at $3.50 to $4, then you can cover a lot of sins.

OGI: *What is the budget this year?*

Fern: Last year's budget was something on the order of $25 million, which is the same as this year. We've declared a budget of $25 million for exploration and development of main parts, which have been successful. Last year, we spent $31 million, and I suspect that if all goes particularly well this year, we may well exceed that $25 million.

OGI: *How many wells do you anticipate drilling or participating in this year?*

Fern: Last year we drilled six wells; three wells in China and three wells in the States. This year, we propose to participate in seven wells, and it could be one or two higher than that.

OGI: *What could production look like this year?*

Fern: Production this year from our existing reserves is on the order of 7 billion cubic feet equivalent. Last year we produced 5.7 billion cubic feet.

***OGI:** At the company's annual general meeting in May, you spoke a bit about Vermilion as being a main driver for production in 2005. Could you talk a bit more about the prospects there?*

Fern: Vermilion we drilled in late December 2003 and our second well was in 2004. On the basis of that, we proceeded with development. We brought those two wells onstream in July, and then we drilled two development wells in October. Our first partial exploration identified something on the order of 20 billion cubic feet of gas and we have to the east, overlapping 257, which we own (we own five contiguous blocks around Vermilion), and we've identified there some 19 billion cubic feet of prospects quite similar to the ones we drilled at the western side of 258. We propose that we'll be drilling wells there perhaps late this year or early next year; three wells to test that 19 billion cubic feet.

But there's also other exploration work going on, and that may impact on where else in Vermilion we're going to drill.

***OGI:** What projects or wells are particularly exciting to the company this year?*

Fern: Main Pass 19 has been particularly exciting. We've drilled two wells there, and we have a three-well program. The first well came in about [the middle of May], and the second well was [not far behind]. We intersected seven sands in both of those wells, and one of those had 115 feet of net gas pay. The second had 120 feet of net gas pay.

That was testing. The third well has since proved successful intersecting two hydrogen-bearing sands with an estimated 50 feet of net pay. We have 45% net revenue interest there and these three wells have on the order of 12- to 15 billion cubic feet net to the company. We're delighted with the outcome of that. There are other prospects on that Main Pass 19 well that we will test once we have set up facilities. We had acquired a secondhand platform and a secondhand jacket. A reading of the results of the well and on the basis of the drilling to date, we announced that we are going to proceed with the development. We've commenced refurbishing the jacket and platform, and we expect to have these wells onstream early in the fourth quarter, early October. We recently leased blocks adjacent to the Main Pass 18 and Main Pass 103; we were awarded those just last week. And we're delighted to have got them.

The three blocks were part of a Mobil field. There was 28 billion cubic feet that had already been produced out of the Main Pass 19 block. But on 18 and 103 they produced 100 billion cubic feet and 2.5 million barrels of oil. We see quite a lot of remaining potential in 18 and 103, and that will make a very effective development for those three blocks together. With a little luck, we'll start drilling in 18 toward the later part of the year or early next year. ■

Petsec's Vermilion 258 platform in the Gulf of Mexico.

Questar Market Corp. (NYSE: STR)

Charles B. Stanley is executive VP and 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

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

Stanley: Questar is a natural gas-focused energy company. We're focused primarily on the Rocky Mountains, and we believe we offer investors a lower-risk way to invest in the strong fundamentals of natural gas. Our business model includes rapidly growing gas and E&P, and gas-gathering and processing businesses, which generate around 75% of our net income, and two regulated businesses—interstate natural gas transmission transportation and storage, and retail gas distribution business. Roughly 11% of our net income comes from transportation and storage and 14% from the distribution company. We offer our investors greater growth than a typical utility with lower volatility and commodity price sensitivity than a typical E&P company. Our enterprise value (market capitalization plus debt) is around \$6.85 billion. We are a rapidly growing producer in the Rockies focused in two main areas: the Greater Green River Basin in western Wyoming, and the Uinta Basin in eastern Utah.

OGI: *Do you anticipate expanding into any new core areas this year?*

Stanley: In addition to our Rockies businesses, we have a significant Midcontinent E&P business. We like the Midcontinent, it's a core area for us. Given the right opportunity, we would like to expand there through acquisitions. We currently have over 400,000 net leasehold acres in the region and several good organic growth projects under development. We've had a presence in the Midcontinent for 18 years, and we built that business with a series of successful acquisitions, which have provided the feedstock for organic growth.

OGI: *E&P companies have been reporting some fairly stellar financial results in recent quarters. Do you think that kind of momentum can be sustained and how?*

Stanley: Prices alone are not the key to future earnings growth in this business; you have to have growth in production coupled with a competitive cost structure. Our E&P company is one of the fastest-growing independent E&P companies in the space. We've been able to achieve a compound annual growth rate of about 8.8% over the past decade. We have a large inventory of low-risk, repeatable development projects driven by our presence the Pinedale Anticline and in the Uinta Basin that should sustain our organic growth rate for the next few years. And our low cost structure should allow us to generate good margins and returns on capital over the full commodity-price cycle.

In addition to our conventional E&P business, we have a unique E&P company called Wexpro. Wexpro develops and produces gas reserves owned by our retail gas distribution utility, Questar Gas. Under a long-standing contractual arrangement, Wexpro earns an approximate 19%, unlevered after-tax return on invested capital in successful development wells. It delivers gas to the utility on a cost-of-service basis and generates a commodity price-insensitive earnings stream, which we've been able to grow recently at about a 10% compound annual rate. We've identified an additional \$400- to- and \$500 million of capital investment that we believe will allow us to grow Wexpro earnings in the high single- to low double-digits over the next eight to 10 years.

Our midstream field services business (gas-gathering and processing) has also been growing rapidly, capitalizing on strong production growth in both western Wyoming and eastern Utah. Since 1998, we've been able to achieve a 48% compound annual growth rate. We see opportunities to continue to grow that business in lockstep with our E&P activities.

OGI: *Being a producer and a regulated utility in the state of Utah, what kind of regulatory issues come up given the recent run-up of commodity prices?*

Stanley: Our retail distribution company makes money by providing the delivery service for the commodity. It passes through the cost of natural gas to customers in their monthly bills. Surely, every utility and every utility customer is focused on the high price of natural gas today. The reality is that our utility's earnings are not driven by the price of the natural gas, but by the size of its the rate base—that's the investment in pipe, meters and facilities that deliver the gas, by growth in the number of new customers we connect, and by how much gas each customer uses.

Our utility customers are actually very fortunate. Because of the long-standing agreement with Wexpro, about half of our utility customers' current natural gas needs are its supplied from company-owned production. And it's being delivered at about half the current market price. Over the life of the Wexpro agreement, we've been able to save consumers in the state of Utah and southwestern Wyoming over $800 million versus what it would have cost to buy that same quantity of gas on the open market at prevailing prices, making Questar Gas rates perennially one of the lowest in the country.

OGI: *What's the company's hedging strategy?*

Stanley: We probably hedge more than a pure E&P company. This year, we have approximately 75% of our forecasted production for the remainder of the year hedged; about half of next year's production is already hedged. We hedge to protect our returns on invested capital in our E&P business, and to protect our cash flow and our earnings streams from a pullback in commodity prices. Especially at these high price levels, we tend to take advantage of the forward market to lock in certain prices and certain returns. We record our hedges on a net-to-the-well basis. We're different than a lot of E&P companies in that the financial market values us on an earnings-multiple basis as opposed to a cash flow-multiple basis.

OGI: *What price deck is the company using this year as you plan your drilling program?*

Stanley: We generally test all of our investment decisions in our E&P business at a flat commodity price. We use a basis adjusted $4-Nymex gas price to test the economics of our drilling dollar projects, not because that's our forecast, but because it helps us maintain investment discipline. For that $4-Nymex price, we expect to see roughly a 15% after-tax, unlevered return on a risked basis before we will allocate capital to a drilling project.

OGI: *What is the budget this year, and how does it compare to last year's?*

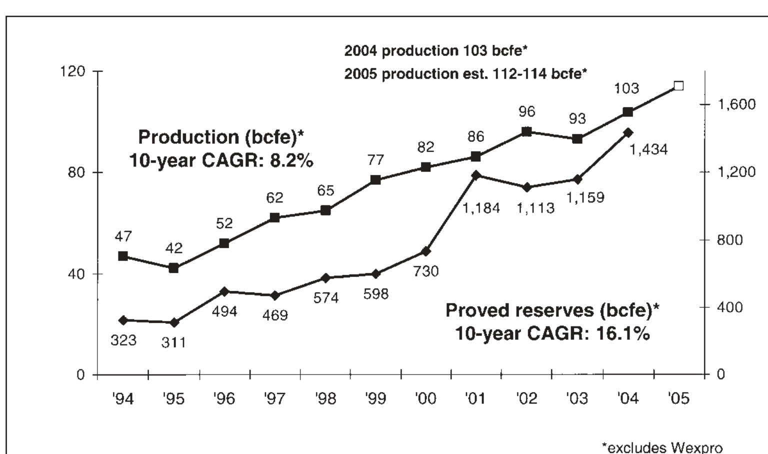
Stanley: This year, we're going to spend roughly $400 million in the Market Resources group of companies. That includes both Questar E&P and Wexpro, along with the midstream business. That compares to a budget last year of $346 million for Market Resources. Add about $185 million in the regulated businesses and a couple of million dollars of other corporate expenditures and you have a total of $587 million for the corporation for 2005. The total corporate budget was about $458 million last year.

OGI: *How many wells does the company anticipate drilling or participating in this year?*

Stanley: We will drill or participate in about 447 wells this year. Our big capital program is at Pinedale, where this year, we're projecting to drill about 35 wells compared to 30 last year. We also have a significant drilling program in the Uinta Basin, where we expect to drill about 96 wells during 2005. The rest of the program is spread out over our legacy assets in the Rockies and in the Midcontinent.

OGI: *Which one or two projects are having the most buzz this year in terms of potential impact?*

Stanley: By far, the most important project for this company is our ongoing development drilling on the Pinedale Anticline. The company has a long historic presence at Pinedale. We drilled our first well in the field in 1963, then two more wells in the early 1980s. We knew there was lots of gas in the structure, but and it wasn't until the advent of multi-stage, fracture stimulation technology that things really took off, in the late-1990s. At the end of 2000, we had 14 producing wells at Pinedale. By year-end, we were up to 104 producing wells. This is a world-class natural gas play, and we're in the middle of it. By the time we're done, we'll have a minimum of 470 wells on 20-acre density on our operated leasehold. Pinedale's driving Questar's growth. ■



Questar is one of the fastest growing producers in the U.S.

Rivington Capital Advisors

Christopher R. Wagner

Christopher R. Wagner has more than 15 years of experience in various banking, corporate finance and advisory roles within the oil and gas industry. Prior to founding Rivington Capital Advisors LLC with Scott Logan in 2002, Wagner was VP, CFO and a founding member of the management group of Shenandoah Energy Inc., a privately held energy company focused on the Rocky Mountain region of the U.S. From 1993 to 1999, ING Baring LLC employed him in New York, ultimately holding the position of senior VP and team leader in the natural resources group. While with ING, Wagner focused exclusively on capital access and advisory for small- and mid-cap independent producers. He began has career with First City, Texas NA where he served as an energy banking officer for the petroleum and minerals group. He graduated from the University of Texas at Austin with a B.A. in economics.

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 in excess of 25 transactions having a total transaction value exceeding $1.2 billion.

***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 2005?*

Wagner: We don't have a crystal ball, but all signs point to continued strength in both oil and gas prices, at least in the short term. I believe we will continue to see prices during the second half of 2005 remain above $45 and $6 for oil and gas, respectively. At these historically high levels, fundamentals and wellhead economics should remain very strong. Generally speaking, we price deals using a commodity price deck that is in line with the Wall Street estimates: between $45 and $47 for crude and between $6 and $6.50 for natural gas.

***OGI:** In what ways is this outlook likely to impact your level of activity going forward?*

Wagner: I think our clients and potential clients will continue to divest assets in this super-charged commodity price environment. Within the last 12 months, virtually all of our clients have sold, or are attempting to sell, a significant portion of their properties.

***OGI:** What kinds of companies do you help and why focus on this particular group?*

Wagner: 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.

***OGI:** What kind of market niche does your firm fill, in terms of addressing the financing needs of oil and gas companies, that major investment-banking firms don't?*

Wagner: Our client's size is our market niche. We focus exclusively on the small- and mid-caps; companies with gross asset value ranging between $10- and $250 million. Very few of the major investment banking firms, if any, will come that far down market. Our objective is to bring experience and expertise to the transaction process that our clients don't ordinarily possess.

***OGI:** When you're approached by clients lately, what are they doing with their capital, and do you see spending trends emerging?*

Wagner: We do not provide capital as a principal. Our core business is advising clients in the capital-formation process. Along these lines, we act as agent or underwriter in a capital transaction. Over the past two years, we have seen a shift away from the "acquire-and-exploit" model and toward a step-out drilling or exploration/development approach.

***OGI:** What do you think has prompted the shift?*

Wagner: The cost to acquire producing assets, particularly for the private companies, has become excessive and, as a result, can have a negative effect on a project's overall return. For that reason, we are seeing more companies pursuing development drilling or low-risk exploration transactions through farm-outs and/or leasing acreage in prospective basins.

***OGI:** Do you help clients access more debt or equity?*

Wagner: Between the last 12 and 18 months, we have seen more clients pursuing debt or mezzanine structures versus traditional equity. Given the current commodity-price environment and low interest rates, the debt and mezzanine markets can offer an attractive financing alternative to equity.

"A capital transaction is a partnership that is difficult and expensive to unwind, so it's extremely important to know your partner and their track record before you close."

OGI: *How do you decide which is the most appropriate form of capital and which seems to be more available or plentiful?*

Wagner: One of the most influential factors in making the ultimate decision on which market to pursue is the issuer's predisposition or prior experience, therefore, we rarely go into a situation with an idea of what the appropriate capital product should be. Generally speaking, there is a great deal of overlap between the mezzanine debt and the private-equity markets today. Our role is to educate our clients on the pros and cons of each capital source and assist them in making an informed decision.

As for capital availability, we believe there is an abundance of debt and equity capital available to the small- and mid-cap independent, probably more than any period in the last 15 years. This gives our clients a lot of options.

OGI: *Can you give an example of an interesting deal you've done recently?*

Wagner: All of the transactions our clients close are interesting. We are working on an early-stage equity and debt financing for an independent with assets in southeast New Mexico and Italy. This will be our first international transaction.

OGI: *What do you think is attractive about going international at this point in time?*

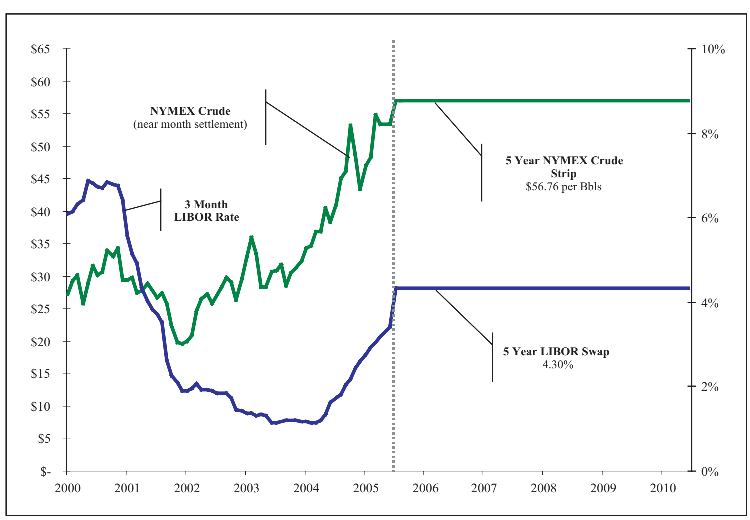
Wagner: I believe the single greatest factor is project size and return. We have seen several of our clients assessing projects overseas in search of higher rates of return on large-scale projects that cannot be found domestically.

OGI: *Do you perceive it as more risky, and if so, how does that affect the financing terms?*

Wagner: You would definitely have to say there is an additional component of risk given that you are no longer in the U.S. or Canada. Having said that, I believe the country or political risks can be managed or properly addressed. Financing international projects can be a challenge and is highly dependent on the country in question. Once you leave the U.S. and Canada, I believe your financing alternatives become much narrower, and the cost of that capital will reflect it.

OGI: *Can you describe your largest transaction in a bit more detail, to explain how you work with E&P companies?*

Wagner: One of our largest clients is Medicine Bow Energy Corp., an independent producer formed in 2002 by Mitch Solich, former president and CEO of Shenandoah Energy, and several other seasoned oil and gas executives from Shenandoah Energy and Cody Energy. The company currently has assets in the Rocky Mountain, Midcontinent and East Texas regions of the U.S. Rivington Capital acted as lead underwriter for all of the company's debt and equity financings, totaling in excess of $250 million, and participated in several M&A transactions. We are very close to the management team and currently provide a CFO function: addressing financing requirements, bank meetings, board meetings, etc.



Crude oil prices versus interest rates. (Sources: British Bankers' Association, New York Mercantile Exchange Inc., Federal Reserve)

***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?*

Wagner: For several of our clients, RCA provides an out-sourced CFO function. I'm not sure there are too many other firms providing the same service. It's not a big revenue product for us, but it does allow us to be informed and keep abreast of company developments.

