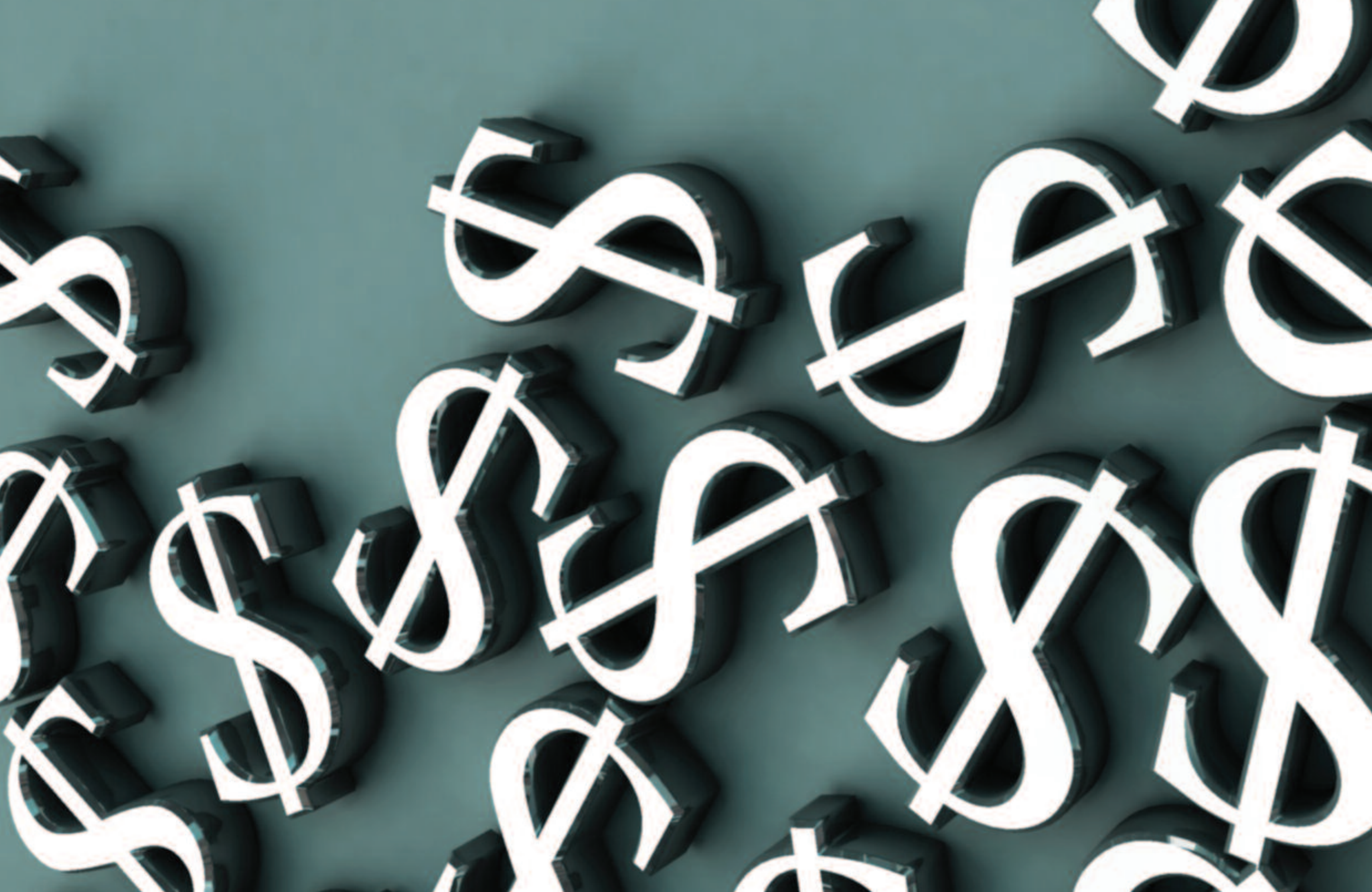
Here's The MONEY

Capital Formation 2009

A supplement to
Oil and Gas Investor

JUNE 2009



A supplement to:

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Capital Formation 2009

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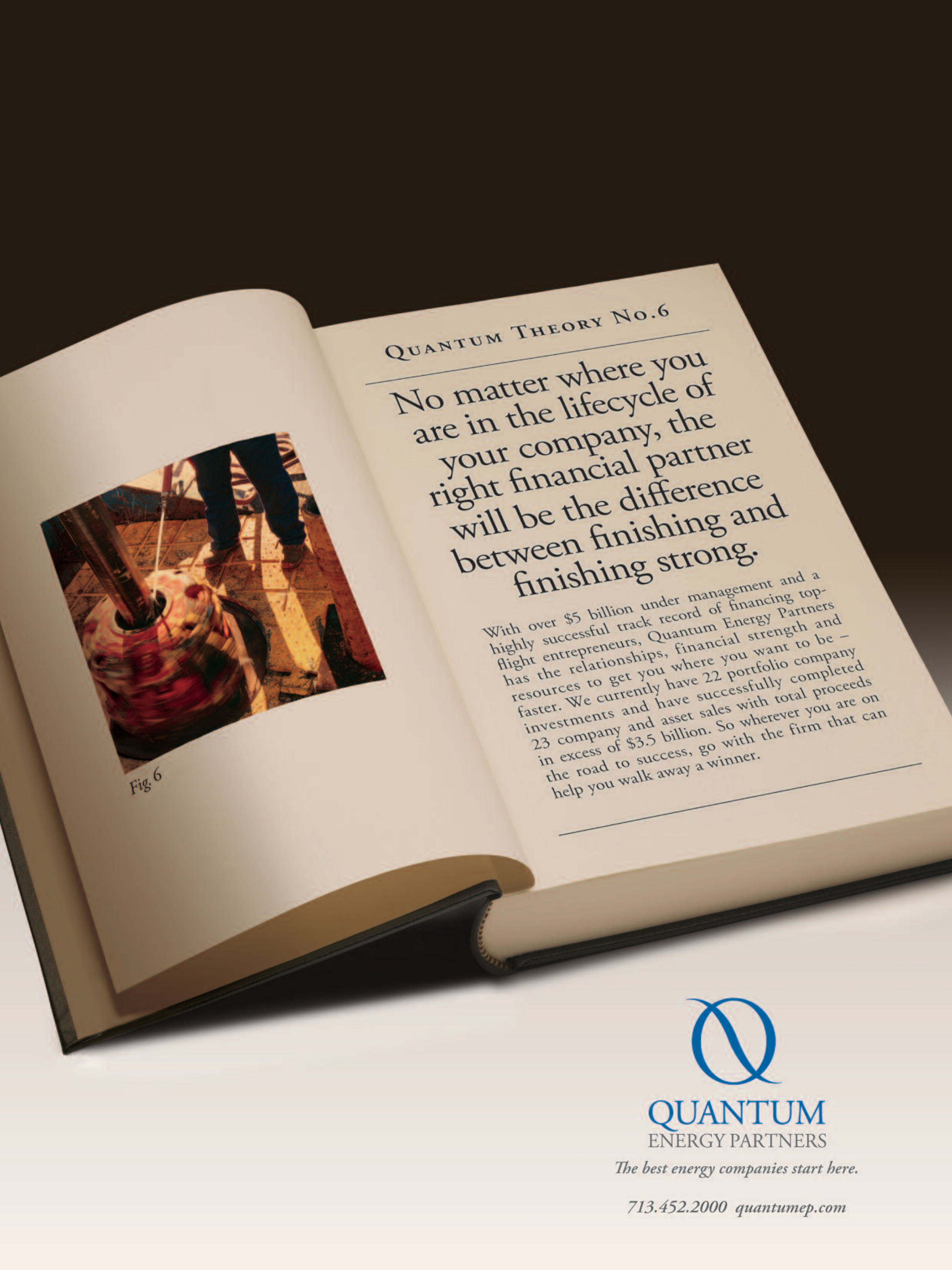
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Charting New Waters

Wise indeed is the captain who can navigate the new shoals of capital and commodity markets in 2009 and sail safely into port by 2010—with a profitable energy cargo intact.

Since last year's report, published in May, the financial world was hit by a hurricane, and only now do we see signs that it is righting itself. Likewise, since last September, the energy world has been turned upside down as low oil and gas prices led to falling rig counts, hammered balance sheets and halted most M&A activity.

This year the sextant says focus on liquidity, preserve the balance sheet, reassure investors and live within cash flow. For many, that means reduced capital spending. For some, reduced or suspended dividends and distributions, even some layoffs. More asset sales are coming.

The window for energy debt opened wide in January, albeit at higher interest rates. A few equity deals have been closed. A few acquisitions have also. Borrowing-base redeterminations are mostly behind us, for now, and company executives and capital providers know where they stand.

It's about to get interesting. Private capital stands ready. In April, First Reserve Corp. announced its $9-billion raise—the largest private equity fund targeting energy ever. Kayne Anderson Capital Markets has funded two start-up E&Ps in recent months. Ellora Energy in Denver filed its S-1 to go public this year, hoping to raise $100 million and reduce debt.

Meanwhile, many E&Ps have re-evaluated their asset portfolios and strategies during this slower time. Many are in no hurry: if they can hold a lease by existing production, why drill more? If they can shut-in some gas wells, why not wait for the better price that the 12-month Nymex strip indicates?

They are redeploying their people and capital only to the highest-margin plays. New efficiencies abound. Many say the opportunities today are the best they've seen in their careers.