***OGI:** Can you elaborate on how this works?*

Wagner: Nothing exotic. We become an extended part of the management team, participating in strategic decision-making and providing feedback when needed. We also take a lead role in external financing discussions and reporting to existing investors, boards, banks and potential capital sources.

***OGI:** What else do you do in addition to providing capital?*

Wagner: As I mentioned earlier, our core business involves assisting clients in the capital formation process. Since formation in 2002, we have closed 25 transactions having a total deal value in excess of $1.2 billion. Capital formation and advisory represents approximately 60% of our transaction activity. We also have been active with M&A and other general corporate finance work such as corporate valuations, restructuring and hedging.

***OGI:** What are your views on hedging in this price environment?*

Wagner: Current and future oil and gas prices are at all time highs, and there is a large disparity between the commodity prices Wall Street and commercial banks are using to price deals and the futures curve. It seems to me hedging makes a tremendous amount of sense right now and can be extremely accretive to certain financing transactions. In this environment, I'm a proponent of hedging, particularly for the small- and mid-caps who are dependent upon inexpensive bank debt to grow their businesses.

***OGI:** What advice would you give to a company gearing up to begin capital hunting?*

Wagner: Keep it simple, align your interests with those of the investment community, and, most importantly, get to know the capital providers. A capital transaction is a partnership that is difficult and expensive to unwind, so it's extremely important to know your partner and their track record before you close.

***OGI:** What kinds of projects are particularly attractive to the firm now? Which are taboo?*

Wagner: 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 but the markets have become much more receptive in the last 24 months.

> "OUR CLIENTS' GREATEST CHALLENGE WILL BE IN IDENTIFYING NEW PROJECTS THAT CAN PROVIDE SUSTAINABLE PRODUCTION GROWTH OVER THE LONG TERM AT REASONABLE F&D COSTS."

***OGI:** What's the firm's greatest challenge right now? For your clients?*

Wagner: Our greatest challenge will be to expand our revenue and client base given the level of competition in the sector. Our clients' greatest challenge will be in identifying new projects that can provide sustainable production growth over the long term at reasonable F&D costs.

***OGI:** What plans do you have in the works to improve your firm's level of financing, advisory or research services to the oil and gas industry?*

Wagner: We're hoping to expand our client base significantly in 2005 and 2006, which means our staff will most likely need to be augmented. We are also thinking about opening an office in Houston to supplement our work in Denver.

***OGI:** What would the firm hope to see more/less of in energy in 2006?*

Wagner: We expect to see a higher level of financing activity in 2006. Asset divestitures and corporate sales have been the majority of the deal activity in our market. As management teams continue to regenerate, financings, both debt and equity, should increase.

***OGI:** Some say the energy business has peaked, and that it can only go down from here. Why is RCA still willing to participate in it?*

Wagner: Our business activity thrives on change or volatility. Sustained periods of high or low prices aren't necessarily good. The energy business will continue to be cyclical and highs and lows are just part of the game. ■

Sterne, Agee & Leach Inc.

Michael Bodino, E&P Analyst

Robert Ford, Oil-service Analyst

Michael D. Bodino is a senior VP and senior E&P equity-research analyst for Sterne, Agee & Leach Inc., in New Orleans since July 2003. Previously, he was director of energy corporate finance for Hibernia Southcoast Capital, and an analyst for San Jacinto Securities Inc. and Rauscher Pierce Refsnes.

Robert E. Ford is a senior VP and senior research analyst with Sterne, Agee & Leach since March 2005. Previously, he covered oilfield-service stocks at Sanders Morris Harris and CIBC World Markets, and covered energy, chemical, engineering and construction, heavy machinery, homebuilding and building-material stocks for the Montana Board of Investments.

Oil and Gas Investor: *Do E&P stocks always move up or down with commodity prices?*

Bodino: The correlation since the beginning of 2003 between the S&P Supercomposite Oil & Gas Index and a 50%-weighted oil and 50%-weighted gas 12-month commodity strip has been about 98%, so directionally commodity prices and stock prices have traded the same.

In fact, the data we've pulled together here really lays out the fact that, during the last decade, the commodity price strip is up 13% on an annual compound return basis while the S&P Oil & Gas Index is up only 12%, which shows the high correlation.

It's surprising to me that the stock prices have underperformed slightly, but basically are in line with the commodity.

What's even more interesting is that everyone says, "Well, there must be some over- or underperformance during some period of time."

Since the beginning of 2003, the E&P Index has provided a compound annual return of 40.6% while the commodity-price index is up 30.2%. Clearly, there is a superior performance of E&P stocks. The data suggests that the E&P stocks have tended to outperform on a relative basis when the commodity prices have trended upward and underperform when prices are trending down.

OGI: *Have there been exceptions?*

Bodino: When you look at the data, there was an anomalous year in the mix, 2002, when general money flows in the market—nothing to do with E&P stocks—created a year when all the commodities were up 34% on average, but the Oil & Gas Index provided a 0% return that year.

So, there was an odd year out there that was anomalous. Historically, the correlation between the broader market and the E&P stocks was virtually nil. That year, there was a relatively high correlation between the market and E&P stocks. Outside of that year, clearly if anyone had participated in the commodity price, they would have narrowly outperformed the commodity for a 10-year period.

OGI: *What size universe are you working from?*

Bodino: I use the S&P Supercomposite Oil & Gas Index because it is a market-cap-weighted index of 26 U.S.-based E&P companies, ranging in weighting from Devon Energy to Petroleum Development Corp.

OGI: *Robert, what are you finding on the oil-service side? Are service stocks fully valued or overvalued?*

Ford: I don't think so. Being that it's a cyclical industry, you always want to look out to the future, and 2006 numbers are more pertinent than 2005 numbers. What I've seen these stocks do in the past, versus where their value is now—I think for most segments of the industry, there is still material upside available for these multiples to expand.

There are some segments, like the capital-equipment manufacturers, whose multiples as a group can still expand. But there is so much good news built into them, and they're trading relative to some other groups higher than I've ever seen them before. So I think relative to the other groups that they don't have as much upside. That's really the only segment that I see that has any kind of cap from a multiple-expansion potential.

OGI: *Is it true that oil-service equipment expansions—building new rigs, for example—generate poor returns over time?*

Ford: It really varies widely by segment. The industry needs more capacity in the U.S. in pressure-pumping, certainly in the land-drilling business. We could put 75 to 100 land rigs to work tomorrow if they were available.

> "I'M MORE BULLISH ON GAS INSTEAD OF OIL BECAUSE OF OUR INABILITY TO GROW DOMESTIC PRODUCTION VOLUMES."

If you look at the pressure-pumping industry, and BJ Services is a great example, they've been turning down $10 million of work for nine or 10 months now. That industry will see volumes grow this year between 20% and 25% and capacity grow 15% to 20%. They'll exit the year turning down more work than where they started the year. The capacity probably should be added a bit quicker there.

We could ask for more land rigs quickly, too. Helmerich & Payne is contracting its new-builds—they're not building them without a contract—and they're getting anywhere from between a 90% to 100% payout on those rigs. The returns are very attractive on those rigs.

OGI: *What about the deepwater-rig market?*

Ford: If you've watched the dayrates there, they've exploded during the last 12 months, in some cases up 200%. Obviously, we could probably handle a little more capacity there. One area that does worry me is the jack-ups. We have 35, or 35 that have been announced, all on speculation. It could prove to be a few too many and limit dayrate growth.

Having said that, the returns on those rigs in the short term will probably be pretty good because of the dayrates they're achieving right now. The question is, how long is this cycle, and what will the dayrates be five years, seven years, 10 years from now? That's the contractor's risk. Obviously, they assume that with virtually every jack-up ever built.

I can only remember a few times in which a jack-up was built with a contract behind it, and those were the very specialized heavy-duty, harsh-environment jack-ups Santa Fe built back in the late 1990s.

As for deepwater rigs, the contractor doesn't have to take quite as big a gamble because they can generally get a three-, four-, five- or six-year contract behind it that will pay out a vast majority of that capital investment.

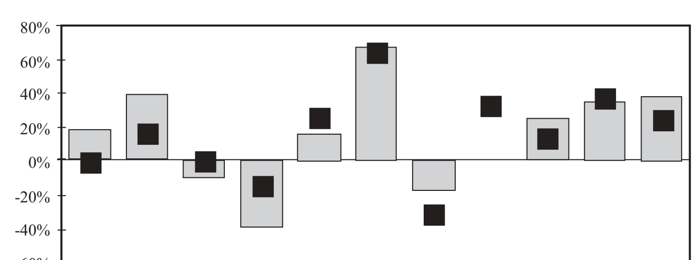
OGI: *Michael, what is your forecast for commodity prices?*

Bodino: For the balance of 2005, we're looking for average oil prices of $52.05 and 2006 oil prices of $48.24. This compares with Nymex strip pricing of $55.85 for the balance of 2005 and $61.44 for 2006. Everyone says we're really conservative on our pricing, but First Call is only at $50.01 for 2005 and $46.68 for 2006, so we continue to be a bit more aggressive than First Call numbers. But the strip has been up very rapidly. You can see by looking at the numbers that the delta between the First Call and strip numbers is in excess of 20%, which is quite large.

I'm more bullish on gas instead of oil because of our inability to grow domestic production volumes. We're looking at $6.85 for the balance of this year compared with a strip of $7.19 and a First Call of $6.70. For 2006, we're still fairly aggressive at $6.74 relative to a strip pricing of $8.22 and First Call of $6.58.

What's been interesting is we haven't seen any major commodity-price revisions downward among the analysts since second-quarter of 2003. What has happened in the past two years is that commodity prices have continued to move upward, and quarter-by-quarter it seems that the average analyst out there

Annual Index Returns



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	YTD05
S15OILP	18%	40%	-9%	-39%	16%	68%	-17%	0%	25%	35%	39%
Oil-Gas Index	-1%	16%	0%		25%	65%	-31%	-31%	14%	37%	25%

E&P equities and commodities have shown similar returns over the past 10 1/2 years. (Source: Bloomberg, Sterne, Agee & Leach Inc. Estimates) keeps pushing the commodity-price forecast upward, and the strip has been up faster than our estimates.

***OGI:** What are some E&P stocks you like?*

Bodino: We look at everything across a lot of market caps. Two years ago when we initiated coverage and started this venture at Sterne Agee, the real focus early on was the larger-cap because we felt pretty strong about the commodity price and what was going on. Clearly in terms of money flows, that's where money tends to migrate first.

As we moved through this cycle and commodity prices developed, we moved down-cap to the mid- and smaller-cap stocks, and we look for companies that have a very strong growth profile, whether it is M&A-oriented or drilling-oriented.

We really like the organic-growth companies—the guys who have large basin-centered gas plays. What we like about them is we have the ability to model them out for several years into the future. If you understand how these companies manage their balance sheet and their drilling growth going forward, you can look at not just today's valuation but what the value is two, three, four years down the road.

> "What's been interesting is we haven't seen any major commodity-price revisions downward among analysts since second-quarter of 2003."

What is interesting for those companies is we approach it from a rate-of-return perspective. :What is the appropriate discount these stocks trade at relative to their future value? What rate of return does an investor want relative to owning that stock, given the risk profile of the execution of their project and the commodity prices that are reflected in it?

It's been a very good approach and it has helped us with some of the companies like Ultra Petroleum, Quicksilver Resources, Southwestern Energy and Carrizo Oil & Gas.

***OGI:** And among the acquisition companies?*

Bodino: The M&A companies out there that do a very good job of creating value include smaller companies like Whiting Petroleum and Petrohawk Energy. They do a great job of acquiring properties. What we've recognized during the last couple of years is that the strip pricing for oil and gas has moved up faster than the acquisition-clearing pricing. This leaves these M&A-oriented companies an opportunity to capture a greater spread on these properties relative to their ability to purchase them and hedge out production. The vast majority of these guys have created a lot of value in doing so.

Overall, what we like in our coverage group, and we cover 20 companies, among large-cap companies are Chesapeake Energy and Apache Corp. In the mid-cap category, we really like Southwestern, Ultra and Whiting. And in the smaller-cap category, we tend to focus more of our efforts on Carrizo, ATP Oil & Gas and Petrohawk. Those are the companies we see with a reasonable valuation with lots of upside going forward.

***OGI:** Robert, what oil-service stocks do you like?*

Ford: There are really two groups that we're focused on right now. One is the land drillers; the other is the offshore support-vessel companies. And then there is Grant Prideco that doesn't belong in either group but I really like longer term.

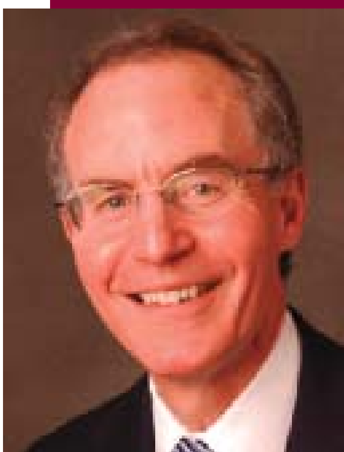
For the land drillers, there's pent-up demand for at least 75 to 100 rigs in the U.S. right now, so pricing is very strong. I've raised my price targets and my estimates at least four times this year, and I suspect I'm not done for these companies. The favorite name there is Helmerich & Payne. That's our top pick overall—obviously due to the positive pricing trend in the land-rig market, plus they have the capability to continue to add to earnings power via the new-build program.

And this is a program in which they're getting between 90% and 100% payout on the initial contract. They're signing them all up for three-year contracts, and it's generating cash-on-cash returns in excess of 30%. Plus, that's assuming no incentives. There are incentive clauses in each of the contracts. If they were to max out all of the incentives, I would suspect the returns would be north of 35%. Again, this is cash-on-cash, or cash flow return on investment.

They've signed four contracts totaling 18 rigs. I've been telling everyone for a while that I'm convinced that there is more to come in the back half of the year, and I think we could probably see another 20 announced during that time.

Every rig that H&P signs up is four cents to earnings per share on an annualized basis, and six cents to cash flow per share, so there is a significant building of earnings power going on there in addition to a very material pricing power. Every day, the stock seems to be hitting a new all-time high. ■

St. Mary Land & Exploration Co. (NYSE: SM)



Mark A. Hellerstein, Chairman, President and CEO

Mark A. Hellerstein is chairman, president and CEO of St. Mary Land & Exploration Co. He joined the company in September 1991 as executive VP and CFO. He has served as president of the company since May 1992, 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 United States on the November 1974 CPA exam.

St. Mary has provided its shareholders a 19% compounded return since going public in 1992. In 2002, St. Mary was the Fastest Growing Company in Colorado, according to the *Denver Business Journal* and Ernst & Young. In 2002 and 2003, St. Mary was one of *Fortune* magazine's 100 Fastest Growing Companies in America. In 2004, St. Mary was *Forbes* magazine's 9th Best Small Company in America.

Oil and Gas Investor: *What drives your company?*

Hellerstein: We express two objectives for ourselves. One is to replace at least 200% of our production each year. And two is to do it economically. We replace reserves through a combination of organic growth, where we've replaced about 125% of our production over the last three years through the drillbit, and we supplement those with acquisitions. The acquisitions tend to be niche opportunities that fit in well with the things that we're doing.

OGI: *Describe your core production areas.*

Hellerstein: We have five core areas. The two largest are the Rockies and Midcontinent. The Rockies represent about 55% of our reserves, a little less than that in terms of production. There, we've been focused for many years in the Williston Basin, concentrating since 1991 on the Red River play where we've had the ability to map porosity using 3-D seismic. As a result, we've had a very high success rate of 86%. In more recent years, we have had excellent success on the Bakken play, where we probably have the largest acreage position of any public company. Those are probably the two largest plays in the Williston.

The Rockies region, through a series of acquisitions over the last three or four years, acquired a position in the greater Green River Basin and smaller positions in the Wind River and Bighorn basins as well.

Then, in the Powder River Basin, we have a very large coalbed-methane project called Hanging Woman, that we began developing last year. It has a very large potential relative to our company's size.

Our Midcontinent region, in Oklahoma, includes the Anadarko and the Arkoma basins. The most important play on the Anadarko side is in the Northeast Mayfield Field that we've been involved with since about 1996. We've also been involved in the Granite Wash, Osborne, Red Fork and some of the other plays there. We have been involved in the Arkoma Basin for the last four years. We put together over 30,000 gross and 20,000 net acres, and recently drilled a successful horizontal well in the Cromwell formation. We believe we can repeat our success on our large acreage position in that central Oklahoma area by drilling additional wells.

We're also in the Gulf Coast in Texas and Louisiana, a little bit offshore, the ArkLaTex area as well as the Permian Basin.

OGI: *Will you expand to new areas this year?*

Hellerstein: We tend to add on to our existing core areas and periodically, through an acquisition, we may get some properties that create new opportunity areas for us. That is the way we grew from the Williston Basin into the Powder River, the Green River and the Wind River basins. We try to focus on those areas that we know the best and then grow from there. Sometimes, that allows us to acquire properties in other areas.

OGI: *The company recently announced an acquisition in the Wind River and Powder River basins. It comes at a time when some of your peers are expressing the opinion that acquisition costs are prohibitively expensive. What made the economics of this deal work?*

Hellerstein: This was a very limited sales process and in some areas that we knew pretty well. We call them "bolt-on" acquisitions in that they fit in well with what we currently have. We see a lot of deal flow, and we make the same comments that others have: that the price of acquisitions is outrageous. But what tends to happen is, it's usually just one or two people that are way out of whack with everyone else. Once in a while we're in a situation where someone doesn't show up who's out of whack, and we're able to acquire the properties.

OGI: *Is the industry's earnings momentum sustainable?*

Hellerstein: A lot of the earnings momentum is built on the fact that so many of the properties producing today were either acquired or drilled a number of years ago with a much lower cost basis. The earnings tend to magnify that. We are in a little higher-cost environment, but even so, we can get good returns on drilling. I think you'll see strong earnings, but I don't think you will see the ramp-up in earnings that you saw in the last couple of years because of prices.

OGI: *Are you hedging?*

Hellerstein: We have two approaches. We hedge all of our acquisitions for the first two or three years. We've been doing that for the last 12 or 13 years. We also will hedge up to 15% of our other production on an opportunistic basis. We use an outside service to look at those times where prices are high compared to current, medium and long-term price scenarios.

OGI: *What price deck are you using?*

Hellerstein: We tend to be a little more conservative when we look at drilling. Our price deck is in the \$6-gas range and \$40-oil range. When we look at acquisitions, we use strip pricing, which we hedge.

OGI: *What is the budget this year?*

A rig in Northeast May Field in the Anadarko Basin in Oklahoma.

Hellerstein: This year's budget is \$418 million. That compares to \$338 million of expenditures last year. Within the budget this year, we have allocated \$125 million for acquisitions. With the acquisition we just announced, we've completed about two-thirds of our budget. And then for the rest of the budget, we have \$121 million allocated to the Rockies (\$95 million for conventional opportunities and \$26 million for coalbed methane projects, primarily Hanging Woman). We have allocated \$87 million to Oklahoma and just under \$40 million to the Gulf Coast as well as the ArkLaTex region.

OGI: *How many wells does the company anticipate drilling or participating in this year?*

Hellerstein: We don't focus on well count as much as we focus on the capital, but we will probably participate in 250 to 300 conventional wells and 175 to 190 coalbed methane wells this year.

OGI: *What is your guidance on estimated production?*

Hellerstein: We are forecasting 2005 production between 83- and 87 billion cubic feet equivalent (Bcfe), which compares to about 75 Bcfe last year.

OGI: *What one or two projects could have the greatest impact this year?*

Hellerstein: Right at the moment the two projects that probably will have the most impact are Hanging Woman and the Cromwell play in central Oklahoma. Hanging Woman is a longer-term project. In one year, we probably will not see a significant impact. But the project has 3P reserves of 723 billion cubic feet, which has the potential to double our reserves, which were 659 billion cubic feet at year end. The Hanging Woman project has a lot of room to grow. Hopefully we will be seeing production ramp up. We've been pleased with the results to date. Although we're in the early stages of the project, we're producing close to 2 million cubic feet of gas per day. That's ahead of what the engineering has projected.

The other project is the Cromwell play, which is part of central Oklahoma. We recently drilled a horizontal well that came in at about 3 million cubic feet a day, about four times the rate of a vertical well. We have about 18 sections where we and others have drilled vertical wells that are only draining about 20 or 30 acres. Our plans are to drill approximately four wells per section. Moving to the east, we see potential to expand into an additional 19 sections. So, in total, the play could be as big as 37 sections with up to four horizontal wells per section. The play has a very large potential relative to our size. We have about an 80% working interest on the existing 18 sections where we've drilled vertical wells, and about a 50% working interest in the other 19 sections. ■

Storm Cat Energy (VANCOUVER: 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 Bachelor of Science in petroleum engineering from Texas Tech University in 1979 and is a member of the Society of Petroleum Engineers.

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

Zimmerman: The strategy that drives our company is the creation of value using what our technical team does best; that is the exploration and development of unconventional natural gas resources, looking primarily in North America, the U.S. and Canada.

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

Zimmerman: Our core drilling and production area for this year is in the Powder River Basin in Wyoming. We've acquired two properties where our production base is currently making about 3,500 cubic feet a day. We have about 120 drilling opportunities in the Powder River Basin using our expertise in multi-seam completion technology. Our expectation is our production will exit the year at around 7,000 cubic feet a day. We'll also be drilling on our two farm-ins in Canada: Moose Mountain in Saskatchewan and the Elk Valley project in British Columbia that we farmed-in from Encana. We also have planned one exploratory well on our Alaska acreage. Internationally, we have 18 million-plus acres in two areas in Mongolia, but it is not our primary focus. It's a frontier, exploratory area, and it makes up approximately 5% of our budget. There are tremendous coal resources under our acreage, which are exploring for coalbed methane.

OGI: *Do you see that staying steady over time, or do you plan to make Mongolia a core development area?*

Zimmerman: We believe Mongolia has a lot of potential. We are looking to bring in a second party to help to explore it so we can focus our resources on our North American opportunities, which have greater opportunity to generate cash flow in the near term.

OGI: *Does the company anticipate, or would it like to, expand to any new core drilling areas this year?*

Zimmerman: Yes, we are continually expanding our portfolio in areas where we can use our expertise. We are looking at opportunities where we have existing acreage and production so we can capitalize on the synergies of a geographic focus, and at opportunities where we can use our unconventional resource expertise to develop new fields such as the Elk Valley prospect.

OGI: *What kind of basin or play makes the most sense?*

Zimmerman: We have a strong focus on coalbed methane, a lot of experience in shallow gas drilling and some experience in some of the shale gas. In fact, for a company our size, I believe we have one of the strongest technical teams in North America for extracting unconventional gas resources. Therefore, we look at opportunities that make the most use of our talents.

OGI: *E&P companies have been reporting some fairly stellar financial results in recent quarters. Do you think the earnings momentum can be sustained and how?*

Zimmerman: Our earnings momentum will be growing quite rapidly as we start our drilling program in the Powder River Basin. We will continue to grow the company through the drillbit as we expand our drilling program to Canada and Alaska. Our philosophy at Storm Cat is that acquisitions with production and undeveloped acreage provide the basic groundwork for growth.

OGI: *Some E&P companies say that the high cost of acquisitions makes them prohibitively expensive these days. What makes the economics work for you?*

Zimmerman: We believe in acquisitions that have a lot of opportunity for drilling where we can use the experiences we have developed over the past 20 years in unconventional resources. For instance, our multi-seam completion techniques allow us to drill half as many wells to achieve the same results as most of our competitors in the Powder River Basin. We are one of a hand full of companies that receive credit for reserves using multi-seam completions. That's a real niche that we have in the marketplace.

OGI: *Does the company have a hedging strategy in place?*

Zimmerman: We do have a hedging strategy in place. Right now, we are about 40% hedged. We re-assess our hedging position periodically and make adjustments we see warranted. Currently, we're pretty bullish on the price of gas.

OGI: *What kind of price deck are you using this year as you plan the drilling program?*

Zimmerman: We take the Nymex strip and adjust it for geographical differentials and transportation.

OGI: *What is the company's budget?*

Zimmerman: Last year, we acquired one U.S. property and drilled a few test wells in Mongolia, so our capital expenditures last year were about $2.5 million. This year, we're looking at capital expenditures of upward of $20 million because of our additional farm-ins and acquisitions made first quarter of 2005.

OGI: *How many wells are you anticipating drilling or participating in this year?*

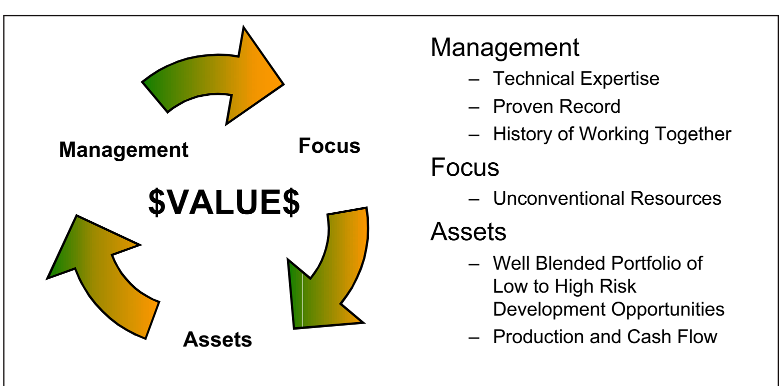
Zimmerman: We'll be drilling approximately 90 wells this year of which we operate 100%.

OGI: *Are you giving any guidance as to what production could look like this year?*

Zimmerman: We have a production profile we put together that estimates our current Powder River Basin production at year-end being somewhere double of where we're at today.

OGI: *Does the company have one or two wells that are causing the most buzz when it comes to contributing to its growth?*

Zimmerman: If you look at our portfolio, we have two large plays that are creating the buzz around the company. The Powder River Basin is a very good growth vehicle where we can use our low-cost, multi-seam completion wells to develop the resource more efficiently than other operators. The Elk Valley project in B.C. we acquired through a farm-in agreement with EnCana has tremendous upside potential as a world-class type of coalbed-methane opportunity.



Storm Cat Energy—Value-creation business model.

"WE HAVE, AS A GROUP COLLECTIVELY DRILLED OVER 3,000 WELLS IN THE POWDER RIVER BASIN, AND THERFORE HAVE DEVELOPED VERY GOOD RELATIONSHIPS WITH RIG COMPANIES OVER THE YEARS."

OGI: *Drilling costs, rig availability and service costs have been issues for E&P companies. How are those factors affecting your company?*

Zimmerman: We don't see it as a hindrance to our program going forward this year. The bulk of our drilling will be in the Powder River Basin. We have, as a group, collectively drilled over 3,000 wells in the Powder River Basin, and therefore have developed very good relationships with rig companies over the years. We also have a strong relationship with Baker Energy, who also has access to services and rigs.

OGI: *And the effect of higher drilling costs on the company?*

Zimmerman: The costs certainly have gone up, I would say somewhere between 15% and 20%. That is leveling off. I don't see that type of growth next year. I hope my crystal ball is right.

OGI: *What do you see as the greatest challenge facing your company this year?*

Zimmerman: For everybody who operates in the Rocky Mountains, it is regulatory issues. And that relates back to permitting and compliance. We have quite a bit of experience dealing with the regulatory environment in the states that we operate. We spend a lot of energy to make sure that regulatory issues are not going to be a big hindrance to us, but it's always one that's a challenge. ■

Swift Energy Co. (NYSE: SFY)

Bruce H. Vincent, President

Bruce H. Vincent has been president of Swift Energy Co. since November 2004. He is also a member of the company's board of directors, a position to which he was elected on May 10, 2005. Vincent joined Swift Energy in 1990, serving in a variety of strategic positions for the past 15 years, most recently as executive VP of corporate development and secretary. Before joining Swift Energy, Vincent held management-level positions in the oil and gas industry. He served as managing partner of the investment banking firms of Vincent & Co. and Johnson & Vincent. He earned a bachelor of arts in business administration from Duke University in 1969 and an MBA in finance from the University of Houston in 1976.

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

Vincent: Swift Energy has been in business for over 25 years. We employ a tandem strategy of using both the drillbit and acquisitions activity to find the lowest-cost reserves over that period of time. Generally, we believe that in higher-price environments, you find the lowest-cost reserves by using the drillbit, and when prices come down, particularly through dips in the cycles, it makes more sense to acquire reserves. Over the last 25 years, we've moved back and forth in tandem between drilling activity and acquisitions activity to grow the company. We've been able to execute on that strategy very effectively.

We also like to look for areas where we have a repeatable method of operation. We like to acquire large acreage blocks so that if we are successful at a particular activity, we have a lot of acreage on which to repeat that successful method of operation. We like to look for areas with multiple formations. Also, we like to look for areas where we do our development and exploitation work that also have exploration upside, so that we always have an opportunity for a bigger hit.

We also employ, within our strategy, certain elements that mitigate operations and financial risk to reduce the overall risk of our business activity. Operationally, we try to maintain a longer reserve-to-production ratio, and we're constantly working to improve the production profile over the decline rate. We like to operate; it allows us to control our destiny. We think that being able to control timing and cost and skillsets and the agenda are important.

On the financial side, we mitigate risks through maintaining a strong balance sheet, both in terms of leverage and liquidity, and also maintain an active price risk management program.

***OGI:** Could you describe your core drilling and production areas?*

Vincent: Swift Energy is very focused. We have six core areas, four of them domestic and two of them in New Zealand. We operate 97% of our reserves. In the U.S., our principal areas of operation are in Texas and Louisiana running from South Texas, the upper Gulf Coast, into the inland waters of Louisiana. The four core properties are the AWP Field in south Texas, the Brookland Field in East Texas, the Masters Creek Field in central Louisiana and the Lake Washington field in the inland waters of Louisiana.

The Lake Washington field is our largest core property; it is a long-life oil property. The AWP field is the second largest core property. It is a long-life tight sand natural gas property. Together, they are over 50% of our reserves, so you have two really wonderful long-life fields, one oil and one gas, that really provide a strong foundation.

Then in New Zealand, we've got two core areas: the TAWN properties, which is an acronym for four fields, and Rimu/Kauri where we're exploring three different sand horizons, shallow, intermediate and deeper.

***OGI:** Would you like to, or do you anticipate, expanding to any new core areas this year?*

Vincent: We are always looking to add new core areas, preferably within our concentrated areas of operation. We are working on a couple of areas that we believe could turn into new core areas. Specifically, at the end of last year, we acquired two older fields in southern Louisiana, which is one of our focus areas. One was the Bay de Chene Field, and the other was the Cote Blanche Island Field. We plan to begin work drilling-activity-wise in the second half of this year. We believe that those fields collectively could certainly become a core area as we proceed to exploit them.

We're also drilling some impactful exploration wells both domestically—in our southern Louisiana area and in Texas—as well as New Zealand. With the success on some of those, we can also bring about the development of new core areas there as well. In addition to high-impact exploration, and although our capital is principally allocated to the drilling activity—since we don't budget acquisitions—we're always looking for the right opportunity, and so it's always possible that that right opportunity could come along at a price that we think is competitive for us, and we could possibly acquire other new core areas as well.

"The greatest challenge to Swift and the industry these days really revolves around people...because the 1980s and the 1990s were not particularly good times, you didn't have a lot of young people going to school to become engineers and geologists and landmen and such. So there's a real age gap in the business."

OGI: *E&P companies have been reporting some fairly stellar financial results in recent quarters. Can Swift Energy keep up that kind of earnings momentum, and how do you plan do to that?*

Vincent: Yes, we actually had record earnings for the first quarter of this year, and for our outlook for this year, we believe, we will have record revenues for the year and record earnings based on our current guidance for production and costs. So we absolutely expect to be able to keep that up. Obviously, the external environment has a lot to do with that, but the thing we can do is focus on the areas we can control. We believe we can grow production this year between 7% and 12%. We believe we are very much on track to do that, and if we execute on that and deliver on that production growth and keep our costs in line with our guidance, we should deliver record earnings for the year.

OGI: *Does the company hedge?*

Vincent: Swift, for many years, has employed a price-risk management strategy. It focuses on protecting the downside without giving away the upside. The way we implement that strategy is primarily through the use of floors and sometimes through participating collars. Most recently, we've been mostly using floors to try to protect the downside over the next 3-, 6-, 9- and 12-month period of time.

OGI: *What kind of a price deck are you using this year as you plan the drilling program?*

Vincent: For our budget for 2005, we used a $40 oil price deck and a $5.75 gas deck. Obviously, to date it's been much better than that, which has certainly been a good thing. This year, we've already increased our capital budget by $20 million, or about 10%. Our current expectation, at least, is we could end up with additional cash flow and might be able to allocate it to further increase the capital budget.

OGI: *What is the budget this year, and how does it compare to last year's?*

Vincent: Our current outlook for spending is between $220- and 240 million. Last year, we spent just under $200 million, so it's a good 10% to 20% increase in spending.

OGI: *How many wells does the company anticipate drilling or participating in this year?*

Vincent: Domestically, we'll probably participate in between 50 and 60 wells and in New Zealand probably participate in between 10 to 15 wells.

OGI: *How does that compare to last year?*

Vincent: It's probably not significantly different than last year. Where the mix is different, though is in the sense that we're drilling more impactful wells; we've got a few more on the exploration side and even on our development and exploitation side, which tend to be bigger. Whereas last year we drilled a lot of proved undeveloped locations, we're drilling more probable and possible reserve locations.

OGI: *What is your estimated production for the year?*

Vincent: We believe that we will increase production between 7% and 12% from last year; that would equate to between 62.5 billion cubic feet equivalent (Bcfe) and 65.5 Bcfe total production for 2005.

OGI: *Does the company have one or two projects or wells that it believes will have a significant impact this year?*

Vincent: We have drilling activities in a couple of key areas that we think could be important to the company. In particular, around Lake Washington where we shot a 3-D seismic shoot last year, we're drilling several impactful prospects generated out of the 3-D, although we don't think we would focus on a particular one versus another. We're going to begin drilling for the first time in the Bay de Chene and Cote Blanche Island fields that we are developing. We're also hoping to drill some impactful prospects in Texas.