This annual report gives you a brief look at what the capital providers are thinking these days, and we have updated our directory as well. For convenient and continuous updates, always check first at OilandGasInvestor.com, where you'll find the latest deal flow, corporate and people news, and new entrants to the energy finance space.

—Leslie Haines, Editor-in-Chief

Previous Financing Articles and Webinars

To assist in your capital-formation activities and to stay abreast of the marketplace, go to OilandGasInvestor.com for daily news, video interviews, archived articles and webinars on demand, and to search data bases including the Oil and Gas Finance Sourcebook.

Mile High Capital. Cover feature. Several Colorado capital providers weigh in on their recent deals and outlook. July 2008.

EnCap After All These Years. The four founders analyze private-equity trends upon their 20th anniversary. August 2008.

Angels and Spacs. From angel investors to institutions such as GE Capital, money is available. August 2008.

Private Capital for the Taking. Cover feature. NGP Capital Management, Lime Rock Partners, CIC Partners, Denham Capital Management, Kayne Anderson and others analyze market conditions and discuss recent deals. September 2008.

Banking Haynesville Shale. Capital One Southcoast and Credit Suisse Securities are among financiers of this hot new play. September 2008.

Mezzanine Comeback. Macquarie Bank and others detail mezzanine finance trends. October 2008.

New E&P Money-Mall Hours. Capital providers explore how the financial crisis is affecting the capital raise. November 2008.

Private Capital for 2009. Principals with Morgan Stanley Private Equity Partners, Pine Brook Road Partners and Greenhill Capital Partners LLC discuss the financial crisis and the role private equity will play in energy in 2009. December 2008.

Energy Deal Showcase 2008. Three recent deals that got funded are described in detail from the point of view of the E&P firm and its capital source. December 2008.

Best Buddy Banking. Three lenders offer strategy and advice in uncertain times. January 2009.

How to Right the Upside Down. Rodman Energy Group details strategies to obtain funding with the right business plan. January 2009.

Brush Up on Lending. Lawyers at Patton Boggs give advice on lending covenants, procedures and tips. February 2009.

Distressed Finance. Five experts discuss how to get over the hump of weak prices and shut-in capital markets. March 2009.

An Acquisition Before the Fall. Anatomy of a deal: Concho Resources buys Henry Petroleum, and the many facets of the financing, including Banc of America Securities. April 2009. •

What's New

The past year has seen a flurry of changes driven by the financial crisis. Here's what's been happening while you were balancing your checkbook.

Jeannie Stell, Financial Editor, *Oil and Gas Investor*

Last year saw an upheaval in the energy banking industry of almost biblical proportions. Beginning in March, bank consolidations and failures seemed on a runaway train, as JPMorgan Chase & Co. acquired Bear Stearns Cos. Inc., Merrill Lynch & Co. foundered and was sold to Banc of America, and Lehman Brothers filed for bankruptcy while Barclays Capital snapped up its best assets.

In September, Berkshire Hathaway Inc. invested about $5 billion in Goldman Sachs, a move seen as a huge vote of confidence for one of the last remaining independent Wall Street investment houses, even as Washington Mutual Inc. collapsed under the weight of its enormous bad bets on the mortgage market, and was itself seized by the Federal Deposit Insurance Corporation (FDIC). WaMu's banking assets were sold to JP Morgan Chase for a mere $1.9 billion—it was reportedly the largest bank failure in U.S. history.

Meanwhile, Citigroup announced it would absorb Wachovia Bank, including some $42 billion of losses, with the FDIC covering any remaining losses. Wachovia was weakened from mounting mortgage losses linked to its 2006 acquisition of Golden West Financial Corp. However, in an abrupt change, Wachovia later agreed to be acquired by San Francisco-based Wells Fargo & Co. in a $15.1-billion all-stock deal that trumped Citigroup's plan.

But enough of history.

At press time, financial markets appeared to be stabilizing. The energy sector is getting back to business and equity and debt deals have unfrozen for high-quality producers. High-grade senior notes were hitting the market, including Plains Exploration & Production Co.'s issuance of $500 million in March, and issuances by Forest Oil Corp. of $350 million and Chesapeake Energy Corp.'s $300 million in February.

Also, E&Ps have, for the most part, survived their bank loan redeterminations. Oil and gas producers are turning their focus to third- and fourth-quarter fundraising efforts.

Although not comprehensive, the following details changes in the energy-capital-provider space since the May 2008 publication of Capital Formation. For further updates, check the directory listings in this report (see page 26), and go to OilandGasInvestor.com.

CAPITAL PROVIDER NEWS

Cadent Energy Partners LLC, Rye Brook, N.Y., closed its second private-equity fund, Cadent Energy Partners II LP, with $473.3 million in commitments, exceeding its initial target of $375 million. Cadent invests in E&P and oilfield services and equipment, typically making equity commitments of $25- to $50 million each.

Deerpath Capital Management LP, formed in New York, will make privately negotiated investments in lower- to middle-market energy companies, preferring senior secured loans and equity securities transactions of $3- to $15-million.

Founders include Gary Wendt, formerly chairman of GE Capital; James Kirby, formerly a partner at Madison Dearborn Partners; and John Fitzgibbons, chairman of Integra Group.

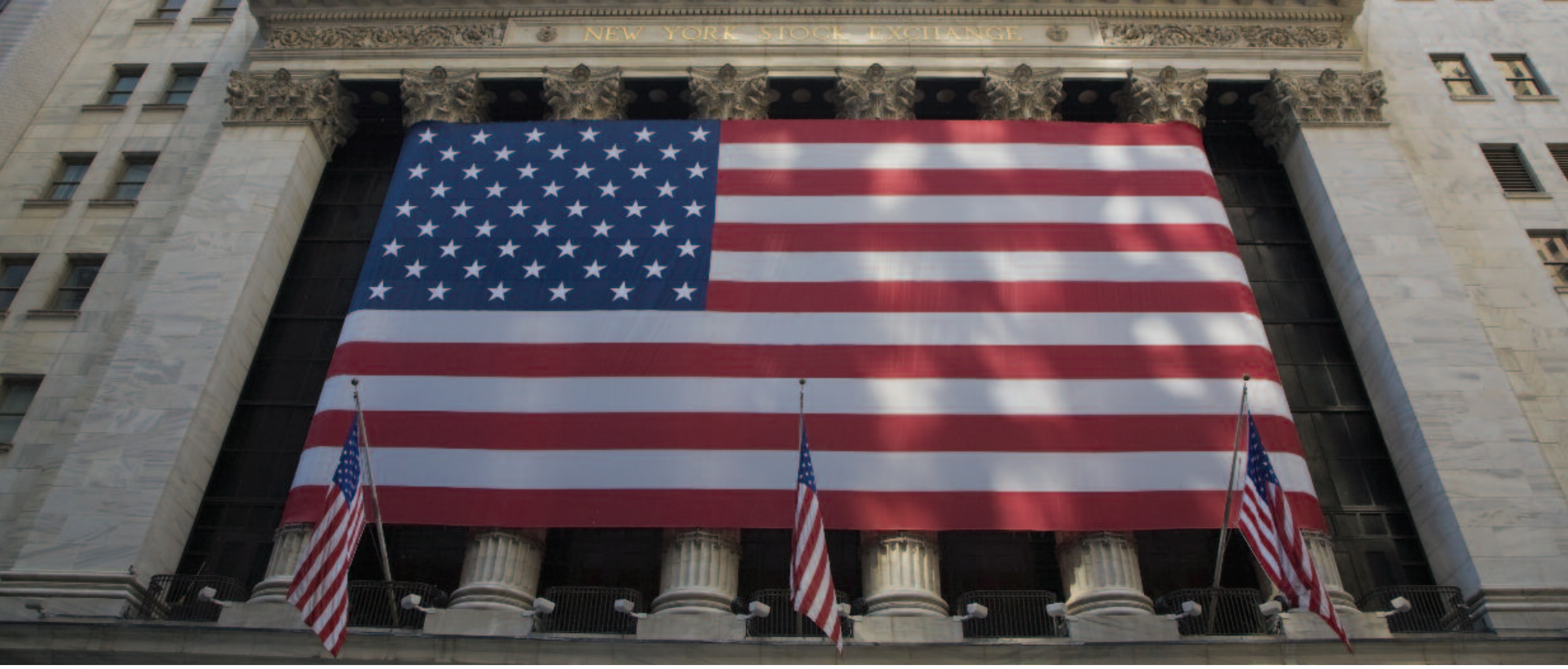
Denham Capital Management LP of Boston closed Denham Commodity Partners Fund V LP with a $2-billion hard cap, exceeding the $1.75-billion targeted commitment. Denham typically targets investments of $50- to $250 million in energy infrastructure, natural resources, power and carbon, primarily in the U.S., Canada, South America and Europe.

Energy Ventures of Stavanger, Norway, closed its third venture investment fund, Energy Ventures III, with $243 million in committed capital to invest in petroleum-related technology companies.

First Reserve Corp., of Greenwich, Connecticut, closed its most recent global buyout fund, First Reserve Fund XII LP, in April 2009, with $9 billion in commitments. Fund XII will provide privately negotiated equity and equity-related investments in a diversified portfolio of companies in the global energy industry. The new find is believed to be the largest private-equity fund ever formed to make investments in the energy industry, according to law firm Simpson Thatcher, which represented First Reserve.

FirstEnergy Capital Corp., Calgary, formed a new property A&D division, led by Brian F. Dunn and Richard J. Matthews.