And then in New Zealand, we haven't drilled very much in terms of exploration activity for about three years. We actually have put together a very impactful exploration program in New Zealand where we will drill at least three wells. Two should be finished this year; the third probably won't finish until January of next year. But any one of those could be significant to the company.

OGI: *Drilling and acquisition costs have been rising fairly dramatically. How have those affected the company?*

Vincent: Where it's impacted us is primarily on the drilling side. That's been our principal focus as most of our capital budget the last couple of years has focused around drilling activity. Some components are rising higher than others. We certainly expect to see at least a 10% increase in those costs. We've budgeted that in, and I think we're managing that very effectively.

OGI: *Do you foresee the company making any acquisitions this year?*

Vincent: It's certainly not the principal thing we're focusing on, but we look at acquisitions all the time. We just try to be very targeted and look for the ones that make the most sense for Swift. I think we'd like to do an acquisition; we don't feel compelled to, so I think it's just a question of finding one that makes sense for us.

OGI: *What do you feel is the greatest challenge facing the company this year?*

Vincent: The greatest challenge to Swift and the industry these days really revolves around people. The industry certainly is not constrained with money; there's a lot of money available in the industry. Some companies may be constrained with respect to opportunities, but Swift is not. But what's happened in the industry, because the 1980s and the 1990s were not particularly good times, you didn't have a lot of young people going to school to become engineers, geologists and landmen and such. So there's a real age gap in the business, and we don't have a lot of young people. As companies expand, like Swift, they're trying to hire more people, particularly more technical people, and you're also trying to plan for long-term succession. We really see the constraint over the next couple of years being on the people side. ■

Photo by Lowell Georgia, photo editor, Oil and Gas Investor.

Lake Washington Field in Plaquemines Parish, Louisiana, is Swift Energy's primary domestic growth area, where the company has taken production from 750 barrels a day in 2001 to 12,800 barrels a day net by year-end 2004. The company expects to increase production to almost 15,000 barrels a day by year-end 2005.

Syntroleum Corp. (NASDAQ: SYNM)

John B. "Jack" Holmes Jr., President and CEO

A 33-year veteran of 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 Zilkha was acquired by Sonat Inc. 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 bachelor of science degree in chemical engineering from the University of Mississippi.

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

Holmes: We have one focus and that is to convert previously discovered and stranded natural gas reserves, of which there are trillions of cubic feet around the world, into ultra-clean diesel fuel and other transportation fuels using our patented gas-to-liquids Fischer-Tropsch technology.

***OGI:** Your company recently announced a stranded gas venture. What do you expect the outcomes from that to be, and how does the venture fit into the company's overall strategy?*

Holmes: We were started as a technology developer and licensing company, and the company has followed that track for a number of years. We still have some active licensees that we think may build plants using our technology, but we decided a couple of years ago that a better use of our technology would be to employ it ourselves as a strategic tool to go out and acquire existing gas reserves that were previously discovered but did not have a market. And then to get our plants constructed to convert that gas into ultra-clean diesel fuel.

Our first project we've already signed up is a block off of Nigeria. It's OLL Block 113 the Aje Field, and we're going to be developing that field along with partners. We have to drill one more well to prove up the reserves to be large enough to build a commercial gas-to-liquids plant. In addition to that, we believe there could be significant oil reserves there. We recognize there are a number of these existing fields around the world that aren't being developed because of a lack of a solution for the gas. So what we wanted to do was accelerate our ability to go out and acquire these fields, and we raised the funds to do that. The fund is to underwrite the cost of going around the world evaluating and tying up these gas reserves, which ultimately are to be used to feed our plants.

***OGI:** Do you anticipate expanding to any new core production areas this year?*

Holmes: Yes. In addition to West Africa where we're very actively looking at projects, we're also looking in the Middle East and in the Far East. Our projects are primarily focused in the marine environment because we have an air based technology that is suitable to build on marine vessels, either on barges or ships. So that's our area of focus. And as I mentioned, those three areas we believe hold the most promise.

***OGI:** Why 2007?*

Holmes: The timetable for our project in Nigeria is we're going to get this well drilled this summer. The rig has been assigned and the drilling should be completed late this summer. Assuming that it comes in as we expect it to, and that's not a guarantee but we hope it will, we would expect to have some early production of crude oil volumes beginning sometime during the year 2007 generating significant cash flow for us.

We do our economics assuming $25 oil. And if the economics work at that price, then we go ahead. For our projections, we've assumed the current strip, which is the actual futures price for oil out through the end of that contract, and then we drop it down to $35 flat after that, which we think is a fairly conservative estimate.

***OGI:** How many wells do you anticipate working on this year or participating in?*

Holmes: Just that one well as the confirmation well. Assuming the well is good, we and our partners would build an additional three wells sometime between the end of 2005 and early 2007 to develop the oil reserves. That's the only one we have on our radar screen right now.

We don't necessarily have to drill wells to get reserves. There are a number of existing gas fields around the world that have been discovered and drilled that don't have a market for the gas. Our primary strategy is to go out and acquire those reserves to build the processing plants to convert that gas to liquids and make our money that way. So we're not a drilling company, we're really not an exploration company, we're an exploitation company.

"We think for smaller fields, particularly with marine applications, we have a clear advantage over the others."

OGI: *What prospects do you see in that line of business?*

Holmes: It's the same as our other line of business and in places around the world where gas was previously discovered in large volumes and because of a lack of market it's still there. In many cases, these fields have reverted back to the host governments. This fund that we raised is exactly for us to use to go out and try to tie up those reserves.

OGI: *Could you give an update on the Catoosa demonstration facility? What work is going on there, and how does it support the company's overall business objectives?*

Holmes: We had a commemoration event here back in late March where we celebrated the completion of our runs and deliveries to the Department of Energy. The DOE has been testing our fuel in fleet of buses in Washington, DC, and Denali, Alaska, proving that the fuels work and work well. We completed the production of over 200,000 gallons of ultraclean products since we started up the plant. We will continue to run the plant for a good part of this year to finish up some of our technical work and finish the deliveries of all the fuel that we've contracted to deliver. We're very pleased with the results. The running of the plant has demonstrated that we think beyond any questions that our technology is commercial and ready to be employed on a larger scale.

OGI: What's the next step?

Holmes: The next step is to order and design a commercial plant. Our hope is that with the positive result of our well in Nigeria this summer, we'll be putting in an order to do the detailed engineering work and order the first commercial gas-to-liquids plant to install in that field.

OGI: *What makes your technology cutting-edge and differentiates it from everyone else?*

Holmes: Mainly one difference and that is that everyone else in their process separates pure oxygen from the atmosphere cryogenically and uses pure oxygen as an inlet to the process. We use the entire air stream. We just use compressed air to filter our process. It gives us two advantages. The first is that for smaller plants, our economics are better because we don't have to pay for the large, expensive air separation plant. And secondly, and just as important, because we have air and not just pure oxygen in proximity with the hydrocarbons, we can build our plants with a much smaller footprint. We can actually build it on a barge or on a ship. So we think for smaller fields, particularly with marine applications, we have a clear competitive advantage over the others.

OGI: *Is the potential market for this worldwide, or are there specific niche markets?*

Holmes: The middle distillate market, which is primarily diesel fuel, naphtha and jet fuel, is a 27-million-barrel-a-day worldwide market; it's huge. And so there are markets everywhere for our fuel. Having said that, because of the high quality, zero sulfur, low particulate emissions and value of this fuel, it's very likely that it will be selectively marketed in places such as Europe and the U.S. where we hope to extract a premium over the base value of the diesel.

There are some very strong environmental aspects to our fuel. We have much lower emissions, much lower particulate emissions; it's a much cleaner burning fuel than the standard diesel that is made from refining crude oil. ■

Syntroleum is planning to install gas-to-liquids barges (a scale model is shown here) worldwide, the first of which will be in Nigeria.

Teton Energy Corp. (AMEX: TEC)

Karl Arleth, President and CEO

Karl Arleth has been president and CEO of Teton Energy Corp. since May 2003 and a director since 2002. He was COO and a board member of Sefton Resources, 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 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, Midcontinent, the western U.S. and Alaska.

Oil and Gas Investor: *What drives your company?*

Arleth: In 2004, Teton was a Russian oil producer. We sold our Russian production mid-year, and our strategy for the balance of 2004 was to get our cash out of Russia and to redeploy that cash into other assets. Beginning in 2005, our focused strategy now is to acquire assets in North America, preferably the U.S. To that end, we have acquired two projects in the first quarter of 2005.

One is a 6,300-acre project in the Piceance Basin in which we have a 25% ownership through a limited liability company, Piceance Gas Resources LLC, which consists of two other partners. One is Orion Energy Partners, which consists of former Tom Brown executives and engineers, and the other one is PRG itself, which consists of executives from McMurray Oil and Westport.

This is a project in the Piceance Basin just northwest of Grand Valley Field. Other players active in the area are EnCana, Williams, PDC, and Occidental. We have begun a drilling program there over the past month. We have drilled two wells, and we are now waiting on completion for both.

The second project is approximately 180,000-plus acres in the far eastern DJ Basin, east of the Waverly Field; Waverly, Republican and Bonnie Field complex, which produces from the Niobrara. We have acreage primarily in Nebraska that has extended that play to the east, and we have some other formations that we're looking at, including the Sharon Springs, the Dakota, and in a few areas in the southern portion of the acreage, the Lansing and Kansas City formations.

In that project, we are in the process of doing some exploration work in 2005. We're going to acquire some additional 2-D seismic in three prospect areas. These prospect areas are concentrated in areas where there has been some drilling during the late 1970s. There were gas shows that were uneconomic at that time, but they should be quite economic today.

OGI: *How much was political risk a factor in leaving Russia?*

Arleth: The political risk was minimal, but we believe that the commercial and the legal risk were probably too high to give us the risk-reward ratio that we were looking for in Russia. Of course, everything looks better in hindsight, but we think that was the right decision and we are glad we made it.

OGI: *You reported some losses because of the exit from the Russian market. What was your earnings potential then and now?*

Arleth: At this point, we are developing an earnings model, and we hope to make some reasonable forecasts over the next couple of months. Basically, right now the only way I can characterize our future potential is to look at the resource base and the potential growth of that resource base.

In the Piceance Basin, we have a minimum eight-well program this year with our partners. To give you a sense of scope and size, the 6,300 acres that PGR has farmed into is capable of drilling up to 600 wells on 10-acre down spacing. We have prolific production to the southeast of us. We have production to the east of us, to the north of us, to the west of us with Oxy and EnCana, and if we go from a 40-acre initial spacing down to 10 acres, with 600 wells capable of producing estimated ultimate recovery in the 1.3 billion cubic feet per well-range, you can do the math and see that you're exposing yourself to approximately 780 billion cubic feet of gas. We will go through the initial phases of that program over the next two to three years. We think that within two to three years, we should have most of the reserves on the books, although it will take a number of years to develop those reserves.

***OGI:** For this year, how many wells do you anticipate drilling or participating in?*

Arleth: In the Piceance, we will drill eight wells; we will conduct seismic and a further geologic evaluation in the eastern DJ. We could drill some wells in the eastern DJ depending on the progress of the exploration evaluation this fall. But our current plan calls for us to drill in the DJ Basin next year in the first quarter. In summary, eight wells in the Piceance, a five-well program in the first quarter of 2006 in the DJ and G&G of about $900,000 in the DJ for the remainder of 2005.

***OGI:** Teton has moved back to the U.S. when drilling and acquisition costs have been rising fairly dramatically. How have those factors affected your business?*

Arleth: What we've done is we have recognized that we are a micro-cap, and our niche in the market is not in going out and competing with other buyers on an auction basis to acquire proven reserves. We looked at that briefly as we were getting out of Russia, and we don't think that our market position can create a heck of a lot of value (we're in the sub-$100 million range in market cap); we can't create value by competing with another company with large, free cash flows that needs to go out and buy reserves and put them on the books.

What we have done is we have taken on a little more risk and backed off of the proven reserve acquisition process. We think we're in the right sweet spot for a micro-cap. We have two projects with two different risk profiles. The Piceance project we characterize as a drilling project where basically you're extending a basin-centered gas accumulation in the fairway of the Piceance Basin northwest of Grand Valley Field. We believe the risk is low. The success you have is very dependent on how you drill and how you complete each well. We think that with Orion Energy Partners as the contract operator, ex-Tom Brown people who know the basin well, we have a very, very good partner who is capable of properly drilling and completing these wells. So, we're optimistic that we're going to have good reserve numbers.

The Piceance is more of a bread and butter, drill it out, put the reserves on the books project. The DJ gives up some upside. However, we're not looking at wild or new basin rank wildcat exploration. We're looking at what we believe is a well-controlled extension of the Niobrara play and a play that also gives us some upside in some other horizons. We did not spend a lot of cash to acquire this play, and we believe that we properly leveraged our cash position so as not to take on an extraordinary amount of risk with this project even though it is exploration.

We've gone up the risk spectrum a little bit because we believe that the true value of a micro-cap company is in finding an asset or finding an opportunity, taking the risk out of a project and creating value by turning risk-weighted reserves or resources into assets that then create value for somebody else in the marketplace.

***OGI:** In terms of drilling-cost risk, is that mitigated somewhat by working with partners?*

Arleth: We believe it is. We are very aware of what has happened over time in the Piceance with drilling costs. They have tended to go up on the frac side, but then the fracs tend to be a little more effective. The wells are drilled at a faster and faster clip, which reduces the overall drilling cost. The fracs are becoming more and more extensive and more productive in terms of their yield. It is absolutely critical in a resource play like this to have the right technology and the right people so you can cost-effectively get higher and higher reserve values over time.

If you look historically at what happens in the Piceance—you go back to 1997, 1996, 1995—the estimated ultimate recoveries were lower than they are today and the costs were higher on a unit basis. What's happened is the industry is getting more efficient and more technologically capable of producing greater quantities of gas more cost-effectively in the Piceance Basin. This is just the right amount of risk for a company like Teton to take so that we can add real value. ■

The Chevron 36-32D is the first well drilled by PGR in the Piceance Basin.

The Exploration Co. (NASDAQ: TXCO)

James E. Sigmon, President and CEO

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 bachelor of science in electrical engineering from the University of Texas at Arlington in 1971.

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

Sigmon: We're a niche player in the Maverick Basin where we have over a half-million acres with multiple horizons. Our strategy is to develop our large acreage there.

OGI: *Could you offer more detail on your core area?*

Sigmon: The Maverick Basin is a little-known basin in southwest Texas and one of the few places in the 48 adjacent states that is under explored. It has multiple potential, and I believe big potential, in several different horizons. We're concentrating right now on the Glen Rose and Georgetown formations. We're talking to people about increasing activity in the Pearsall as well as the Austin Chalk. In all, there are more than 20 different producing horizons in the basin and most blanket TXCO's acreage. An advantage we have is that most of these formations are above 10,000 feet, so they are shallow with significantly lower drilling costs. But I believe they have lots of potential; the basin remains under explored.

OGI: *There also seems to be an advantage of repeatability within the basin.*

Sigmon: Repeatability is coming. It's coming because we're using technology that was not here when the basin was first explored back in the 1920s and 1930s. Basically, we're applying 3-D seismic and horizontal drilling. About 75% of our acreage is now covered by proprietary 3-D seismic. Technology could give us the repeatability we seek.

OGI: *Do the current high commodity prices allow the company to use technology to explore and develop the basin?*

Sigmon: No question. High commodity prices are driving us, although we were making economic wells when prices were below $1.50 per thousand cubic feet. A return of low commodity prices would force TXCO to scale back our drilling activity. As long as we have high prices, and as long as rig costs don't get completely out of sight, then we'll continue our aggressive drilling program.

OGI: *E&P companies have been reporting some fairly stellar financial results in recent quarters. Has your company been participating, and how can you sustain that sort of earnings momentum?*

Sigmon: We have. We're like others and have enjoyed revenue gains but with one exception: virtually all of the other oil and gas companies out there today use full-cost accounting. We employ successful efforts accounting. You have to look very carefully at the accounting procedures when you consider earnings comparisons.

The positive side of successful efforts accounting is if we drill a dry hole, it hits our income statement for that particular quarter and then it's history. With firms using full cost, it affects them gradually. If I drill a $500,000 dry hole at TXCO, a half-million dollars hits my earnings that quarter. If a firm using full cost drills a dry hole, it amortizes that cost over 10 years. With successful efforts, what you see is what you get. There are no hidden, lingering issues.

Now, if you look at net cash from operations and EBITDA, those are normalized, and we compare very favorably with peers.

OGI: *The company recently announced a strategic alternatives review intended to maximize shareholder value. Where is the company in the industry's business cycle and what new ideas have been presented?*

Sigmon: We're very early in the development cycle. Our name–The Exploration Co.–fits with where we are right now. We have long-term growth prospects that our peers working in developed, mature regions don't have. But that also means we have capital needs they don't have. What we're trying to do in this review is consider the alternatives that are the most advantageous to our shareholders.

It could be we wind up merging TXCO with another company that has greater access to capital, which would allow us to explore the basin faster. We could sell outright and allow shareholders to take the price appreciation they have today. TXCO has many alternatives to consider. The board and management have not made a final decision yet, although by the time this article goes to publication we may have announced a decision.

OGI: *Does the company hedge?*

Sigmon: We do hedge. We currently have about 50% of our natural gas and oil production hedged for 2005 through 2007. We've hedged oil between $39.10 and $56.70 and gas between $5.37 and $7.86.

OGI: *What kind of a price deck are you using this year?*

Sigmon: We're pretty conservative compared to a lot of people, so we're looking at about a $5.50 per thousand cubic feet equivalent-number on our well economics. That gives us some cushion in case there is a price decline. We're aggressive now compared to what we have done in the past. We have traditionally been very conservative in our assumptions.

OGI: *What is your capital budget, and how does it compare with last year's? How many wells do you think the company will drill or participate in this year?*

Sigmon: TXCO's budget this year is somewhere between $26 million and $32 million. It's going to be at about the same point as last year. If we keep having the success we're having, it may increase a little, but it will be roughly comparable to 2004. Our goal is 60 wells. Last year we had 65.

OGI: *Which one or two single projects or wells does the company look to as having the greatest potential impact?*

Sigmon: This year, the most impact probably will be our Glen Rose porosity wells that we started in the second quarter. Our first porosity well for this year went on at about 560 barrels a day through a 10/64th choke with no water. We're following up with two additional wells and plan others during the second half. We expect these wells to have a big impact on oil production. The second big-impact project will come through the Georgetown as we continue to develop that promising play. Long term, I see two other horizons, the Pearsall and the Austin Chalk.

OGI: *Drilling costs and acquisitions have been rising dramatically. How have those factors been affecting the company?*

Sigmon: Acquisition costs have not affected us a lot. We've only acquired properties adjacent to where we are already. In fact, people have brought properties to us because they recognize our Maverick Basin expertise.

Drilling costs are another matter. We see no reason they are going to come down in the near term. We are looking at buying a drilling rig and other equipment. When you have a large block of acreage with an abundance of drilling prospects, as we do, it might be to our advantage to acquire a rig and add that level of expertise. We have enough prospects to keep it busy.

OGI: *Would you like to, or do you anticipate, expanding to any new core areas?*

Sigmon: We have a clear advantage over other companies because we truly are focused in one basin with great potential in an area we know well. We have more than 20 potential horizons, so we're different than companies that may have one or two zones to explore and develop in each area. We have diversification in place due to the nature of the Maverick Basin.

But we would like to be in other basins in the future. We currently have interests in the Williston Basin too but we're not active there because of limited capital. Undoubtedly long term, our focus will be to expand into new areas. ■

The Kothman 1-675H is one of a series of successful Georgetown gas wells drilled on The Exploration Co.'s Maverick Basin acreage in southwest Texas. Advanced seismic coherency processing allows TXCO explorationists to pinpoint the formation's fractures, the key to enhanced production rates.

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 strategy.*

Olivier: The strategy that drives the company is our pursuit of fields with reserves that have been under-developed or under-evaluated. These reserves tend to be disguised due to inadequate or poor evaluation or at times no evaluation. While you can find such reserves in North America, they tend to be small and not concentrated in any particular region. In the former Soviet Union and specifically in the Caspian Region, we have identified numerous opportunities for fields that range in size between 50- and 350 million barrels to feed our growth.

OGI: *And core drilling and production areas?*

Olivier: Following our strategy, we find ourselves today working on developing a field with an identified potential of 200 million barrels in the western region of Kazakhstan. The field is South Alibek. Since acquisition in 2001, we have expanded the License area by 400% to encompass a 14,000-acre carbonate reef play that could have the potential to eventually be expanded to 350 million barrels based on the size of the known structure today. We have only drilled six wells on the main feature with excellent results. We expect to add four more wells this year then ramp up to 12 wells a year starting in 2006. We continue to prospect for our type of low below-ground risk plays and are actively pursuing more projects in Kazakhstan and Azerbaijan.

OGI: *Can your earnings momentum be sustained?*

Olivier: Our earnings momentum will be fueled mostly by ramping up production to an expected field potential of 30,000 barrels per day, which could be realized in the next 24 and 30 months of development drilling. As we expand our export sales capacity, we anticipate prudently utilizing financial means to secure our expected margins.

OGI: *What price deck do you use?*

Olivier: Recently, we have resigned ourselves to world oil prices of $50 oil only to see markets drive it up to $60. For planning and budget purposes, we use a target price of $50 for this year, declining to $46 next year and $44 for the next five years. Our finding and development costs are generally less than $5 per barrel, which gives us a significant operating margin to handle a large price decline and still maintain high double digit returns.

OGI: *How many wells does the company anticipate drilling or participating in this year?*

Olivier: Our current drilling program reflects our optimism of success in expanding the South Alibek Field. We expect to have four new wells by the year end, and next year with four rigs running, we are targeting 12 new wells. Revenue growth is expected to parallel the additional new wells with each adding on average, about 1,000 barrels per day of production.

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

Olivier: Our core field, which we operate, is the South Alibek Field in western Kazakhstan. We have a 50% equity interest in the project, and this field will consume the lion share of our budget and attention for the near term. Any new projects will be complimentary to our existing property but should not add any significant revenue for two or three years.

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

Olivier: In the near term, the greatest challenge facing a small E&P company like ourselves is to attract the needed quality personnel and capital to develop large projects that we find. Country risk seems to be the biggest hurdle for investors these days, but I think we have demonstrated that we can operate effectively in our core areas and bring home the bacon. Finding and keeping quality people is becoming somewhat easier as we grow, but competition is fierce. We have been fortunate to find like-minded professionals with extensive international experience and filled with the entrepreneurial drive to grow this company. The challenge is to continue to add to this team as we expand the company. ■

Ultra Petroleum Corp. (AMEX: UPL)

Michael D. Watford, President, Chairman and CEO

In 1999, **Michael D. Watford** became president, chairman and CEO of Ultra Petroleum Corp., growing the company from a then-market cap of approximately $44 million, to nearly $5 billion by mid-year 2005. He began his career in 1975 with Shell Oil Co. in New Orleans where he held several positions in E&P, refining, chemicals, construction and mining. From 1981 to 1999, he held several key management positions with Superior Oil Inc., Meridian Oil Inc., Torch Energy Advisors Inc., and as president, COO and a member of the board of directors of Nuevo Energy Co.

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

Watford: We're 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 have a long-lived domestic natural gas asset in southwest Wyoming, and we have the oil opportunity in the shallow waters off Bohai China. So we have domestic gas and international oil.

OGI: *Would you like to expand to any new core areas this year?*

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. I think you'll see us try some grassroots exploration ideas.

In Wyoming, what we are trying to do is continue to drill wells north and south and east and west and ever deeper to get a better handle of the resource potential of the acreage we have in the core areas. We just recently finished developing a new petrophysical 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 suggests, at the end of the day, that we have far more gas in place in the Pinedale Field in southwest Wyoming than we earlier thought, which also translates to the need for increased density drilling over time there. You're going to drill more and more wells in an effort to extract all the gas.

Right now the model suggests that on 10-acre spacing for every drilling location we'll only extract some 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 here in terms of drilling efficient wells to recover even the 60% of gas in place. But it's a huge resource potential with reserves in excess of 40 trillion cubic feet in place in the Pinedale Field and in excess of 13 trillion cubic feet of gas in place in the Jonah Field.

OGI: *E&P companies have been reporting some pretty stellar results recently. How can you keep up the earnings?*

Watford: Well, we can keep it up because we have had stellar production increases. Ours has been a function of both stellar production increases and more modest commodity price increases. In fact, we can keep up our earnings and cash flow growth with lower commodity prices because of the aggressive production growth targets we have.

We grew our production in 2004 by 71% over 2003. We're continuing to grow our production in 2005. We have a 42% production growth target, and we are also growing through reserves. We can continue the growth in earnings and cash flow because of both reasons: strong commodity prices and, more importantly, the increasing production.

OGI: *Do you hedge?*

Watford: We do hedge. We hedge a portion of our production annually to protect our capital program to ensure that we have sufficient cash flow to fund at least a major portion of our capital program.

OGI: *What price deck are you using this year as you plan the drilling program?*

Watford: We put our 2005 capital budget together for all non-hedged natural gas volumes and assumed a $4.50-thousand cubic feet price in Wyoming.

OGI: *What's the budget this year, and how does it compare to last year's budget?*

Watford: Our capital budget this year is $290 million, which is a 48% increase over 2004. So a significant increase.

OGI: *How many wells do you anticipate drilling or participating in this year?*

Watford: We should participate in between 100 and 110 wells this year. That's up from 80+ last year and 60+ the year before that.

"The primary driver of our value creation at Ultra this year, as it has been over the last few years, is finding the potential of the acreage that we have in Wyoming."

OGI: *Do you have one or two single projects or wells that could prove to have a big impact on the company this year?*

Watford: No, not really. We have the deep test in the Pinedale Field that, if successful, would set up another play up and down the field. But the primary driver of our value creation at Ultra this year, as it has been over the last few years, is finding the potential of the acreage that we have in Wyoming. We continue to get our arms around the size. We talked a year ago that we thought the minimum expected size of our reserves over time in Wyoming were going to be between 3.5- and 4 trillion cubic feet equivalent. Now, we're very comfortable that the downside of our reserve base in Wyoming over time is going to be north of 6 trillion cubic feet. So, the downside number keeps growing, and I think that's what we're all trying to do.

OGI: *What further refinements do you need in the definition of the resource base you have?*

Watford: We need to drill a lot more wells. We need to continue to refine the petrophysical model, do a lot of drainage studies, and watch production and our actual recovery from the gas in place. We had at year-end 2004 over 1,200 third-party-identified long-life natural gas drilling locations ahead of us in Wyoming. That was double the year-end 2003 inventory. So we have between 10 and 15 years of backlog. With some of the efforts toward 10-acre spacing in the Pinedale Field, that number should grow to in excess of 2,000 locations probably some time in 2006.

OGI: *What's your expectation to be able to go to 10-acre spacing? The Wyoming Oil and Gas Commission was looking for some additional evidence from other producers.*

Watford: The likelihood is very high. It's not a question of "if," it's just a question of "when." In particular, given the fact that the Jonah Field has already been downspaced by the same spacing; it's the same reservoir. The commission has approved five pilot programs by five different producers. Ultra was the first to come back and report to the commission a very thorough and technically detailed report, which the commission complimented us on. But they wanted to hear reports back from some of the other producers in terms of what results they were finding. So, the timing is all about when the other producers finish their projects and go to the commission with their reports.

OGI: *Drilling costs and acquisition costs have been rising dramatically. How is that affecting your company?*

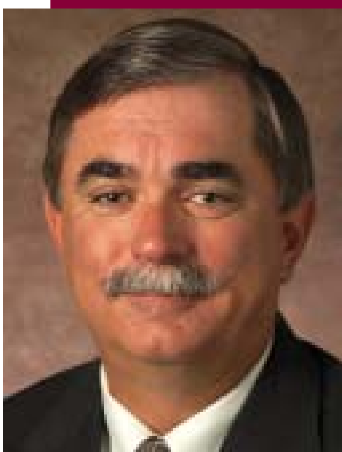
Watford: Well, drilling costs are going up, we're not making any acquisitions, so that doesn't matter to us. Our average well cost has increased from $4.1 million per well two years ago to about $5 million today. So it is an impact.

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

Watford: No. ■

The bulk of Ultra Petroleum's operations are in the Green River Basin, Wyoming, where the above Pinedale Anticline is shown.

Unit Corp.
(NYSE: UNT)



Larry D. Pinkston, 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 president. In February 2004, he was elected COO and became CEO in April 2005. He holds a bachelor of science degree in accounting from East Central University of Oklahoma and is a certified public accountant.

OGI: *Describe the strategy that drives your company.*

Pinkston: Unit has two primary segments, its oil and gas segment and its contract drilling rigs. We want to continue to grow both segments as we've done very dramatically over the last 10 years. We're very optimistic about the next three to five years in the oil and gas industry and want to continue to grow our asset base. We emphasize both of our segments very strongly and do not take preference over one segment or the other.

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

Pinkston: The majority of our operations are in the Anadarko and Arkoma basins of Oklahoma and the Texas Panhandle. About 69% of our oil and gas reserves are in those two basins. At year-end, we had a total of 347 billion cubic feet equivalent. About 70% of our 104 total rigs operate in the Anadarko and Arkoma basins. We also have 14 rigs in the Gulf Coast, all onshore, and another 21 rigs in the Rocky Mountain region.

OGI: *How many rigs do you anticipate adding this year, then looking ahead to 2006?*

Pinkston: We'll begin putting together our 105th rig in the third quarter, and will probably begin building another one after that. We could be at our 106th or 107th rig by the middle of 2006.

OGI: *On the production side, do you anticipate expanding to any new core areas this year?*

Pinkston: We opened an office in Midland, Texas, about 12 months ago to more aggressively pursue the Permian Basin. We already have a good presence in the Permian, but we've never had an office in Midland. We currently have an engineer, a landman and three geologists in that office, and we're looking to expand. It's not that we needed the expansion last year or this year, but looking down the road, for us to continue to grow, we will need to keep adding different geographic areas.

OGI: *As you look to add new areas, what type of basin or play makes sense to the company?*

Pinkston: We like good old producing basins. It's been our experience that when you own acreage in these basins, good things happen. We're not the type of company where we go into unexplored areas where there hasn't been a history of oil and gas. We're more of a lower-risk profile exploration company.

OGI: *The company recently completed an acquisition. How will that add to its core strategy?*

Pinkston: We acquired about 14 billion cubic feet equivalent of reserves for $23.1 million—a very good acquisition. The acquisition was with a company that had gotten started primarily through acquisitions. The properties are scattered across several different areas in western Oklahoma, which fit in well with our existing areas of operation. The properties are producing about 2.5 million cubic feet a day of natural gas, which will add very nicely to our production picture. We are pleased with the price that we were able to buy these reserves, which was about $1.65 per thousand cubic feet. I wish we had 10 more deals to do at that price.

OGI: *On the contract drilling side of the business, are you able to find adequate supplies of labor and materials to expand at the pace you'd like?*

Pinkston: Yes. We have a very good employee base. It helps that we've been active in the areas where our rigs are located for several years, thus we have a base to pull from for both employees and customers in our growth. We're also known in the areas as having a good reputation for treating employees and customers right. Growing gradually and adding one to two rigs a quarter is a scenario we can handle very easily. If we were looking to add 20 rigs all at once, it would be a different picture. Our preferred way to grow is to buy or add rigs in the areas we want to expand with an existing employee base and organizations.

OGI: *Can your earnings momentum be sustained?*

Pinkston: The commodity price is driving the majority of the growth in the industry. With Unit, it is different in that we have been able to grow our asset base very nicely. Our production last year was up 41%. Most of that was due to an acquisition we completed in January of 2004. But, even if you exclude the acquisition, our production was still up 17% year over year. We aren't solely dependent on pricing for us to grow and show better results each year. We're expecting our 2005 production to be up in excess of 10% year over year, so we're not stagnant and hoping that commodity pricing alone will provide growth.

Our stated goal is that we want to grow our oil and gas reserves by at least 150% of each year's production. We've done that each and every year for the last 21 years and foresee doing that for at least the next two or three years. Of course, as you get bigger, it becomes a bigger hurdle to overcome, but we should be able to meet our goal for the foreseeable future.

"Our stated goal is that we want to grow our oil and gas reserves by at least 150% of each year's production. We've done that each and every year for the last 21 years and foresee doing that for at least the next two or three years."

OGI: *Does the company hedge?*

Pinkston: Very little. Our balance sheet is very strong.

OGI: *What price deck are you using?*

Pinkston: Our price deck that we use in the economics of drilling wells is $5 per thousand cubic feet of natural gas and $35 per barrel for oil.

We don't escalate prices, and we're finding plenty of prospects to drill at those prices. So, there's really no reason to expand our price deck.

OGI: *Some E&P companies have been reporting having difficulty finding rigs.*

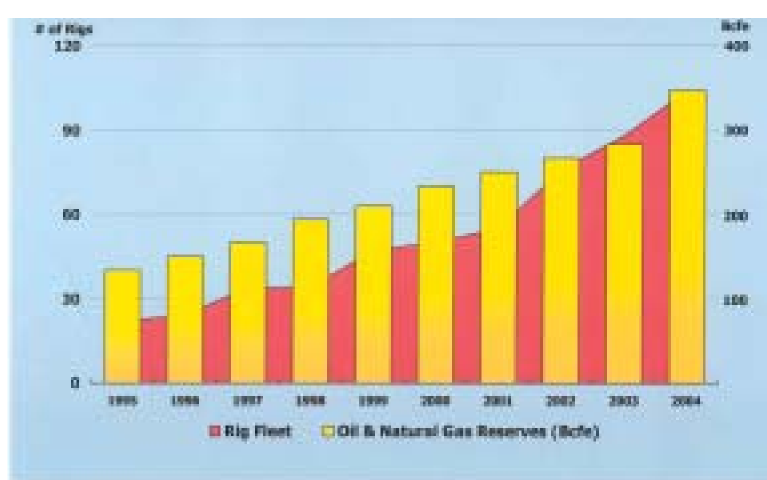
Pinkston: Owning our own rigs insulates us quite a bit from that problem. We want to be very cautious and not get in a situation where we have to take rigs away from any of our drilling customers in order to do our own drilling. For that reason, we set aside six rigs at the beginning of this year for us to do our own drilling work and didn't attempt to market those rigs to outside customers. We can get our drilling operation complete with basically those six rigs.