Galway Group LP, a Houston energy advisory and investment banking firm, has acquired Bethesda, Md.-



based consulting firm Benjamin Schlesinger and Associates LLC (BSA) for an undisclosed price. BSA provides economic and technical analysis of energy projects, regulatory support and market development. BSA founder Benjamin Schlesinger will remain president and will join Galway as a managing director and partner.

Steven Pottle left HSH Nordbank to establish **Haywood Dorland Energy Capital**, a financial advisory and merchant banking firm focused on helping energy companies and project developers raise equity and debt financing. It plans to make principal investments in a range of energy companies and projects.

Houston-based **Hunter Wise Financial Group LLC**, a specialized investment banking firm, formed a new program to assist in raising equity, helping Texas companies go public, assisting privately held businesses in A&D, management-led buyouts, corporate financing, recapitalization, or taking a public company private. It focuses on the oil services sector.

Invico Capital Corp. of Calgary launched an open-end mezzanine debt fund, CanBridge Capital Fund LP, which holds a diversified portfolio of mezzanine-type debt investments in companies operating in the oil and gas, oilfield services and related manufacturing, and real estate sectors in western Canada. Invico subsidiary CanBridge Capital Corp. will be general partner and manager of the fund.

Lime Rock Partners based in Westport, Connecticut closed its fifth fund, Lime Rock Partners V LP, with $1.4 billion in capital commitments.

Private-equity firm **Pine Brook Road Partners LLC,** based in New York, closed its first fund with total capital commitments of more than $1.43 billion in April 2009. Pine Book was formed in 2006 and is led in part by former Warburg Pincus energy-investment chief Howard Newman. Funding to date of nine portfolio companies includes Roger Jarvis' Common Resources LLC, Bill Flores' Phoenix Exploration Co. LP and Mike Harvey's Stonegate Production Co.

Natural Gas Partners, Irving, Texas, has closed Natural Gas Partners IX LP with total commitments of $4 billion. NGP has managed more than $7 billion of cumulative capital and made investments in more than 130 energy-sector companies.

Pritchard Capital Partners, an energy investment bank and institutional financial services firm, and Global Hunter Securities signed a letter of intent to form Pritchard Global Hunter Securities, a full-service energy investment bank. Thomas Pritchard, managing partner and founder of Pritchard Capital, will become president and managing director of capital markets. Daniel Conwill, the CEO of Global Hunter Securities, will be CEO and head of investment banking. Edward Lainfiesta, currently president of Global Hunter Securities, will become vice chairman. Financial terms and timing of the transaction are not being disclosed. The combined companies will remained based in New Orleans, with offices in New York, Houston, Washington, DC, Atlanta and Newport Beach, California.

Rodman & Renshaw Capital Group Inc. bought energy-investment bank COSCO Capital Management LLC, both based in New York. Rodman Energy Group is now led by Cameron O. Smith, COSCO's founder and senior managing director, and the firm includes many of COSCO's other principals.

Sanders Morris Harris Group Inc. plans to sell 80% of its **SMH Capital Markets** business, including the investment banking, fixed income and New York-based institutional equity departments, to Siwanoy Capital LLC, a company formed by the senior management of the units and Pan Asia China Commerce Corp. The transaction will transform Sanders Morris Harris Group almost entirely into a wealth and asset management company with approximately $10.2 billion in client assets as of September 30, 2008. The sale is expected to close in second-quarter 2009 upon the formation of a new broker-dealer by Siwanoy Capital.

SMH Capital Inc., Houston, recently hired Sylvia Barnes, formerly a managing director at Merrill Lynch and Petrie Parkman, to head up its energy investment banking practice in Houston.

Scotia Capital, a lending and investment banking subsidiary of Toronto-based Scotiabank, has acquired select assets from UBS Energy, a subsidiary of Zurich, Switzerland-based bank UBS AG, for an undisclosed price. The assets include trading and analytical technology and about 60 front, mid- and back office personnel. The transaction does not include any of UBS Energy's trading books of business or regulatory licenses.

Simmons & Co. International of Houston raised $137 million in Europe with the first closing of its inaugural private-equity co-investment fund Simmons Parallel Energy LP. The fund will focus on buy-out and growth capital co-investment opportunities across the energy sector and operate independently from the firm's existing corporate-finance and securities businesses. It will be led by fund managers Aaron D'Este and Richard Warren.

Stifel, Nicolaus & Co. Inc., the principal operating subsidiary of Stifel Financial Corp., St. Louis, plans to acquire up to 55 branches from the UBS Wealth Management Americas branch network of broker-dealer UBS Financial Services Inc., a division of UBS AG, for approximately $46 million in cash and additional payments to be determined later. The deal is expected to close in the third quarter.

Tenaska Capital Management LLC, based in Omaha, Nebraska, an affiliate of Tenaska Inc., closed its TPF II LP fund with more than $2.4 billion of committed capital. TPF II is the follow-on to the firm's $838-million Tenaska Power Fund LP that closed in 2005. TPF II will invest in power generation, including renewable, gas storage, pipeline and other gas midstream assets, and gas and power infrastructure goods and services.

Las Angeles-based **The TCW Group Inc.** closed TCW Energy Fund XIV with a value of $2.6 billion, the largest alternative investment fund in the firm's history. The fund will make mezzanine and private-equity investments in energy and energy-infrastructure projects on a global basis. TCW also formed a $194-million TCW Energy Partners LLC fund to invest in energy and infrastructure assets globally

Tortoise North American Energy Corp. of Leawood, Kansas, a publicly traded closed-end fund that invests in equity and debt securities of energy companies, plans to acquire privately held Tortoise Gas and Oil Corp., a closed-end fund that invests primarily in publicly traded MLPs, for an undisclosed number of Tortoise NA shares to reduce costs. They will have combined assets of some $160 million. Tortoise Capital Advisors, an affiliate, has about $1.7 billion of assets under management.

PEOPLE NEWS

First Reserve Corp. named Christopher Ortega director. He is an investment professional covering the energy industry, and was vice president at Greenhill Capital Partners.

Cleveland-based **KeyCorp** named Angela McCracken as senior vice president within its debt capital markets group in Dallas. She was vice president in the energy group at Citibank and has more than 14 years of experience in acquisitions, general and structured financing for upstream and midstream companies.

Westport, Conn.-based energy private equity firm **Lime Rock Partners** has named Will Franklin, J McLane and Simon Munro managing directors. Franklin and McLane are based in the Houston office. Munro is based in Aberdeen.

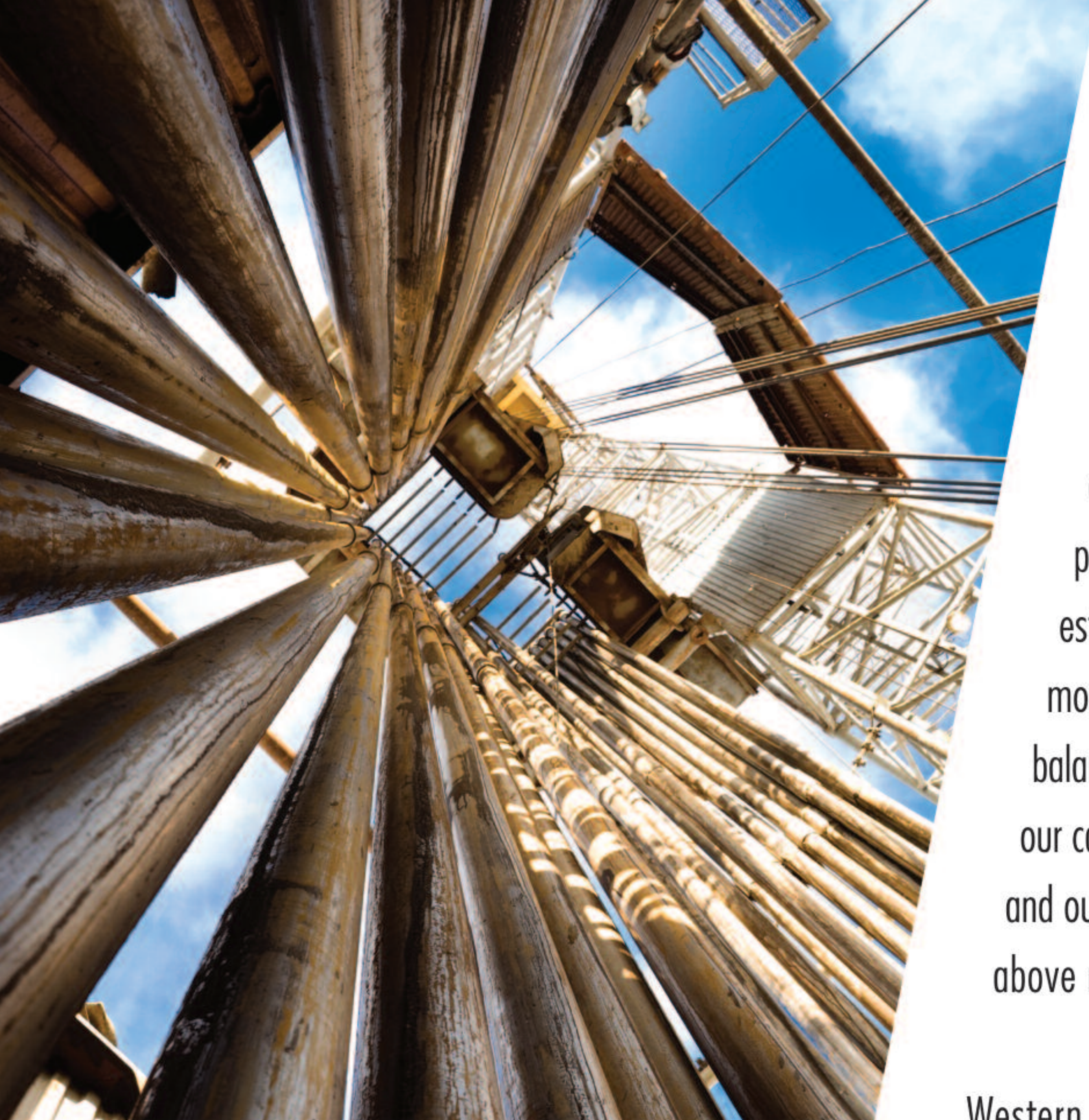
New York-based investment bank **Morgan Stanley** has named William M. Wicker vice chairman, investment banking, natural resources group, focused on the energy sector. He was partner and managing director in the natural resources group at Goldman Sachs and has experience as an energy investment banker.

Logan Magruder resigned as president and chief operating officer of Don Wolf's Denver-based **Quantum Resources LP.** Quantum Energy Partners managing director Alan Smith was named president and CEO of Quantum Resources Management.

Raymond James & Associates Inc., has named Christopher J. Simon managing director, head of asset acquisitions and divestitures in Houston. He has asset A&D experience at Tristone Capital, Petroleum Place Energy Advisors, JMI Energy Inc. and Destec Energy Inc.

New York-based private equity firm **Riverstone Holdings LLC** has named Peter R. Coneway managing director. He was U.S. ambassador to Switzerland and Liechtenstein and was founder of Goldman Sachs' Houston office and a general partner with the firm.

E&P analyst Michael Bodino, currently with Houston-based **SMH Capital**, has returned to Dallas, after more than 10 years in the New Orleans area for Sterne Agee, Southcoast Capital (now Capital One Southcoast Inc.) and Coker & Palmer Investment Securities. His research partners remain in Metairie, Louisiana. The firm also tapped Douglas L. Becker for managing director and senior research analyst, covering oilfield services, in the institutional equity research group. Becker has experience covering E&Ps and integrated oils for Banc of America Securities and Credit Suisse First Boston. •



Market Buzz

Five private-capital gurus speak up.

Jeannie Stell, Financial Editor, *Oil and Gas Investor*

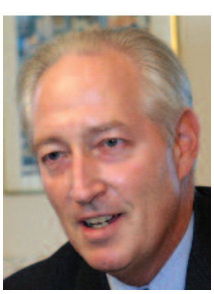
In times of depressed commodity prices, private capital often shines the most, and this year, there is more such capital available than ever before. To get an idea of the current thinking and strategies in the private-equity world, *Oil and Gas Investor* asked a group of industry leaders about their most recent investments, strategies, concerns and opportunities in this space.

The group includes Cameron Smith, head of The Rodman Energy Group and senior managing director of Rodman & Renshaw LLC; Danny Weingeist, senior managing partner of Kayne Anderson Energy Funds; David Miller, partner of Encap Investments LP; Jeffrey Harris, managing director of Warburg Pincus LLC; and Carl Tricoli, managing partner of Denham Capital Management LP. Here are their comments.

ON NEW INVESTMENTS

"In March 2009, we committed $49 million to Plymouth Exploration LLC to focus on the acquisition and development of low-risk conventional reservoirs in Oklahoma, Texas and Kansas."

—Danny Weingeist, Kayne Anderson Energy Funds



Cameron Smith, Rodman Energy Group LLC

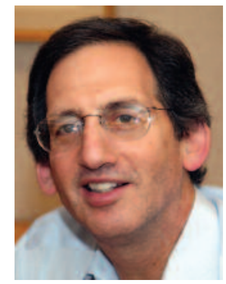
"We have completed three financings over the past four months. One was $15-million raised though a private placement to HM Capital of Dallas for SunTerra Energy, a private startup E&P company. It is headquartered in Houston and focused on using horizontal underbalanced drilling to capture and develop reserves for its own account.

"The second was a $50-million secured note financing for Corpus Christi, Texas-based Dewbre Production Development LP, placed with Houston-based Guggenheim Partners. This was in support of a multi-well infill gas development program in the McAllen Ranch Field in Hidalgo County, Texas. The third and most recent was the private placement of $15 million of 10% senior secured convertible promissory notes arranged for publicly listed Evergreen Energy Inc. Private equity, private mezzanine and public mezzanine—the grand slam!"

—Cameron Smith, Rodman Energy Group LLC

"We have continued to invest in a variety of upstream companies in North America, focused on unconventional natural gas and oil, with a focus on our existing portfolio companies that have strong growth potential."

—Jeffrey Harris, Warburg Pincus LLC



Jeffrey Harris, Warburg Pincus LLC

"The most recent relationship we've entered into on the E&P side was a $100-million commitment to Cornerstone Natural Resources, a Denver-based company led by Dave Kornder and Jay Decker, former CFO and CEO, respectively, of Patina Oil & Gas.

"In the midstream area, we've recently backed two startups. The first is Cardinal Midstream, headed by the team that built and sold Regency Gas Services, resulting in a 4-times ROI (return on investment) for their equity partners. The second is Caiman Energy, which is comprised of a management team that played key roles previously in the success of Crosstex Energy.

"Broadly, it's fair to say EnCap is going a little slower right now in terms of new commitments. For starters, we've got 55 existing portfolio companies, so we believe we're already pretty well positioned. Plus, we think the opportunity set is going to get better in both the upstream and midstream space as financial distress in the industry continues to build."

—David Miller, EnCap Investments LP

"We recently had an undisclosed $100-million private investment, focused in a major, low-cost natural gas shale play."

—Carl Tricoli, Denham Capital Management LP

ANY CHANGE OF STRATEGY?

"Our strategy is unchanged, although we recognize that the market for debt and equity is much more challenging,"

—Jeffrey Harris

"We are allocating more time, resources and capital to acquisitions and other external growth initiatives. Many public companies are being forced to focus on their liquidity positions and capital structures, allowing our portfolio companies to make progress on potential acquisitions and drilling deals in a slightly less competitive atmosphere."

—Danny Weingeist

"Private equity is now concentrating on investment opportunities where the issuer already has considerable production and value in reserves, and where the use of capital is to acquire further proved reserves, particularly under distressed or otherwise circumstances compelling to the buy-side. This is private equity's ideal scenario, achievable only during periods of low commodity prices and public market disarray. It's an opportunity to get serious capital invested directly or indirectly in low-risk reserves during a period of depressed pricing, without competition from 'silly," undisciplined momentum investors.

"Hedge funds, on the other hand, at least those still open for business, are generally concentrating on distressed structures, capitalizing on situations where liquidity is crucial and necessary at almost any price. The good news is that such capital is available. The bad is that it's priced at what used to be considered equity rates of return."

—**Cameron Smith**

"While there have been periods where we've been more aggressive, or conversely, exercised a little more caution than others, our general strategy over the past 20 years has been to invest capital across the cycles, and that continues to be the case.

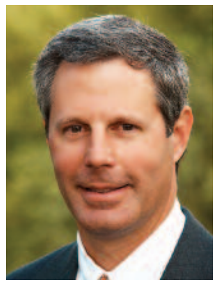
"No question, drilling economics are challenging in some areas, but we've got multiple portfolio companies in the more attractive resource plays and we're continuing to actively provide them with growth capital. In other cases, we've substantially reduced capital spending and drilling activity until prices strengthen and/or service costs subside."

—**David Miller**

"In the current environment, Denham is focused on cash-flowing companies, assets in need of drilling capital and balance-sheet remedies. That said, we continue to seek best-in-class management teams seeking start-up capital that can be effective both through the drillbit and in the A&D market."

—**Carl Tricoli**

ARE PRIVATE E&PS STILL A GOOD INVESTMENT?



Danny Weingeist, Kayne Anderson Energy Fund

"Sure, we think it is a great time to make acquisitions without having to allocate much, if any, value to non-producing reserves. We believe there is a substantial option value to owning E&P assets if you have a long reserve life, especially if you inherit a large acreage position that is mostly held by production."

—**Danny Weingeist**

"Perhaps more than at any time in the past five years! Good managements always know where to find good investment opportunities. What they often can't figure out is how to capture them at prices that make sense or when drilling and other operational costs make post-acquisition development attractive.

"In the current pricing environment, access to and cost of capital, not opportunities, are the only serious obstacles. As private equity shifts the cost of capital to the date of exit, rather than upon formation, both technical and financial managements are incentivized to get capital to work as early as possible in the downturn, to create as much value as possible before the next cycle inflates its worth."

—**Cameron Smith**

"Although an abundance of M&A opportunities hasn't emerged as quickly as we thought it might, we're convinced they're coming as hedges roll off and the industry approaches the next round of borrowing-base redeterminations.

"Case in point, we just approved an acquisition of just under $300 million by one of our portfolio companies. Although the deal hasn't closed yet, it's been agreed to by both parties. The purchase price is almost 100% supported by PDP value, and the properties, which are in one of the premier resource plays, contain significant development potential we're paying very little for. The assets we're buying, by the way, would have fetched north of a billion dollars nine months ago. Needless to say, our company is going to put a substantial hedge in place to protect the economics, but the deal will still have big option value relative to a rebound in the gas market.

"We also think there are going to be some interesting farm-in or joint venture opportunities where our portfolio companies can assemble attractive positions without big upfront outlays for acreage. Regardless of whether it's a reserve acquisition or drill-to-earn deal, we're delighted to have $3 billion of dry powder as we head into this market."