OGI: *Are you seeing increased pricing power on the contract drilling side of your business?*

Pinkston: Most definitely. We're seeing impressive growth on the pricing side. Typically on the contract drilling side when the industry utilization has gotten to the 80% range, that's when day rates start moving very dramatically. The industry exited 2004 right at 81% utilization, and we've seen a very nice escalation in day rates since the first of the year, and they're continuing to climb as we speak.

OGI: *How much more escalation is desirable?*

Pinkston: That's ultimately dependent on commodity pricing. What drives the whole industry is the economics of drilling wells. Once we go through this rapid increase in day rates, we should be back to a more consistent increase in day rates and not see the big leaps that we've seen in the last six months. But, it's all dependent on commodity pricing and the operators' demands for our drilling rigs. ■



Unit's diversified operations during the past decade.

Universal Compression Holdings Inc. (NYSE: UCO)

Stephen Snider, President, CEO and Director

Stephen Snider has been president, CEO and a director of Universal Compression Holdings Inc. since consummation of its Tidewater Compression acquisition in 1998. He has more than 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 E&P) 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.

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

Snider: We have a very focused philosophy and stayed around things that we could do with a gas compressor. A gas compressor is just a big machine that moves gas from point A to point B. Compressors thus help move natural gas from the wellhead through field gathering systems and ultimately to the end-user. Everything we do involves either owning, operating, maintaining, repackaging or building gas compressors. We're a company that's pretty specific in our area of interest.

On the other side, this strategy has taken us to looking at doing what we can with gas compression but doing it in an increasing geographic footprint. We've been expanding our business into the international side for the last 10 years or so and now have about one-third of our revenue coming from international operations.

OGI: *The company has recently expanded its business in Canadian and Latin American markets?*

Snider: We've been in Latin America since 1992 and have significant operations from Argentina all the way to Mexico and most every major country in between. We entered the Canadian market with our acquisition of Weatherford Global Compression in 2001, which was operating out of Calgary, and it became part of Universal. Last year, we acquired a competitor's contract compression fleet in Canada, which resulted in an expansion of our existing operations there.

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

Snider: We have three things that we do with our business that all focus around that compressor. The biggest part of our business is contract compression. In this segment of our business, we actually own a fleet of gas compressors—it's about 2.5 million horsepower, around 7,000 compressors or so—that we use to provide the service of compressing a customer's natural gas for transportation to market. That's a fairly capital intensive business which we have grown by expanding our fleet and our operations both in domestic and international markets. It's a very stable business. Utilization of those assets doesn't tend to change too much from good times to bad, so it gives us a relatively stable cash flow and a strong base of business. With strong customer demand, we have been selectively building new large-horsepower units for deployment in both domestic and international markets.

The second part of the business is fabrication. In the fabrication segment, we design and build compressor packages for customers who want to own their own equipment. So there we build a compressor package, sell it to a customer, and they use it to move their gas to market. That part of our business has grown fairly well. A lot of that business now comes from international as we build compressors to send overseas. In recent years, we have established new customer relationships in international growth markets through fabrication sales.

Our third business segment is aftermarket services, the newest piece for Universal since we really got heavily engaged in this area only after the Weatherford Global acquisition. A main focus of this group is to take customer-owned equipment and find out what we can do to help the customer run and operate that equipment better. That may involve contract maintenance, repairs, overhauls, reconfiguration, repackaging and a variety of other services. That segment has been expanding slowly but steadily since we purchased Weatherford Global four years ago. And in the last year or two, we've increased our aftermarket parts and service activities in international markets.

Increasingly, our domestic activity has shifted over the last 10 years into unconventional gas production.

That's been led by customer development of coalbed methane, tight sands and shale gas production in places like the Rockies, New Mexico and the Barnett Shale in Texas. So we have seen a shift in the type of business and unconventional gas has been a benefit to us because it's low pressure gas and it takes significant amounts of compression early in its life to deliver that gas to market. Unconventional production has been a real growth vehicle for us in the U.S.

> **"PART OF OUT BUSINESS STRATEGY IS TO TRY TO LOCATE SMALLER SERVICE COMPANIES THAT WE CAN ACQUIRE...AND LET THEM HELP EXPAND OUR CORE BUSINESSES."**

OGI: *Does the company have a backlog?*

Snider: Yes, the company has a significant fabrication backlog. We have been operating between the $50- and $100 million backlog on compressor fabrication for third-party sales, which is the only backlog that we really disclose. At the time of our last conference call in late May 2005, our fabrication backlog was about $80 million, which has been about average for us. This backlog is compressor equipment that is sold to our customers that we will be building in one of our two fabrication facilities located in Houston or Calgary.

The fabrication group also builds compressors for our own contract compression fleet in our facilities. But in order of magnitude, we've given guidance this year that could lead to as much as $100 million worth of fabrication for our own contract compression fleet expansion.

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

Snider: Not at the present time. We have two facilities, both of which are a little over 100,000 square feet. That's meeting our demand right now. With current strong market conditions, we're working extra shifts and extra hours at these existing facilities.

What we have been doing to expand our sales and service infrastructure over the last three years is making small acquisitions of small companies in different international markets that are engaged in aftermarket service in their local market. We did one a couple of years ago in Australia with a company called Oceanic Compression, which is now part of Universal. It gave us a much broader footprint across Australia, it gave us some shop capacity, some qualified mechanics and more recognition with the Australian customers.

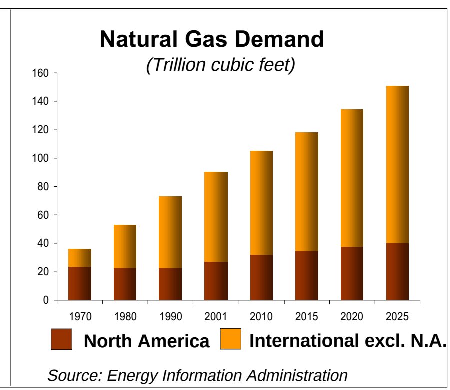
Since that worked well, we did another one shortly thereafter with a company in Venezuela and we just completed an acquisition of a similar company in Brazil. Part of our business strategy is to try to locate these smaller service companies that we can acquire, bring into Universal and let them help expand our core businesses.

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

Snider: Almost all of it right now is organic. The recent acquisitions have been relatively small. Our objective is to purchase them, "universalize" them and use them as a platform to grow. They're very small acquisitions with only a few million dollars in revenue per year.

Four years ago, we made a significant move into the Asian market and established operations in Australia, Thailand and Indonesia. And then a year and a half ago, we opened our Chinese office in Beijing. We've now staffed up in Beijing and organized ourselves to do business with the Chinese operating companies. It's almost an entrepreneurial business. We're trying to find out how to do business in China and carve out a market there for us. But that's performed fairly well for us in the first year, so on the back of that, we've now announced in our last conference call that we opened an office in Moscow and have begun to make inquiries with the Russian operating companies to determine what services we might be able to offer and exactly how we'll proceed in those marketplaces. ■

- **Growing worldwide gas demand**
- **Declining reservoir pressures**
- **Unconventional production from tight sands, coalbed methane and shale gas**
- **International expansion of gas infrastructure**
- **Increased trends towards outsourcing**



Business drivers for Universal Compression.

Vaalco Energy Inc. (AMEX: EGY)

Robert L. Gerry III, chairman and CEO of Vaalco Energy Inc., joined the company in August 1997. He previously was with Nuevo Energy Co, where most recently he served as vice chairman of the board. He was instrumental in founding Nuevo in 1990 and served as director, president and COO. He remains a director of Plains Exploration and Production Co.

Robert L. Gerry III, Chairman and CEO

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

Gerry: We are an E&P company with a definitive focus on the international arena, especially West Africa.

***OGI:** Could you describe your core drilling and production areas?*

Gerry: Between 98% and 99% of Vaalco's production and properties are in the country of Gabon, West Africa. We currently have production in the Etame Field—it's about 22 miles offshore of Gabon in about 350 feet of water.

About three months ago, we had a majority stockholder that owned 65% of Vaalco. It was called the 1818-2 Fund managed by Brown Bros. Harriman out of New York. They controlled Vaalco, and the fund itself was running up against its time limit.

About three months ago, with the assistance of three investment bankers, the 1818 fund sold its entire holdings of about 36 million shares to between 40 and 50 other financial institutions. Up until that time, or for the last five to eight months, really, before that transaction, we tried to keep Vaalco in a very focused box. It's a simple company to understand. If we got into different areas, it may have confused the profile of Vaalco. So with their overseeing this, if you will, we've retained this profile, but now that they're gone, is when we're really starting to look aggressively for opportunities outside of Gabon.

We are diligently searching for other exploration opportunities in West Africa. That's our primary focus, but we will also consider opportunities outside of West Africa. Our preference is the African continent, but it's an opportunistic business, and we would look at other prospects in other areas. We are still, though, focused internationally and while I'll never say never, we prefer not to come back to the United States.

***OGI:** What does the company like about Africa?*

Gerry: The opportunity. Vaalco is a fairly small-cap company. We've got a market cap of about $200 million. While we are well known in West Africa, we are not well known here in the domestic U.S. Our belief is that, obviously due to the high price of the commodity and it's a very competitive industry, we feel that a company the size of Vaalco will be much better served being in the international arena whereby the competition—though severe—numerically there are not as many companies searching for opportunities.

***OGI:** You said the company prefers not to come back to the U.S. Is it primarily because of the nature of the competition?*

Gerry: Well, I say not to come back, we've only really had a minor presence here anyway. We've operated offshore the Philippines, India and now Gabon. I think the competitive environment here for a small-cap company is too intense for Vaalco where we don't have a presence currently.

***OGI:** Will you maintain the earnings momentum?*

Gerry: Absolutely. We have a number of other opportunities on our block in Etame. We are, as we are speaking, currently putting a fifth well into the Etame Field. It should be on production and making between 5,000 and 6,000 barrels a day gross (we own 28.07% of that). That ought to be on production and flowing into our floating production, storage and offloading vessel by the end of July.

The following year, we will add two more wells in what we call our Avouma Field. Each will produce between 5,000 and 6,000 barrels, so about this time next year, logistics working, we ought to add again between another 10,000 and 12,000 barrels a day. At the end of 2006, if everything goes right, we ought to add an additional well in our Ebouri Field, and that also will produce between 5,000 and 6,000 barrels a day. If everything stays the way we think it will next year, we ought to have between 15,000 and 18,000 barrels gross added to our production profile.

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

Gerry: It does not. We're a small company, I think we've been well served not hedging. In all honesty, I think that if oil pops up to $60 or around there again, it might be something we would consider. I would prefer, however, to wait until we had an opportunity perhaps to purchase some production or where we would have some capital requirements that exceed what we envision today. At that stage, we would seriously consider hedging to protect our capital investment.

***OGI:** What's the budget?*

Gerry: Last year's budget was low. Vaalco will spend net to it over the next 18 months—with Abuma coming online next year and completion of this well that we're currently drilling—somewhere in the neighborhood of $50 million. Currently, Vaalco has $30 million in the bank. We will cash flow better than $35 million this year and probably better than $40 million next year. We're well covered in our capital cost from cash flow, and we ought to walk out of 2006 with between $25- and $35 million still in the bank. We also put in place with the World Bank a $30-million revolver, which we could draw down should an opportunity come our way. As far as cash goes and the financial viability of Vaalco, we're in great shape.

***OGI:** How many wells does the company anticipate drilling or participating in this year?*

Gerry: One. Well, we drilled an exploration well last month that was a dry hole. We're putting in a development well right now, but that's all we anticipate drilling at the moment this year.

***OGI:** Which project is causing the most buzz around the company for its future potential?*

Gerry: Again, we're a one-concession company; that's the knock on Vaalco, if there's a knock on it. One concession, one country. Sometimes you put your eggs all in one basket and watch it very carefully. That's Vaalco's philosophy at the moment, but we are aggressively looking now for outside transactions beyond Gabon. We would gladly like to find another deal in Gabon. It's probably the best country to operate in in West Africa; we're very comfortable there. But Vaalco is now spreading its wings, we are looking at other areas in West Africa and actually another area outside of West Africa. It will take us about five to six months to get there, but we are definitively trying to grow Vaalco now with reserve adds.

***OGI:** What do the economics look like for service costs and acquisition costs in Africa right now?*

Gerry: Acquisition costs are a function of the commodity prices. If the commodity price rises, your acquisition costs will obviously go up. But, yes, there is an escalating cost in drilling and service of contracts. The demand for those services with the price, again, of the commodity being very high, we do see costs escalating. We think they're manageable, but the services and the ancillary boats that we need offshore, they're enjoying good times.

***OGI:** What's the nature of the political and legal risk in Gabon?*

Gerry: Gabon is a former French colony. It's governed under French law. It's a democracy. The president of Gabon has been in office for about 30 years. He is up for election in December and will probably win with more than 85% of the votes. Gabon's a good place to operate in. It's got a small population of a little over 1 million people. It's had oil and gas production for roughly 35 years, and it's a stable government, so we all believe that Gabon is as good as it gets over there. They've got a very high per capita income for West Africa. Gabon is a little over $3,000 per capita, which is between eight and 10 times some of the other countries over there.

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

Gerry: Finding another area of opportunity. That's our main focus at the moment. And that's a real challenge to Vaalco: to add reserves outside of this one concession that we have. That's the challenge that we're facing. ■

The floating production, storage and offloading vessel Petroleo Nautipa on Quay in Cape Town, Africa, while on the way to the Vaalco-operated Etame Field offshore Gabon, West Africa.

Western Oil Sands Inc. (TORONTO: WTO)

David Dyck, Senior VP of Finance and CFO

David A. Dyck joined Western Oil Sands in April 2000 and was promoted to senior VP of finance and CFO in May 2005. Under his guidance, the company completed the financing for its first phase of development of the Athabasca Oil Sands Project. This involved more than 20 successful debt and equity financings raising in excess of $2.5 billion dollars. Prior to joining the Western executive team, Dyck spent 12 years with Summit Resources Ltd., a junior oil and gas E&P company, where he served in successively senior roles, finally as senior VP of finance and administration and CFO. His financial and management experience in the oil and gas industry is extensive. During the past 16 years, Dyck has been responsible for all areas of accounting, finance, tax, budgeting, planning and investor relations. He is a director of CE Franklin Ltd. and a mentor with the Haskayne School of Business MBA Mentorship Program. Dyck received his Bachelor of Commerce degree with distinction from the University of Saskatchewan in 1985. In 1987, he obtained his Chartered Accountant designation while employed with Thorne Riddell Chartered Accountants. Dyck is a member of the Alberta and Canadian Institutes of Chartered Accountants, the Financial Executives Institute and the Treasury Management Association of Canada.

Oil and Gas Investor: *Describe your strategy.*

Dyck: Western Oil Sands is a 20% participant in the Athabasca Oil Sands Project. We've been in existence since July of 1999, and our strategy has been, and continues to be, developing the oil sands resource base in northern Alberta and to use that resource base as a means to provide significant value for our shareholders.

The project is in its first phase of development. We are producing at a rate of approximately 155,000 barrels a day or about 31,000 barrels a day net to Western. In the first phase, we're developing a reserve base of about 1.6 billion barrels, and our share is just over 300 million barrels. There's a total of 9.7 billion barrels of resource to develop. Western's share, of course, would be 20% of that, or just under 2 billion barrels. The development of the remaining resource will take place over the next eight and 10 years ultimately resulting in production between 500,000 and 600,000 barrels a day; Western's share will be between 100,000 and 120,000 barrels a day.

OGI: *Tell us about the project.*

Dyck: There are two components to the project. The first is a mining and minerals extraction operation and that would be a different means of recovering oil from the ground. In our case, we have a strip mining operation using trucks and shovels. We mine the ore, extract the bitumen from the ore, and then take the bitumen and upgrade it to synthetic crude oil products. We sell our share of the synthetic crude oil to various refineries throughout North America where it would be transformed into other oil-type products.

There's quite a difference between an oil sands operation and a traditional E&P company where they're going out and exploring for a resource. We have a very good idea of the size and magnitude of our resource as well as the quality of the resource, and we have a high confidence level in the recoverability of that resource given the fact that we don't have to drill for it, but rather mine it.

OGI: *Are there projects similar to yours?*

Dyck: Well, there are other oil sands deposits around the world, but to my knowledge, the only one that is being developed at this point is in the Athabasca region in Alberta. And there are three projects that are producing at this point: our project (the Athabasca Oil Sands Project), and then two others, Suncor and Syncrude, both right around the city of Fort McMurray.

We have a 20% working interest in the project and our partners are Shell Canada, with a 60% working interest, and Chevron with a 20% working interest as well.

OGI: *Describe some of the key lessons learned to date.*

Dyck: The complexities are in the minerals extraction part of the operation and in upgrading. In the middle of the extraction, we use mining techniques to extract the product from an ore body. For every 100 tons of ore that we mine, approximately 90% by volume is considered waste or tailing sands, and the other 10% is bitumen.

We're mining approximately 14,000 tons per hour, so there's a lot of ore that we're moving on a daily basis. To produce 155,000 barrels a day—day in and day out—the machinery has to be working properly, and you need operators who have a very good knowledge of the extraction techniques that we are using. It's quite integrated, so any change that you make even in ore quality as it's coming out of the mine pit affects the extraction process down the road. The complexity has been in fine-tuning the process as well as making sure our operators are very familiar with how to run the machinery given the type of ore that we're mining at any given time.

The other part of the complexity is at the upgrader. We have a high-pressure, high-temperature process where we inject hydrogen into a reactor under temperature and pressure and, using a hydrogen addition process, converting the heavy bitumen into lighter, synthetic crude oil products. Again, the capacity of the upgrader is 155,000 barrels per day. Shell Canada is operating that facility.

OGI: *And it was at the upgrader facility where there were some difficulties in the last quarter of 2004 and early in 2005 and then again in March? Could you describe in a little more detail what the difficulties were?*

Dyck: It speaks to the complexity of the operations. We had some issues on the operating side that impacted the production out of one of the trains, and so it took our production levels down from 155,000 barrels a day into the 130,000 barrel-a-day range, or about 71% of capacity. We've come out of that nicely in the second quarter, and rates have moved back up to the design capacity.

OGI: *And the company reported just recently a milestone of 100 million barrels of total production?*

Dyck: That's correct.

OGI: *What effect do feedstock costs have on operations?*

Dyck: We're purchasing third-party feedstocks at the upgrader to be used as either blending or as part of the upgrading process. Even though commodity prices for hydrocarbons have been increasing, we consider the cost of these feedstocks to be a pass-though, because, although we are purchasing them, the value of those products impacts the value of our end product. So it really has a minimal impact on our cost equation. I think that the biggest impact that higher commodity prices have had is in the value of the end product that we're selling.

OGI: *Describe the nature of the de-bottlenecking project that the partners are getting underway.*

Dyck: We have facilities with a nameplate design capacity of 155,000 barrels per day, and within that process, there are areas where we believe we have under-utilized capacity. This capacity will be accessed through spending additional capital. We have a small capital program over the next few years that will allow us to increase production volumes from 155,000 barrels a day up to 200,000 barrels a day with a modest amount of capital spent over, let's say, the next three to four years.

The de-bottlenecking program will involve both the extraction operations as well as the upgrader. So at both facilities, we see increasing productive capacity from 155,000 to about 200,000 barrels a day.

OGI: *The joint venture has discussed expansion of the Athabasca Oil Sands Project. Can you describe what's taking place?*

Dyck: In addition to the de-bottlenecking project, we have an expansion plan. The first expansion will add between 90,000 and 100,000 barrels a day and will involve expansion of facilities both at the mine site (the extraction facilities) and the upgrader. So again, we have a two-train operation today, and we'll add a third train to our operations. Our expectation is that this train will increase productive capacity of the entire operation to about 300,000 barrels a day by the year 2010.

The truck-shovel combination is perfectly matched to optimize efficiency at the mine face as we selectively load from multiple benches within the mine.

***OGI:** And the partners are talking about using a "continuous construction" process—a building-block approach. Could you describe how that would work?*

Dyck: We have significant resources to develop over the next eight to 10 years. We've been working to determine the most efficient way to develop that resource. A building-block strategy contemplates adding successive trains, each train capable of 100,000 barrels a day, following this first expansion. Through that mechanism, we would bring production up to the 500,000 to 600,000 barrel-a-day range between the next eight and 10 years. We've looked at this approach giving consideration to the demand for labor and the impact of smaller teams to manage the project better. Some of the lessons that we learned in the first construction effort are being employed and considered very carefully as we plan further expansion, and that speaks to the whole area of project management and the level of owners' involvement. We believe that adding successive trains at about 100,000 barrels a day—building the same thing we have today—will reduce our capital intensity and make for very profitable projects and very profitable development of the remaining resource that we have available to us.

***OGI:** Will you increase your participation?*

Dyck: The 20% interest that we currently have in this project is pretty well locked in for the balance of the development of this resource base, and that's governed by a joint venture agreement that we have with our partners. Unless one of our partners was interested in selling a part of their interest, our interest will remain at 20%.

***OGI:** Please describe how the company is capitalized.*

Dyck: Western Oil Sands is capitalized as a corporation. We have a combination of debt and equity that we have raised over the last number of years. We have equity financing of about $560 million and the balance is debt facilities. We have long-term bonds in place that expire in 2012 in the amount of US$450 million, and bank credit facilities in the amount of $340 million that we are drawing on, and we have the capacity to draw on them to the amount of $300 million to date. So it's a fairly straightforward structure, a combination of debt and equity, and our objective is to maximize returns to our shareholders through capital appreciation. We do not have a dividend policy at present; we do not have any distribution. All free cash flow is being reinvested into further development of the resource. Over the past five years, since our IPO in December of 2000, we've provided approximately 30% compounded rate of return for our equity owners.

***OGI:** What commodity prices do you need?*

Dyck: At this point in time, given where our cost structure is for the project, we believe that our break-even WTI oil price is somewhere in the mid-$20s, and we are looking, of course, to drive that break-even price down as we improve profitability and improve efficiencies in our operations.

***OGI:** Are you finding enough skilled professionals to operate your complex facilities?*

Dyck: We have a very capable contingent of staff that operate our facilities both at the mine site and at the upgrader. The bigger concern is on the construction side of things as we move into expansion to source appropriately skilled tradespeople to build these facilities. There is certainly a very skilled base in Alberta. The question is whether it's sufficient, whether it's large enough, to handle the number of projects that will be ongoing in the region. A lot of companies, ours included, are working with the government as well as with the labor unions, looking at alternatives and looking at sourcing labor from outside the province to meet the demand that's going to take place.

But from an operating point of view, we have been able to successfully attract and retain good, qualified people to operate our facilities.

***OGI:** What is your capex budget this year?*

Dyck: Well, since we're not in a major expansion program right now, our capex budget for 2005 is about $110 million, and we see that ramping up significantly as we move into 2007 and 2008 as we come into the first expansion. But for 2005, the capex program of $110 million will be funded from expected cash flow from operations of about $160 million. That $160 million is based on an average expected production volume for 2005 of between 140,000 and 145,000 barrels per day at the Joint Venture level and assuming an average WTI oil price of about US$45 per barrel.

***OGI:** And future capex as expansion gets underway? What would that look like, and how might that be funded?*

Dyck: Well, it's a little too early to give specifics on any given year. We're expecting to finance our share of the capital expenditure program with a combination of free cash flow from operations as well as some incremental debt facilities. ■

Westside Energy Corp. (AMEX: WHT)

Jimmy D. Wright, CEO and CFO

Jimmy D. Wright has been CEO/CFO for Westside Energy since February 2004. Wright served as senior VP of EnergyClear Operating Corp. then as the president of Energy Clear Corp. from June 2001 to July 2002. Between June 1995 and June 2001, he held various senior management positions with Midcoast Energy Resources Inc., and its subsidiaries which merged into Enbridge Inc. When he left, Wright was CEO of an international subsidiary of Enbridge Inc. He holds a bachelor of science degree in mechanical engineering from the University of Memphis.

***Oil and Gas Investor**: Briefly describe the strategy that drives your company forward.*

Wright: Our company intends to create shareholder value primarily through drilling. To do so, we will acquire oil and gas mineral leases on highly prospective acreage under favorable deal terms and then invest the time, money and energy to progess this raw leasehold to drillable prospects status. In certain circumstances, 3-D seismic development work will be required to identify optimal well locations. We will then drill successful wells to grow reserves and cash flow to create value.

***OGI:** What core drilling and production areas are you targeting right now?*

Wright: We are exclusively in the Barnett Shale.

***OGI:** Why does that basin make sense to you?*

Wright: It's a lower-risk basin with a very large potential recoverable reserve base. The USGS recently estimated approximately 27 trillion cubic feet of undiscovered gas resource potential in the basin. So it's a substantial target, and it provides a dynamic for creating substantial shareholder value.

***OGI:** Many E&P companies have been reporting stellar financial results in recent quarters. As a young start-up, could you describe where you currently are earnings-wise?*

Wright: We recently completed drilling on our second through fifth wells. We are awaiting fracture stimulation and pipeline hookups and will be completing these wells in due course. As we continue to successfully execute our drilling program, we expect to see significant and long-lived increases in production, earnings and cash flow.

***OGI:** What would cause the company to hedge?*

Wright: As we establish production from our drilling program, Westside intends to hedge some portion of that production, once we determine the long-term decline rate and better understand our reserve base. With increased knowledge of our production profile, management will possess the data needed to recommend an appropriate hedging program to our board.

***OGI:** As a startup company, what does your capital structure look like?*

Wright: By design, we've structured the company to keep it very simple, including it's capital structure. We have no debt, 100% common equity, no preferred and no complications. We've deliberately kept our capital structure simple and transparent.

***OGI:** What is the price deck you are using this year as you develop the drilling program budget?*

Wright: $6.25 per thousand cubic feet. We budgeted $19 million this year; $14.4 million for drilling, $3.3 million for leasing activities; and $1.3 million for seismic and geological/geophysical activity. That's a six-fold increase over last year.

***OGI:** How much influence does the commodity price have over the kind of technology you are able to use?*

Wright: Not much. We keep abreast of the state-of-the-art drilling and completion practices and apply these technological advances in our programs. Our goal is to maximize reserves and production without regard to short-term commodity price changes. The budget that we just talked about incorporates many of these technologically innovative procedures and practices..

***OGI:** How many wells does the company plan to drill or participate in this year?*

Wright: Our budget allows for between eight and 10 net wells in the deeper drilling areas of the Barnett Shale. The actual well count may vary depending on how the wells are drilled (horizontal or vertical), joint development wells or 100% westside. We've drilled several wells this year in which we own less than 100%.

***OGI**: What is the company's estimated production this year?*

Wright: We've given no specific guidance to date, but we anticipate a steady increase in production and operating cash flow later over the remainder of this year and into next as we start bringing the wells from our 2005 program on line.

***OGI:** With only one or two wells that could make a big impact on the company, what are your expectations?*

Wright: We've shot a 4.3-sq mile 3-D seismic program over our leasehold in northern Hill County, Texas, in the Barnett Shale, which we anticipate testing with horizontal wells in the last half of this year. We are hopeful that the performance of wells drilled in our Hill Country acreage will be similar to recent results acieved in Southeast Johnson County by other operators. This is our biggest project for 2005, and it could have a substantial positive impact on our cash flow, from operations and reserves.

***OGI:** Is the company planning any acquisitions this year?*

Wright: There are no acquisitions allowed for in the budget, but we wouldn't rule anything out. If we believed an acquisition would be accretive to shareholders' value, we'd definitely bring it to our board of directors for consideration.

***OGI:** As a startup, how have escalating drilling costs affected your business plan?*

Wright: Not dramatically. In large measure, they only impact the capital required to drill wells because the commodity prices have accelerated lockstep with the increase in drilling costs. What we're now anticipating receiving for our production costs has outpaced the increases in drilling from when we first looked at this area a year-and-a-half or two years ago. It's only in the timing of the cash flows that we see a substantial impact. The company is spending cash currently and will have to wait three or four months to bring a well on and deliver positive cash flow. Once in production, and based on where the commodity prices are, there's no dramatic impact of drilling cost on total project economics. Moreover, we allowed for this new budget process.

***OGI:** Are you finding ready access to rigs?*

Wright: No, it's a bit tight for rigs right now, as it is for frac crews and for other services. In particular, quality rigs for drilling horizontal wells in the Barnett Shale are in short supply. We're blessed and cursed at the same time by being in the Barnett Shale. It's probably one of the premier unconventional plays in the world, and as a result of that, demand for equipment and services is increasing and supply is constraint, at least in the short term.

***OGI:** How do you manage those constraints?*

Wright: One example is the joint development agreement we recently signed with EBS, which had a rig under contract and had a drilling program in progress. We bought into an ongoing drilling program with pre-existing contracts for equipment and services. For our needs in other areas, the company intends to contract rigs for longer term arrangements rather than separately for each well. Contracting for continuous drilling somewhat changes the way you manage your business. Instead of drilling a well, releasing a rig, fracing, seeing what the results are and then bringing another rig in and repeating the process, you need to accelerate your process to be able to maintain continuous drilling.

***OGI:** What's the potential risk by accelerating the process?*

Wright: Really no potential risk if you have done the front-end work correctly. To accelerate the drilling process dramatically, you may bring in outside investments and third parties to offset costs and keep the same net budget. It doesn't change the dynamics too greatly from a risk perspective.

It does change the dynamics from a management, a time and a focus standpoint. Decision times are compressed. Time is money. an accelerated drilling program requires a substantial time committment and effort to keep a rig working at all times. ■

Westside Energy Corp.'s first well, the Lucille Pruitt No. 1 in Denton County , Texas.

WHITING OIL & GAS CORP. (NYSE: WLL)

James J. Volker, Chairman, President and CEO

JAMES J. VOLKER joined Whiting Oil & Gas 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 Oil & Gas Corp. and served in that capacity until August 2000, at which time he became executive VP and COO. 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 through 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.

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

Volker: Whiting's strategy, for over 20 years, has been to acquire, exploit and explore, basically in that order and that priority. If you look at all our capex for the year, most of it would be for acquisitions. From our exploit strategy, you'd find us investing between 50% and 70% of our discretionary cash flow for exploiting reserves that we already own and about 10% for exploration.

Our core production areas are the Rockies (they contain 33% of our reserves), the Permian (also has 33% of our reserve value), the Gulf Coast (20%), Michigan (11%), Midcontinent (3%) and California (2%). Those percentages apply to our 865 billion cubic feet equivalent of reserves as of January 1, 2005. Subsequently, we acquired an additional 50 billion cubic feet equivalent in the Rockies, that was mostly gas. Currently, approximately 44% of our reserves are natural gas and 56% is oil.

***OGI:** For many companies, the "acquire" portion of the strategy has escalated in cost recently. How has Whiting dealt with higher acquisition costs?*

Volker: Because we've been an acquisition company for over 25 years now, we have acquired properties in both high-pricing and low-pricing environments. We try to be as knowledgeable as we can about everything that's on the market. We can penetrate the market deeply and find out about everything that's out there—both the publicly as well as the privately offered. We typically try to get in and do our homework as early and as thoroughly as possible so that we know a lot about the property. We can then make an offer that is not a "subject-to" offer.

***OGI:** What type of basin or play makes the most sense to you as you look for acquisitions?*

Volker: We like long-lived reserves. Doesn't matter what basin we're talking about. For example, along the Gulf Coast that many people think of as relatively flush production basins with short R/P ratios—our production is in the harder rock, upper Gulf Coast and has over a 10-year R/P ratio.

***OGI:** The company recently announced financial results for the first quarter with a 122% increase in revenue, 73% increase in net income and 31% increase in discretionary cash flow. What's your plan for keeping up this kind of earnings momentum?*

Volker: On reserve growth and production growth, I think we can continue to grow and perform simply because I believe we're competent at our acquire, exploit and explore strategy. Our entire employee base is focused on achieving accretive reserve growth per share and accretive production growth per share. Oil and gas prices are, of course, out of our control and probably will continue to be volatile as they sometimes are based on political as well as economic factors.

***OGI:** You reported a $2.1 million hedging loss during the first quarter. Could you characterize that loss?*

Volker: That happened because oil prices went above the ceiling on our costless collars. We are 51% hedged through the first quarter of 2006 on our oil volumes. We are 60% hedged on our gas volumes through year-end 2005 and 30% hedged on gas volumes through the first quarter of 2006. Our gas hedges are costless collars with floors of $4.50 and $5.90 and ceilings between $8.25 and $10.30. So, we're not paying our counterparties on any of those gas hedges. We are enjoying the full wellhead value of every thousand cubic foot equivalent of gas that we sell.

Our oil price hedges have floors of $35, $37 or $40 a barrel and ceilings between $46.65 and $65.75. By about the time we get into the fourth quarter of 2005, our ceilings are significantly above current Nymex prices. By that time, we anticipate realizing the full value of every barrel of oil that we sell.

OGI: *What kind of a price deck are you using this year for planning your drilling program?*

Volker: Our budget uses a wellhead price of $38 and $5.60.

OGI: *How many wells will you drill or participate in this year?*

Volker: Between 300 and 350 versus 169 last year. Of the 169 we drilled last year, 160 were productive.

OGI: *Any estimates on production this year?*

Volker: The mid-point of our guidance is 68 billion cubic feet equivalent for this year, which would be up from 47 billion cubic feet equivalent last year.

OGI: *How does the company's recent $65 million acquisition in the Green River Basin fit into the company's strategy?*

Volker: That acquisition in the Green River Basin included fields that had acreage positions near acreage and production that Whiting already owns. We acquired some of these positions when we merged Equity Oil into Whiting in July 2004. These positions include production and undeveloped reserves in the Siberia Ridge Field. We intend to spend about $14 million over the next 36 months in the further development of the five fields that we acquired for $65 million.

Whiting's M.O.I. 14-33H horizontal Nisku A discovery well in the Williston Basin, Billings County, North Dakota.

"WE TRY TO BE AS KNOWLEDGEABLE AS WE CAN ABOUT EVERYTHING THAT'S ON THE MARKET. WE CAN PENETRATE THE MARKET DEEPLY AND FIND OUT ABOUT EVERYTHING THAT'S OUT THERE..."