—**David Miller**

Carl Tricoli, Denham Capital Management

"Absolutely. A core investment focus for Denham is the domestic and international E&P sector— in both private and public contexts. Historically, Denham has primarily invested in private firms and we continue to see good value there. At the same time, we are seeing a number of attractive opportunities to partner with public companies."

—**Carl Tricoli**

DO YOU SEE ANY UPTICK IN THE ECONOMY?

"We feel that it is premature to think the worst is behind us, so we continue to focus on investments where value can be created over time and where our downside is reasonable, quantifiable and mitigated through risk management activities."

—**Danny Weingeist**

"We definitely see the log jam breaking—both among operators, as well as in the financial communities, both public and private. It takes awhile before buyers and sellers, whether of properties or securities, gain confidence that a bottom has been reached and projections are reliable. This appears to be building now.

"We see investors in the equity and debt markets once more beginning to make commitments, as operators become realistic about what reserves and production are worth in this market. It helps that banks and other financial institutions are forcing some companies to accept these realities. But the fact is, budgets are being approved, drilling is progressing, albeit at a much different pace than a year ago, and strong companies are beginning to make overtures to the weak. Order is returning to the universe."

—**Cameron Smith**

"That is hard to say. We focus on investment partnerships that possess and create intrinsically valuable enterprises and assets. We feel that that is an effective mitigant to market cycles."

—**Carl Tricoli**

YOUR TOP CONCERNS?

"We are watching the health of the financial system."

—**Jeffrey Harris**

"Given that our portfolio companies have access to equity capital at a time when many others do not, we spend considerable time trying to balance 'getting the deal' with trying to generate a premium return for our limited partners."

—**Danny Weingeist**

"For us, it will be how quickly and broadly the public markets open up. The private financing side of our business has remained strong throughout this down cycle. The rationale for creating Rodman Energy, however, was to add capacity to do private placements of public energy securities. To this end, during the past six months, we have taken advantage of the downturn to add significant personnel in research and investment banking. We are prepared as never before to serve our public energy clients."

—**Cameron Smith**

"In my mind, there really have to be two top concerns. One would be the uncertainty surrounding the near- to intermediate-term outlook for natural gas prices. Or stated differently, how long is it going to be until the cost structure for the industry adjusts to a level necessary to support drilling in places other than just the Haynesville, Marcellus and Eagle Ford?

"The second would be what kind of damage will be exacted on the oil and gas industry, and ultimately consumers, via much higher hydrocarbon prices, as a result of the proposed changes in the tax law. With the rig count already down 60%, it's hard to fathom that anything would be proposed that would further disincentivize E&P companies from drilling."

—**David Miller**

"Gas prices and liquidity in the public capital markets."

—**Carl Tricoli**

ON FORCED LIQUIDATIONS

"We do not think it is a good time to monetize investments. We are fortunate to have portfolio companies with asset profiles and capital structures that will allow us to be patient until the market improves."

—**Danny Weingeist**

"We have seen most private equity funds undertake a certain amount of triage over the past six to nine months. Paradoxically, most heavily hit were those with the highest proportion of public companies in their portfolios. Even those with only private companies, however, at the end of 2008 for the first time were hit by rule FAS 157, which required managers to 'mark [their holdings] to market,' whether or not they intended to liquidate them any time soon. This caused many fund managers to trim commitments or curtail investments that under other circumstances they might have chosen to manage through."

—**Cameron Smith**

"While most of our portfolio companies have some bank debt in their capital structure, their use of leverage is modest. The average debt-to-cap is less than 20%. So, we're not going to be forced to sell anything in a down market with valuations depressed."

—**David Miller**

"No, Denham has not taken any of those actions."

—**Carl Tricoli**

PARTING SHOTS

"The capital markets, though far more disciplined than a year ago, are alive and well. The Rodman Private Capital Energy Index Survey at yearend 2008 found that its index of private capital sources had more capital available than at any time over the previous seven years. This capital has been slow in making commitments over the past six months, but that is changing with a restoration in confidence that commodity prices have bottomed out.

"Furthermore, the public markets are definitely reviving, suggesting that, come fall, there is every reason to believe that capital will once more be available to support well-founded, financially attractive business plans."

—**Cameron Smith**

Banker's Roundtable

Falling oil and gas prices and reserve values created a busy borrowing-base redetermination season. Here's what five bankers say about it, and what they expect for the rest of the year.

Gary Clouser, Contributing Editor

Steep declines from historically high oil and natural gas prices walloped the value of reserves used as collateral by exploration and production companies in late 2008 and early 2009. That made for an interesting season of borrowing-base redeterminations in April and May. The downdraft has placed added importance on the usual twice-a-year redetermination process that values an E&P's borrowing base and resets loan values.

Some companies have found themselves in a bind, if they don't have the cash or borrowing capacity to make up the difference between how the reserves were valued during the origination of the loan and their current value.

Oil and Gas Investor spoke with five bankers in late April to see what adjustments were made, and how the banks view the oil and gas producing sector going forward. Participating bankers were:

- Mark Thompson, senior vice president, energy division for U.S. Bank, Denver;
- Jim McBride, executive vice president of Capital One Energy Banking, Houston;
- Dan Steele, senior vice president and manager of energy lending for Bank of Texas in Houston;
- Jeff Forbis, senior vice president, energy group head for Sterling Bank in Houston; and,
- Mark Fuqua, senior vice president-manager of energy lending, Comerica Bank, in Dallas.

Investor *What percent of your E&P clients had to make changes this year, and what was the typical change required? Was it the interest rate, spread to Libor (London Inter-bank Offer Rate), the revolver amount, or its maturity date?*

Fuqua, Comerica Bank The loan redeterminations were more spread out this year. Instead of all of them being in the March-May timeframe, some began as early as January. Those that got in early saw the markets worsening and wanted to re-do their deals and get it behind them.

Some of those that came in early actually increased their loan base to give them more dry powder or flexibility. They found that other capital sources, such as equity, debt and hedge funds, had worsened more than banks. Companies with strong financial profiles sometimes obtained increases in their bank facilities. But, about 40% of our clients had to make decreases in their borrowing bases, at an average of about 10%. On existing loan re-determinations, the Libor spread increased 75 to 150 basis points.

Steele, Bank of Texas I would estimate that a minimum of 80% of redetermined borrowing bases incorporated changes. The consistent change throughout would be pricing items. The cost of capital has increased and banks are seeking an adequate return. Interest rates and fees have all been adjusted in accordance to market conditions.

McBride, Capital One Libor spreads are increasing, and we expect that will continue. Spreads today are about 100 to 150 basis points above where they were back in July 2008. Up-front fees are generally running 1.5% or more. Most E&P borrowers recognize they have to compete with other sectors for capital and that borrowing costs have gone up through all industries.

Thompson, U.S. Bank We…expect to continue to be busy into the summer with redeterminations. While a few clients have been able to increase their credit facilities and their borrowing bases, most borrowing bases have decreased or remained unchanged since our fall 2008 redeterminations. This is a noticeable change from recent years when semi-annual borrowing base increases became routine.

Banks' lower oil and gas price decks would, by themselves, result in borrowing bases being lower this spring than they would otherwise be. However, one thing we noticed is that a number of our clients began cutting cap-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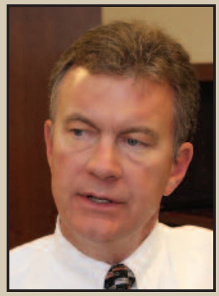
ital expenditures last fall, so their reserve replacement or reserve growth did not keep pace with our fall engineering projections. This resulted in lower borrowing bases for those clients--a double whammy for them.

Almost all of our loans have been re-priced upward by 100-150 basis points across the grid from a year ago in recognition of banks' increased costs of funds, the generally tough credit environment, the increased credit risk of their situation, and the importance of waivers, amendments and modifications they are requesting.

We started seeing loan re-pricing about 18 months ago, but almost every credit action since November has been accompanied by significant up-front amendment fees and increased Libor spreads. The credit quality of clients has slipped as a result of lower oil and gas prices. Property values, cash flow and the resultant borrowing bases are down, commitment utilization is up, liquidity is down, and clients that have other debt or are inadequately hedged are exploring their options to de-lever, including selling properties.

Forbis, Sterling Bank The vast majority of our clients simply reaffirmed their BB's (borrowing bases) at their current levels. Their hedges and active drilling programs were able to offset the reduction in our price decks. Pricing across the board increased by about 100 basis points.



"The larger the syndicate, the more difficult it can be."

—Mark Thompson,
U.S. Bank

Investor *What lending challenges do you foresee for the rest of 2009--do you think the worst has passed?*

Steele A major problem continuing to plague the industry is product prices. If prices were to decline below present levels and remain depressed, then many companies/borrowers will be facing a liquidity crisis. It's difficult to gauge if the worst has passed. Many indicators point to an ongoing decline. Rig counts and capex budgets continue to edge downward and until such time as these metrics stabilize, it would be difficult to say the worst has passed.

Forbis E&P companies with high utilization rates on their lines of credit will be subject to the most pressure in borrowing base re-sets. This can be mitigated by active hedging programs, insulating them against lower bank price decks. If commodity prices remain at their current low levels, the autumn re-set season may be the most challenging. Lower capex budgets mean less drilling and reserve additions, and hedges will have rolled off--as such, borrowing bases may be even lower.

Thompson We clearly saw some stress in our E&P loan portfolio during this spring borrowing-base season, particularly Gulf Coast producers whose short-lived properties tend to make them unusually vulnerable to low near-term oil and gas prices.

Those who have taken on other debt in recent years, are currently relatively unhedged, and/or have run out of liquidity, are very vulnerable right now.

On the other hand, because of contango futures prices, clients that have long-lived properties, are well hedged, have little other debt, and/or have some liquidity, should generally be able to weather a couple of years of low prices.

We have seen a number of waiver and modification requests from clients as they adjust to lower prices. We expect this to continue through at least this year as they evaluate operating performance. We also expect borrowing bases to continue to decrease throughout the year, primarily because of the collapse in development drilling spending that would be necessary to maintain or increase borrowing bases in a stable price environment.

We are generally not seeing clients hedge their oil and gas price risk to protect themselves in case prices go lower than where they are today.

"I think managing exposure to natural gas prices will be our biggest challenge in the near term."

—Jim McBride,
Capital One Bank

McBride There has been an unprecedented effort by the U.S. government and governments around the world to strengthen the global financial system and support the global economy, and it appears these efforts have begun to make a positive impact. However, I don't think anyone can say with certainty what we face in the future, so we have to be prepared for a wide range of potential outcomes. I think managing exposure to natural gas prices will be our biggest challenge in the near term.

Fuqua It used to be, if an E&P did a new deal it was not difficult to get five-year maturity terms. Now, probably the maturity of a similar deal would be three years. Further, unless commodity prices rebound considerably, many companies will be facing additional re-determinations in their borrowing bases in the fall.

Investor *Are you still participating in or originating syndicated loans? How has that changed?*

Thompson We continue to be a reliable participant in syndicated loans, but are looking for opportunities to take on the lead or co-lead position. One thing that has changed noticeably in the syndicated market is that each participating bank has its own situation: strengths, weaknesses, abilities and inabilities. This has made it difficult for agency banks to get specific credit actions approved and closed, and in some cases, difficult to hold a syndicate together. The larger the syndicate, the more difficult it can be.

Steele Since The Bank of Texas continues to be a participant in a number of syndicated transactions, a number of agent/lead banks continually contact us to gauge our interest for particular transactions. Having capital available for loans tends to enhance a bank's popularity and the Bank of Texas is definitely positioned to expand its presence within the E&P sector.

Forbis We are currently accommodating our existing customer base and considering new clients on a case-by-case basis.

Fuqua We are originating and participating in syndicated loans, and open to considering more, but for now, there are not as many opportunities.

McBride More and more banks are saving their capital for existing clients. Getting a new deal done today is more difficult and takes longer to complete. Banks are working together on some large deals in a way that is reminiscent of what occurred in the late 1970s and early 1980s before the days of the syndication desks. The transaction comes together only after all banks work together to determine the terms of the loans.

"Unless commodity prices rebound considerably, many companies will face additional re-determinations in their borrowing bases in the fall."

—Mark Fuqua, Comerica Bank

Investor *Overall, how do you view the E&P sector now? Did you acquire additional E&P loans, at a discount, in 2008? Did you increase total commitments to E&P loans?*

Thompson E&P lending continues to be the core business of our energy group (70%), although about 30% of business is in the midstream and refining segments. We have not acquired additional E&P loans in the secondary market at a discount, but our E&P loan commitments grew by 28% to $2.6 billion in 2008, and the number of E&P clients grew by 21% (15 new clients).

New deal flow was slow during the first quarter, but started to pick up in April. U.S. Bank was focused on re-determinations this spring, and new business has come primarily from increased commitments to existing clients, and business from other bank products and services.

We suspect that clients are, or will soon be, re-loading their balance sheets with equity from their private equity providers so they will be in a position to take advantage of acquisition opportunities from other clients that are forced to sell in this low-price environment.

There is a lot of money on the sidelines waiting for these opportunities.

FuquaWe had been increasing our commitment to the E&P sector. Comerica acquired, at a discount, a handful of loans with an aggregate value of about $30 million-$50 million. Currently, we have about $2 billion in energy loans and we expect that level to be steady in 2009, as the demand for credit is much lower with E&Ps cutting back spending, reducing it to cash flow levels and doing substantially less acquisitions and drilling.

Banks have been through tough cycles in the past, and realize that not much, if any, losses occurred on E&P or midstream loans. Energy is still viewed as a pretty safe place, although banks are more cautious now and willing to take less risk.

Steele Bank of Texas views the current environment as a time of opportunity. The bank is very well capitalized and declined any TARP (Troubled Asset Relief Program) funds. Furthermore, the bank's senior management comprehends the cyclicality of the oil and gas industry.

Bank of Texas did not acquire any additional E&P loans by virtue of buying such loans at a discount, however, we did expand the loan portfolio. This growth was fueled by a focused effort to establish relationships with E&P borrowers who maintained reasonable leverage and liquidity.

McBride From experience, we know that E&P is a solid sector for lending over the long term. We recognize the cyclical nature of the business, but we believe that through a core understanding of the sector and a careful evaluation process, good loans can be made throughout the cycle.

At Capital One, we do evaluate the level of commodity price hedging required to protect the cash flow for debt service and debt amortization. We do not focus on buying loans in the secondary market. However, we would consider such an opportunity if we had a strong relationship with the management team and other critical conditions are met. Our E&P loan portfolio grew substantially in 2008. We focused on adding strong companies that used significant hedging and/or companies that we were confident would access the capital markets to maintain liquidity.

Forbis Sterling Bank was an active lender to the E&P market in 2008 adding significantly to our reserve-based portfolio. The bank remains steadfast in its belief that a properly structured E&P loan is one of the lowest risk assets a bank can have. •

PRICE DECKS

Bank of Texas

Based on Nymex prices, established on a monthly basis. A 10% movement in Nymex within a month can trigger a new price deck. Current oil prices are: $56 for 2009; $6.19 for $2010 and $64.28 for 2011. Gas prices are: $4.91 for 2009; $5.81 for 2010 and $6.25 for 2011. The bank allows full credit for hedges whenever the borrower has volumes under contract.

Comerica

Looking at the price decks more often. Price deck for oil starts at $40 per barrel and goes up $5 annually for three years, until it reaches $55. Gas starts at $4.50 and goes up $1 to $5.50, then holds at $6.

U.S. Bank

Nymex-based gas price deck begins at $4.50 this year, stepping up to a high of $6.25 in three years. Oil price deck begins at $40 this year (which may be low), stepping up to $60 three years from now. Price decks evaluated twice each year, more often if warranted by recent price levels or volatility. The bank gives borrowing-base value to client's price hedging arrangements, and likes to see clients protect themselves from further deterioration of prices.

Capital One

Using $40 per barrel and $4 per MMBtu, increasing to $55 and $5.50, respectively, over the next several years. Consistently reviews and makes necessary changes, but tries not to overreact as prices rise or go down. Honors the hedges of clients provided those hedges are with strong counterparties.

Sterling Bank

Historically reexamined its price deck quarterly, but has been more proactive in the past six months given the drastic reduction in market prices. Oil prices for 2009, 2010, 2011, and 2012 are: $34, $45, $50, and $55, respectively. Gas price deck is $4.25, $4.50, $5, and $5.50 respectively. To the extent a client is hedged at prices higher than this deck, it gives them credit.

State of the Energy Capital Markets

Investment bankers look for the equity and debt windows to open periodically in 2009

Jeannie Stell, Financial Editor, *Oil and Gas Investor*

Since the beginning of 2007, Standard & Poor's index for exploration and production companies has declined in value by about 25%. The slump, with an accompanying halt of merger and acquisition activity, has also detrimentally affected global investment banks.

The decline means there could potentially be "a terrific rebound," but that may not happen until 2010, says Tim Perry, Houston-based managing director and head of E&P for Credit Suisse Securities (USA) LLC, a $25-billion market cap Swiss investment bank.

"The trick," he says, "until the rebound brings more favorable commodity, equity, debt and asset valuations, is getting through this and having enough liquidity to get to better times."

In fact, the firm's revised price forecasts do point to better times. For 2009, Credit Suisse's average gas price forecast is $4.84 per thousand cubic feet, but somewhat higher in the fourth quarter than in the second.

For 2010, the forecast rises to $6.50, then to $8 in 2010 and beyond. "At $8 per thousand cubic feet, most of the plays in North America work very well, and would show high rates of returns for producers," says Perry.

"For oil prices, we are optimistic as well. We've forecast a high of $50 per barrel in 2009, $60 in 2010 and $70 for 2010 and beyond. At those values, there is a lot of room for upside. We are starting to see a kernel of hope," he says.

In fact, the financial market in general has shown recent signs of recovery. In April, the S&P 500 Index closed out its best month in nine years—gaining 9.4% and up nearly 29% from the bear-market low of early March.

However, liquidity is still under a lot of pressure, Perry says, especially in E&P borrowing-base capacities. For non-investment grade companies, the percent of borrowing bases' utilization rates range from 100% to 20%, with a mean at 50%.

"If you are at 50% of your borrowing base, you might feel you have quite a bit of availability. But your borrowing-base utilization should be even lower than that," he says.

BACK TO CONTANGO

The real challenge could be during the October and November borrowing-base redeterminations, Perry says.

Normally banks have flat or even backwardated price decks, where future prices are lower than today's prices. But since the fourth quarter 2008, price decks have moved into contango.

"In October 2009, if gas prices slip, that contango could flatten out," Perry says. "If that happens, or if the slope starts to decrease, we could see another 20% decline, which would mean autumn redeterminations will fall about 40% from first quarter 2009 levels."

Over the course of the year, there will be windows of opportunity in capital markets. "They may be very short, as few as two weeks or six weeks, and will open and close, but during those times the capital markets will be available for companies to do financing with either debt or equity."