OGI: *Which one or two single projects or wells could have the greatest impact this year and why?*

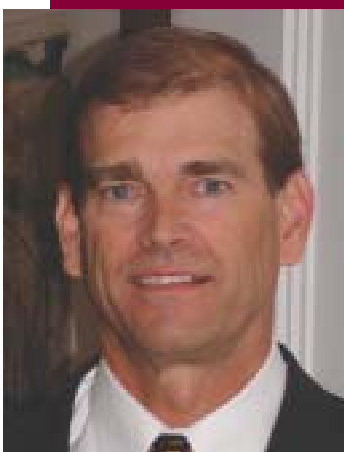
Volker: The greatest impact will probably come from continued development of our horizontal Nisku play and the horizontal Baaken play in Billings County and other counties in North Dakota.

We have a large acreage position there, over 100,000 net acres with high working interests—in some cases, roughly a 93% working interest and a 91% net revenue interest. We are both a working interest owner and a mineral interest owner. The Nisku wells have been coming in at flow rates of between 200 and 900 barrels a day. Based on independent engineering, most will have reserves in the range of 250,000 barrels of oil per well. Drilling costs are moderate. Casing exits cost us only about $1 million, and grassroots wells have been drilled for about $2.5 million.

OGI: *Any other standout projects this year?*

Volker: As I mentioned, we are also active on our acreage in the Middle Bakken play. We drilled five wells in that play in Montana. Now the play has extended through roughly 100,000 net acres that we own in North Dakota. We're hoping to drill at least four more wells in 2005. If those are successful, we anticipate putting at least two drilling rigs to work in 2006 to execute on a continuous drilling play for the Middle Bakken in 2006 and 2007. ■

WHITTIER ENERGY CO. (OTCOB: WECP)



Bryce W. Rhodes, President, CEO and Director

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.

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

Rhodes: Whittier Energy is an E&P company with areas of focus in south Texas, the Gulf Coast of Texas and Louisiana, and more recently the Permian Basin. We have grown mainly through acquisitions, concentrating on niche opportunities. We do our initial analysis and satisfy ourselves that we have good potential for identifying upside before proceeding with due diligence. We avoid competitive bid situations, and all of our acquisitions to date have been on a negotiated one-on-one basis. In addition, we maintain exposure to drillbit growth opportunities via internally and third-party-generated prospects. Our ultimate goal is to build a core base of assets with an efficient cost structure that will be an attractive fit in somebody else's portfolio at some point in the future, which will give us a chance to monetize.

We acquired our first operated property in 2002 in the Louisiana Gulf Coast and have since purchased seven other producing properties in Texas and Louisiana. We recently completed the acquisition of RIMCO Production Co. Inc., a very significant transaction for Whittier, which added approximately 24 billion cubic feet equivalent (Bcfe) in proved reserves, a significant prospect inventory, and an excellent geotechnical and land group. RIMCO's asset base includes properties in the Gulf Coast, southeast Texas and the Permian Basin, which closely overlay our existing core areas.

***OGI**: You're acquiring at a time when some in the industry feel it is a seller's market and are staying on the sidelines. You view the acquisitions market differently?*

Rhodes: I've been working in the industry since 1979, and my experience is that there are always opportunities regardless of the stage of the cycle. We have used a disciplined approach to acquisitions, focusing on negotiated transactions that provide strong baseline value with identifiable upside. We've been able to use hedging as a tool to offset our future price risk after closing an acquisition. We also realize that there are times when we can achieve higher returns through the drillbit, and we plan to continue growing the company using a combination of acquisitions and drilling. Our recent transactions have included substantial opportunities for organic growth just by drilling the prospects that came with the producing properties. Regarding growth through acquisitions, it's always difficult to predict the size and the timing of the next deal. We have the patience and the discipline, however, to wait for the right opportunities that work within our economics, and we plan to stick with this approach.

***OGI:** Describe the company's core drilling and production areas.*

Rhodes: Our core producing areas are in South Texas, the Gulf Coast of Texas and Louisiana, and the Permian Basin. We operate five properties in Texas and three properties in Louisiana. We also have non-operated working interests in 14 fields in these areas and various interests in Oklahoma, New Mexico, Wyoming and California. We acquired our interests in the Permian Basin as part of the RIMCO acquisition. There are some good development opportunities, and the fields have stable, long-life reserves. In terms of our overall profile, our approximately 39 Bcfe in proved reserves (pro forma as of December 31, 2004) are about 78% proved developed with an R-P ratio of approximately 8.1 years. Although our level of developed reserves is high, we feel there is still quite a bit of running room for growth.

***OGI:** What type of basin or play makes the most sense to you?*

Rhodes: In terms of acquisitions, we're looking for opportunities within our core areas where we believe we can add value and where the economics are attractive. Historically, our deals have been fairly small, in the $7.5 million or less range. After RIMCO, we are now of a size and have the wherewithal to do larger transactions, which will have a more material impact on our company. We are still small enough that acquisitions in the $10- to $25 million range, potentially under the radar screen of many larger competitors, could provide attractive growth opportunities for us. In order for us to pursue any transaction, however, the economics need to work and the assets need to have upside potential and fit appropriately into our portfolio.

***OGI**: E&P companies have been reporting some fairly stellar financial results lately. Can that sort of earnings momentum be sustained, and how do you plan to do that?*

Rhodes: Oil and gas prices have been trading at historic highs, accompanied by considerable volatility, and there has been substantial upward movement in the long-term back end of the futures curves for both oil and natural gas. Not surprisingly, the cost of oil and gas services, equipment and other resources have also increased dramatically. We believe the upstream sector is definitely in for a good run, and we are excited about how our growth over the last few years, especially the RIMCO acquisition, has positioned us to benefit from the current market environment. We also realize that what goes up may go down, and we are careful to maintain a conservative posture. Whittier utilizes hedges to manage price risk and volatility. Upon closing the RIMCO transaction in mid-June, we increased our hedge positions to bring us up to approximately 70% of our proved developed producing reserves through 2007. The key is to maintain and increase production to take advantage of the price environment. We believe we have the means to do both over the next two years.

Workover in the Beaver Dam Creek Field in St. Helena Parish, Louisiana.

***OGI:** How many wells does the company anticipate drilling or participating in this year?*

Rhodes: We operated or participated in nine wells in 2004. This year, we expect to participate in or operate approximately 20 wells.

***OGI:** What does production look like this year?*

Rhodes: On a pro forma combined basis with RIMCO, we produced approximately 1.2 Bcfe in the quarter ended March 31, 2005, which we believe is a good baseline proxy for what pro-forma production should look like for the remainder of 2005.

***OGI:** Are there one or two projects or wells that the company expects to be particularly significant this year?*

Rhodes: We're very excited about a project in southeast Texas that is the result of a recent 3-D shoot done with industry partners. It's a gas play in an area that has been lightly explored but has some analogous fields that have performed very well. Approximately 20 targets have been identified to date, and we expect up to three wells could be drilled on the project prior to year-end.

***OGI:** Drilling costs and other service costs have been rising. How are those factors affecting the company?*

Rhodes: We are definitely realizing and seeing this, as are all of our peers. So far, the higher energy prices are more than offsetting the higher expense, and drilling activity doesn't seem to have slowed significantly. We are budgeting more dollars for services and casing as well as factoring longer wait periods to drill wells due to more limited rig availability. As a small company, we don't have rigs under long-term contract, so in some areas we've found it has been effective for us to go ahead and get the well permitted, prepare a location, buy the pipe and let the rig companies know that we are ready to go at the drop of a hat. On several occasions we have been given very short notice that a rig is ready and available and if we want it, it will be there within five to seven days. Being able to respond in such a short timeframe has allowed us to meet most of our drilling goals so far this year.

***OGI:** What is the greatest challenge facing the company this year?*

Rhodes: We have just met our largest challenge so far, which was to finance and close the RIMCO acquisition that we've been working on since late last year. Looking ahead, our challenge is to integrate the RIMCO assets and its talented group of employees into the company and execute the plans we have laid out for our shareholders. We definitely have plenty to keep us busy. ■

XTO Energy Inc.
(NYSE: XTO)

Keith Hutton, President and Board Member

Keith Hutton is president and sits on the board of XTO Energy Inc. He has worked as executive VP and in various engineering positions for XTO during the past 16 years. Previously, he spent five years with Sun Oil Co. in the international and domestic divisions. A native Texan, Hutton was raised in Houston and Odessa. He received a bachelor of science degree in petroleum engineering from Texas A&M University.

OGI: *Describe the strategy that drives your company.*

Hutton: We're an acquire-and-exploit company. If you look at our history, about 50% of our reserves come through development and exploitation and about 50% from acquisitions. We believe you've got to do both to be able to be a big growth company.

OGI: *Could you describe your core drilling and production areas?*

Hutton: We have four or five main areas with East Texas being our largest. It's about 40% of our production and driven by a particular area called the Freestone Trend where we've taken production from 20 million a day to about 480 million a day. It's the main driver for gas production growth in the company. We drill about 200 wells a year there, and it grows about 20% a year by itself.

The next area, going forward, will be the Barnett Shale. We went from not really participating in it in 2003, to getting into it in 2004 to being the second largest producer in the Barnett Shale in 2005 with the acquisition of a Denver-based company, Antero Resources. That put us producing about 85 million a day net and between 120 million and 130 million a day gross.

Our big oil producing area is the Permian Basin. It produces about 20% of our overall production. Our San Juan and Midcontinent regions both are between 15% and 20% of our total production.

OGI: *Would you like to, or do you anticipate, expanding to any new core areas this year?*

Hutton: Well, we'd like to get more in the Rockies and maybe more in south Texas. But our "MO" has really been to grow in those areas that we're in. We're already in the Rockies, but we don't have a huge presence other than our San Juan Basin properties.

OGI: *What type of basin or play makes the most sense to you in the Rockies?*

Hutton: Tight gas. In the Rockies, that's what Jonah and Pinedale look like, or a Piceance Basin-style play, where development is easily repeatable, you have a large gas column and big hydrocarbon-in-place numbers. If we can figure out the technology and the way to recover more, then you have a lot more drilling locations.

OGI: *E&P companies have been reporting some stellar financial results in recent quarters. Can you keep up the momentum?*

Hutton: Well, if you look at us, our production growth in guidance is between 27% and 29% over last year. Even if prices fall back a bit, you're going to see earnings growth that's about equal to our production growth.

OGI: *Does the company hedge?*

Hutton: We do. We used to hedge a little more than we're doing this year. Currently, we've hedged about 25% of our gas production and about 40% of our oil production. We use it as a way to protect our development budgets so we can guarantee we can grow in any given year.

OGI: *How does that strategy work?*

Hutton: You assume what your bottom-side prices are going to be if it were to pull back. Then you hedge enough to make sure you've got cash flow to cover your growth development budget. It's worked very well for us, but obviously, like many people in the last couple of years hedging, we've hedged a little too early and prices have outrun what our hedges were. So this year, we've been a little more cautious with hedging given the strong price bias.

OGI: *How does this year's hedge compare with previous years?*

Hutton: Last year we were about 50% hedged, and the year before that we were 80% hedged.

OGI: *What kind of a price deck are you using this year as you plan your drilling program?*

Hutton: We're using about $6 natural gas and $36 oil right now.

OGI: *What's the budget this year, and how does it compare to last year's?*

Hutton: Last year was about $600 million for development only. This year is about $1 billion.

OGI: *You've recently revised that upward.*

Hutton: Yes we did. A lot of times there's a little bit of revision for price increases from service companies. There's also a revision because we keep on acquiring more property that we're going to drill on during the year. If you look at acquisitions, the other side of our business, we spent about $2 billion acquiring last year and did that for about $1.40 per thousand cubic feet equivalent (Mcfe). This year, we've probably spent $1.3 billion acquiring and doing that for about $1.70.

OGI: *What's the reason for the increase to $1.70?*

Hutton: Commodity prices. Sellers are believing that commodity prices are going to hold. In order to buy reserves, you've got to use a little bit higher price deck than you used to. Acquisition prices will level out with time, usually at about a third of whatever the going commodity price is that everybody believes. If we use gas and everybody thinks that $6 will be the price going forward, acquisitions are going to approach two bucks per Mcfe. Our latest acquisition was $2 per Mcfe from Plains. You're seeing people pay $2.25, $2.40, and that's probably because they've got price decks that are slightly higher; $6.50 or $7 an Mcfe.

The view from the drill pad of an East Texas rig.

OGI: *Have the high acquisition prices affected how you approach acquisitions?*

Hutton: It does a little. Why we've been so active the last couple of years is we believe commodity prices are going to be stronger than people might think. So what we've been trying to do is acquire as much as quick as we could in front of that higher horizon of oil and gas prices. That's why we've been so active the last two years. Obviously, as everybody begins to believe that prices are going to stay at those levels for acquisitions, it may get a little tougher to buy them. So far, we haven't seen that. We've been able to buy some really good properties here because we've got people who are a little bit worried that this is the right time to sell that prices might go back the other way. We also create acquisition opportunities in our operating areas. At some point it might get a little tougher. The nice part for us is we have enough inventory out there that we can grow our production at 10% for the next three years just off our current drilling inventory. Even if we didn't make acquisitions, we'd be able to grow.

OGI: *How many wells do you anticipate drilling or participating in this year, and how does that compare with last year's?*

Hutton: We're going to drill about 775 wells, and last year was about 550.

OGI: *And production this year as opposed to last year?*

Hutton: It's going to be up 28% or so. It was right at 1 billion cubic feet equivalent per day (Bcfe/d) last year, and it's going to be 1.3 Bcfe/d this year.

OGI: *As you look at the one or two projects this year that will make the most difference for the company, you think the Freestone Trend will be a leading candidate?*

Hutton: It and the Barnett Shale.

OGI: *Why are those so promising for the company?*

Hutton: Freestone Trend is an area that we've had great growth rates in already over the last four or five years. We've been able to build some new infrastructure that fully came on line in the second quarter. It should take our capacity take-away capacity out of the area from between 450- and 470 million cubic feet equivalent per day (MMcfe/d) to 730 MMcfe/d. We have been held back a little by infrastructure build-outs. Now, with that finished, I think you will see Freestone Trend production take off. Some of the analysts have questioned the potential here, because it looks like it's stalled for a minute—slowed down in growth rate. But that's really been because of this infrastructure building. I think it will surprise people with how fast its upside grows toward the end of the year.

In the Barnett Shale, we're running 15 to 17 rigs, which I think is about the same number that Devon is running, and Devon is the No. 1 producer in the Barnett Shale. We have about 150,000 net acres of Barnett Shale and about half of that is in the core area. We've drilled some fantastic wells here in the last quarter. Currently, our net production is about 85 MMcfe/d, and by the end of 2006, it should be 160 MMcfe/d. So, we'll be close to doubling it by the end of next year.

OGI: *Any other projects coming along that have the company particularly excited?*

Hutton: The one thing we don't get as much press on is our oil properties that we bought last year. Of that $2 billion in acquisitions, about $1.3 billion was from majors: Chevron and ExxonMobil. It was almost all strictly Permian Basin oil properties. From both those acquisitions, we've already been able to increase production by between 10% and 15%. We took over the Exxon properties in April of last year and the Chevron properties in September. It's been a very fast build. They were pretty low on ExxonMobil and Chevron's list of things to work on, so there have been a lot of things we could do to get production up quickly. The wells we've drilled have actually surprised us on the upside. The oil growth in those properties is going to be better than most people think.

OGI: *Drilling costs have been rising fairly dramatically. How is that affecting the company?*

Hutton: Well, it's affecting us like it's affecting everybody else. Our F&D costs are one of the lowest in the industry. It's been running about $0.80 per Mcfe. Our guidance this year is between $0.95 and $1.05 or so. We're expecting between a 10% and 15% increase in finding costs, and that's associated with the rise in service costs. What we've tried to do is lock in rigs. Many of our rigs are on year contracts that we tried to lock in last October. At the moment, we're underneath what rigs are going for in almost every basin, so that's one way we're trying to hedge against the increase in service costs.

It hasn't slowed down our drilling budget. Again, look at the margins even if your findings costs go up. You still have a better rate of return on a well today than you did three or four years ago. Today, our average rate of return on a well is probably between 60% and 70%. Historically, that number has been 40%. So, you still have a better business now than you did four or five years ago.

> "The nice part for us is we have enough inventory out there that we can grow our production at 10% for the next three years just off our current drilling inventory. Even if we didn't make acquisitions, we'd be able to grow."

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

Hutton: I would guess it's probably people. Historically, we've grown between 25% and 30% a year. As you get to our size, that's a pretty big number each year if we try to keep that growth rate up. So far, we've been able to find both technical people and field people, but I think everybody in the industry is facing the same problem. You have a shrinking workforce, really.

One of the things we've been trying to do is go to the schools and start to hire guys straight out of college, which we didn't really do before, and train them ourselves. That's one of the ways we're approaching a tighter market for technical staff.

OGI: *And as you look at the E&P industry as a whole, do you see that (people) as its greatest challenge also?*

Hutton: I think it is. I don't think we can build gas production fast enough in America. Oil production is another question; maybe the Saudis can provide more, but the jury is out. And I think the big problem is that we're going to have to drill faster and find more reserves and, obviously, it takes people to do that. We're already running at full tilt as it is. ■


AT SOME POINT EVERY
BLUE CHIP WAS GREEN.