For example, some E&P high-yield BB bonds were trading below 8% before things started falling apart in September and October of 2008.

"By December, they were up to 14% on average. There was a window. Then they came back down in late January and February 2009 to 9% and 10%."

The window did not go to waste. In December 2008, Chesapeake Energy Corp., the largest high-yield issuer in the E&P space, had bonds quoted at 15.5% coupon. Six weeks later, by the end of January, Chesapeake's bonds were down to 10%. They raised $1.3 billion of debt at 10.58%.

"Chesapeake took advantage of that window, and we advise others to do the same," says Perry.

"In fact, there have been 25 high-yield E&P issues so far in 2009. Six have been by E&P companies that raised more than $3 billion of debt. Investment-grade E&Ps and integrated companies have raised more than $14 billion. There have also been several equity issuances that raised almost $2 billion. So several pro-

ducers have tapped these windows as they have opened."

The economic downturn has pummeled merger and acquisition activity, which "fell off a cliff last year" for E&P companies, he says. Generally, M&A deal values average about $15- to $25 billion per quarter.

"The activity for 2008 was very low, especially in the fourth quarter, and more than half of that was Chesapeake's joint venture with Statoil in the Marcellus shale. Almost nothing has happened in 2009."

VALUES ARE CHEAP

From a buyer's standpoint, "values are cheap," says Perry. Enterprise values have averaged, since 2003, about 5.5 times EBITDA. Now the average is 4.9 times.

Also, now proved gas reserves are valued as low as $2.34 per thousand cubic feet of gas, near 2003 lows. The amount of wealth and value that has been created since then, through better technology, has been almost completely discounted.

So why isn't there more M&A action? Due to the financial freeze, most potential buyers, even the majors such as ExxonMobil Corp., with more than $30 billion in cash, are currently focused on preserving liquidity.

Also, the few assets that have come to market in 2009 are primarily non-core and of marginal quality. In the past, they might have been quickly acquired by strong independents or private equity, but now investors aren't buying those types of assets. They are looking for the crown jewels.

Another reason buyers aren't biting is because they have already acquired volumes of acreage during the past five years. The land grab is largely over, and producers have more than sufficient inventory, so they are just drilling what they have. Also, assets that could be up for sale, such as the shale plays, are "uneconomic at current gas prices, so they aren't going to move," Perry says.

Uncertainty caused by proposed changes in oil and gas tax structures and regulations is also having a chilling effect, causing buyers to take a wait-and-see attitude.

There's more. High-yield and second-lien debt is trading far below par, "a dislocation that makes transactions more complicated," says Perry.

"In some cases, the assets of the company are worth less than the face value of the debt. If you pay the face value of the debt, the equity holders get nothing, which incentivizes the board and management teams not to do a deal.

"Secondly, you can buy the debt at a discount to par, but if you do that, should the equity holders get anything? That causes a real conundrum."

Perry says that during the past five to ten years, across any industry, there have only been a handful of deals done where the debt holders got less than par and the equity holders still get something.

"But I think we are going to start seeing a lot more of that, even though the debt holders are going to push against that. After we see a few deals like that happen, it will become more commonplace."

Despite the lack of M&A transactions, some companies are finding value in working together in the form of joint ventures. Surprisingly, these JVs are increasingly involving the majors.

JVS WITH THE MAJORS

"We have seen a sea change regarding the majors' interest in North America during the past year," Perry says. "Lately we've seen Statoil come into the Marcellus shale, and BP in the Fayetteville and Woodford. These were very significant deals, and we think there are more to come."

The reason the majors are coming into the unconventional gas shales is because the independents have amassed significant acreage and reserve potential with long-term, low-cost finding and development costs.

Meanwhile, European producers are eager to learn shale technologies for possible application in other areas worldwide—a key factor that prompted the Statoil-Chesapeake Energy joint venture.

"Unconventional shale gas is a very different business than historically what the majors have done," says Perry. "The technical expertise, regulatory requirements and leasing challenges are different from their business models and majors may also be concerned about losing key people if they do acquire a company."

However, Perry does expect to see an increase in JV activity between independents and majors, and between independents and financial players.

"Once commodity prices rebound, we think there will be more deal-making activity," says Perry. "Companies will want to re-equitize themselves. The key to getting from here to there is liquidity."

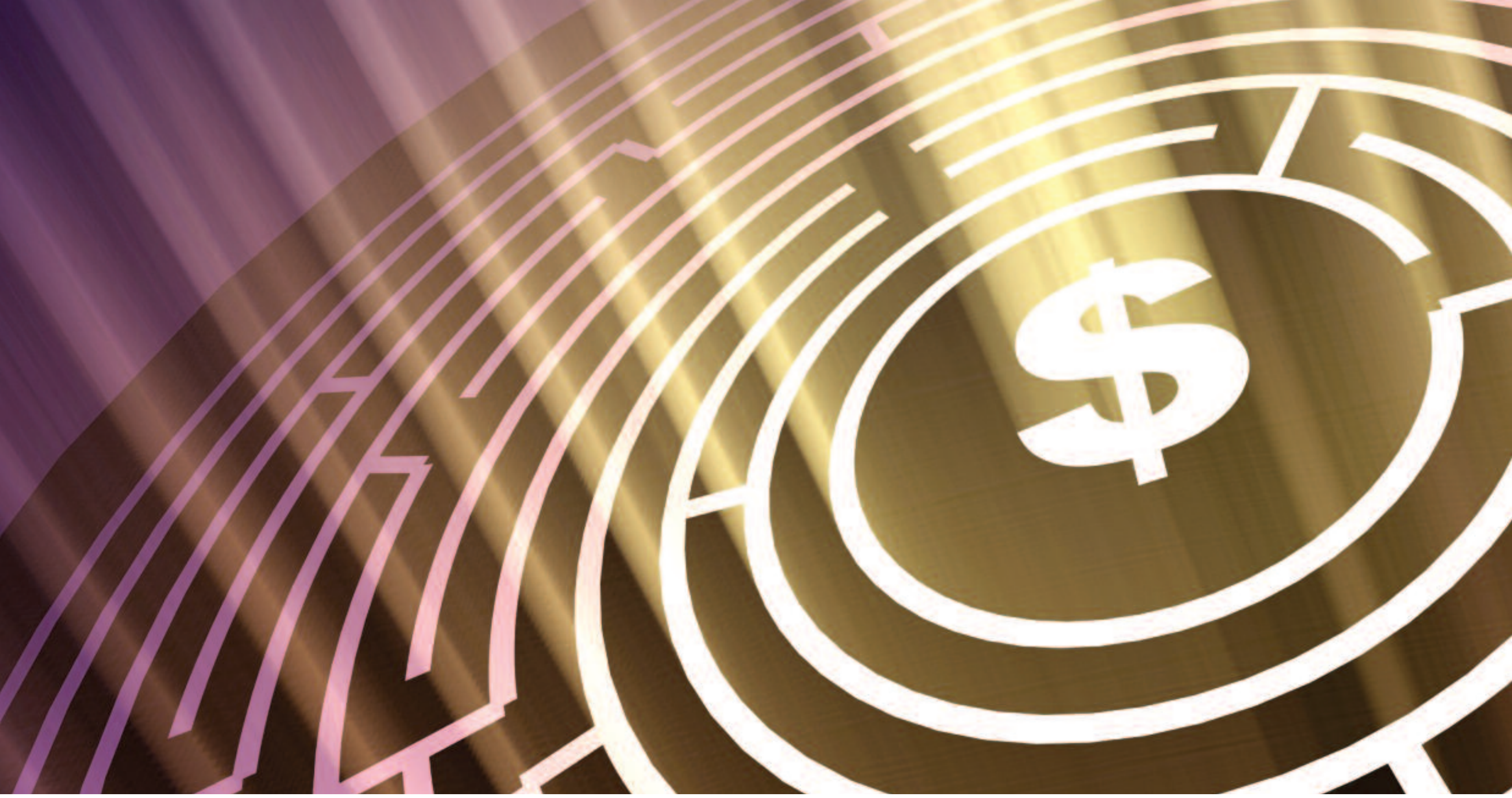
HIGH-YIELD WINDOW

Capital One Bank has also seen changes, but to that institution, some of the changes are internal.

"In early 2008, we were very active in the equity side of the business," says Jim McBride, executive vice president and managing director of Capital One Bank in Houston, and head of the energy team. "That is where the firm cut its teeth— in equity research for E&Ps, oilfield services and infrastructure."

But last year after September 15, the collapse of Lehman Brothers, and the slowdown in the equity market, McBride's group realized the debt market would probably come back strong before equity markets would recover.

"We started trying to position ourselves in the debt business, and we've had good success with that," he says. The bank acted as senior co-manager for Petrohawk Energy



Corp.'s $600-million high-yield offering and Chesapeake Energy's $1-billion high-yield offering, both in January.

"We also played a part in Plains Exploration's $365-million senior note offering, just as the window was closing," says McBride. "We've seen that window start to open up again with inflows into the high-yield money market."

Now, he says, the equity window is opening, which allows companies to repair their balance sheets and pay down some debt. At press time, the bank had closed or was in the process of closing equity deals for GMX Resources, Delta Petroleum and Brigham Exploration Co.

"E&P stocks are up significantly over the past month or so. There are certain small-cap stocks that are up more than 100%."

In fact, the recent increase in equity prices of some E&Ps indicates certain investors believe that commodity prices are at or near the bottom and that now is a good time to start rebuilding a position in the E&P sector, he says.

LOOKING FOR A FLOOR

For the economy as a whole, McBride sees some light on the horizon, but whether the recovery will be L- or W-shaped, it is too soon to tell.

"It feels like we've seen a floor in oil prices. We are still looking for a floor in gas prices. Gas prices will probably be higher in 2010 and 2011 than they are now. Once we see the gas floor, everyone will breathe a deep sigh of relief."

For the long term, McBride would like to see a plan to use more gas domestically, which would be beneficial from a number of perspectives.

"It would create more jobs in this country. If there were incentives to cause gas to become considered more often as a transportation fuel, I think it would do a number of positive things for the automobile manufacturing industry" and power generation, he says.

Meanwhile, many gassy E&Ps, including those working the Haynesville and Marcellus shales, are seeing fairly good rates of return, even with today's commodity prices, he says. But until the financial markets are clearly open, these companies will be careful about the timing of attempting to access new capital.

Near-term, most of the capital raises will continue to be debt deals.

"For those companies this year that did issue debt, their equities actually traded up," says McBride, because investors became convinced that those producers had sufficient liquidity to execute their business and growth plans.

By June, about 70% of Capital One's energy clients had been through their borrowing-base redetermination process. "We've seen some reductions in borrowing bases, but generally speaking, most companies can work with those reductions. The companies that weathered the storm the best were the ones that had the most hedging in place and also weren't fully drawn [on their revolvers]."

McBride says that, over the years, he has found that good managements usually find the best strategy to pay down debt, whether it is dedicating cash flow to pay down debt or making asset sales.

"We typically only loan 50% to 60% of the value of assets, so managers can sell assets and more than pay off the borrowing base that is associated with those assets." Also, several of the bank's clients have chosen to monetize hedging programs. •

The Rodman Energy Group

Corporate Summary:

The Rodman Energy Group ("**Rodman Energy**") is a sector vertical within Rodman & Renshaw, LLC ("**Rodman**"), created in June 2008, when Rodman, a full service investment bank and for the past 8+ years the number one agent for Private Investments in Public Equities ("**PIPEs**"), purchased COSCO Capital Management LLC ("**COSCO**"), for the previous 17 years the leader in private placements of private energy securities. By combining Rodman's preeminence in public securities with COSCO's deep knowledge of the energy industry and private finance, Rodman Energy can now provide its clients the services of a full investment bank, including placements of both private and public stock, M&A and A&D advisory, work-outs, research coverage, and institutional and after-market support.

Rodman Energy Personnel (l-r): James Masters, Craig Campbell, Lane McKay, Bill Weidner, Cameron Smith, Scott Kessey, Scott Edwards, Emilie Sydney-Smith

COSCO Background:

For seventeen years prior to its acquisition by Rodman, COSCO had been the leading advisor to professional investors in the energy sector and foremost agent for private placements for small and mid-cap private and public energy companies in the U.S. and Canada. Over the past 8+ years, COSCO and now Rodman Energy have arranged private placements of over $1.25 billion, primarily comprised of private equity and mezzanine debt, typically for start-up and mid-cap energy clients, placed almost exclusively with energy focused closed-end funds. Since its inception in January 1992, COSCO also assisted many of these professional energy investors, themselves, particularly in the East, to develop new investment strategies and purchase or sell approximately $500 million of portfolio companies or assets.

Rodman Energy Value Creation Process:

Rodman Energy is far more than a financial advisor and placement agent, however. Because the COSCO principals almost all came first from the oil and gas industry, before establishing careers in proprietary investing and finance, they understand intimately, are accepted in, and can bridge both worlds. As a consequence of this pedigree and having now advised over 150 industry clients and seen, literally, thousands of business plans and proposals, Rodman Energy personnel can often understand even better than managements, themselves, what constitutes their particular strengths and competitive advantages. Rodman Energy typically provides major assistance in refining its private clients' investment strategies and improving their presentations. It can also help effect mergers, acquisitions, or sales, and it has arranged several secondary placements for individual investors, as well as entire portfolios for funds, themselves.

$430+ Million in Energy Mandates Since 2007, Alone.

EVERGREEN ENERGY INC **$15,000,000** **Senior Secured Convertible Promissory Note** Rodman & Renshaw March 2008	SUNTERRA OIL & GAS **$15,000,000** **Common Equity** from HM Capital Partners Rodman & Renshaw December 2007	An Affiliate of Dewbre Petroleum Corporation and Harbor Hill Interests, LP **$50,000,000** **Senior Secured Notes** Rodman & Renshaw October 2008	zodiac exploration corp **C$18,110,000** **Common Equity** Rodman & Renshaw September 2008	Mt. Dora Energy **$35,500,000** **Line of Equity** COSCO Capital Management LLC May 2008
Lake Ronel Energy Partners, LLC **$40,500,000** **Common Equity** For Exploration and Development COSCO Capital Management LLC January 2008	Action Energy Inc. **C$17,500,000** **Common Stock** With Strategic Energy Research & Capital LLC COSCO Capital Management LLC December 2007	Red Arrow Energy **$85,600,000** **Line of Equity** EnCap Investments L.P. and COSCO Investments LP COSCO Capital Management LLC July 2007	An Affiliate of Jones Energy **$100,000,000** **Senior Secured Notes** Guggenheim COSCO Capital Management LLC May 2007	An Affiliate of Sanchez Oil & Gas Corporation **$50,000,000** **Secured Notes** TCW COSCO Capital Management LLC December 2006

"Promoting Sound, Sustainable, and Profitable Relationships Between the Financial and Operational Segments of the Energy Business" ™

Rodman Energy Personnel:

Cameron Smith, a Rodman Senior Managing Director and Head of Rodman Energy, for over 15 years prior to founding COSCO in 1992 worked in industry as a geologist and then ran various E&P companies in the U.S. and Canada. Bill Weidner, Managing Director, also worked as a geologist, then for a commercial bank, finally as a proprietary investor with RIMCO, a mezzanine lender, before joining COSCO in 1997. Lane McKay, Managing Director and head of Rodman Energy in Canada, worked in risk management for eight years, presiding over 30+ M&A transactions in a three-year period, on his way to building, taking public, and selling what is now the third largest property and casualty brokerage company in Canada. Finally, Scott Kessey, Rodman Energy's fourth Managing Director, served as a principal financial officer for a number of Houston-based E&P and service companies, prior to joining COSCO in 2000.

In addition to its managing directors, Rodman Energy has built a strong team of supporting investment bankers in New York, Houston, and Calgary, providing depth and diversity of experience. Rodman Energy also enjoys a network of colleagues in Dallas, Oklahoma City, Tulsa, Denver, Calgary, London, Sydney, and Caracas, who assist it to source and investigate new investment opportunities.

Rodman Energy Services:

Capital Formation. Rodman Energy's strengths are in knowing intimately the current investment criteria of private and public energy investors and which energy companies, managements, and projects meet their investment goals. The investor intelligence stems from Rodman Energy constantly marketing specific transactions, as well as conducting surveys and hosting or moderating conferences focused on energy financing. Rodman Energy's industry acumen reflects the technical and operational training of its personnel. Rodman Energy has earned investor confidence through its consistent application of The Rodman Energy Value Appreciation Process™, which begins with a frank assessment of a client's management and the company's financial status and competitive position and value in the marketplace. If a financing is required and appears feasible, it then assists private clients to prepare necessary descriptive documents and marketing materials, arrange meetings with likely financing candidates, negotiate agreements, and close on terms fair to all stakeholders.

Advisory. Rodman Energy provides financial, investment/divestiture, and general business advice to both industry and professional investors, alike. For investors, services include consultation on investment strategies and execution, specific due diligence, and peer comparison. For private and public energy companies, Rodman Energy provides sound business and financial advice designed to focus managements on their own competitive advantages, business opportunities, and financing potential. For its private clients, Rodman Energy's advisory role often extends well into the execution stage, post financing.

Mergers & Acquisitions / Divestitures, Secondary Placements. Because its personnel and colleagues are located in almost all of the principal energy centers around the world, Rodman Energy is well positioned to match industry clients with acquisition, divestiture, or merger candidates. Also, because Rodman Energy has close working relationships with most of the professional energy investors in the U.S. and Canada, it is particularly adept in arranging secondary placements of public and private energy securities, as well as entire energy portfolios.

Rodman & Renshaw, LLC

Rodman is a full-service investment bank dedicated to servicing companies that have significant recurring capital needs due to their growth and development strategies. It also provides research and sales and trading services to institutional investor clients that focus on such companies. Since 2003, Rodman has been a leading investment banking firm to the biotechnology sector, a capital intensive market segment, as well as a leader in the PIPE and RD (registered direct placements) transaction markets. Over the past 4 years, Rodman has raised in excess of $3 billion for its clients and is currently ranked by Sagient Research Systems, Inc as the # 1 Placement Agent among full service investment banks for PIPE financing arrangements, having for the past thirteen quarters in a row completed more PIPEs than any other investment bank on or off Wall Street.

In May 2008, Rodman expanded its focus beyond biotechnology into the natural resource arena by purchasing Miller, Mathis & Co, arguably the leading investment bank dedicated to minerals and mining, and, then, in June, COSCO, thus dramatically enhancing its capabilities in both sectors. Since then, Rodman has demonstrated further its dedication to energy by hiring Jeff Hayden as a senior energy analyst and building up an energy research team around him in Houston, as well as adding two junior and one senior investment bankers to augment Rodman Energy's COSCO core.

The Rodman Energy Group

Rodman & Renshaw®

Rodman & Renshaw, LLC Member SIPC, FINRA

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