CORPORATE FINANCE ASSOCIATES

ENERGY

INDUSTRY QUARTERLY

IN THIS ISSUE

March 2009

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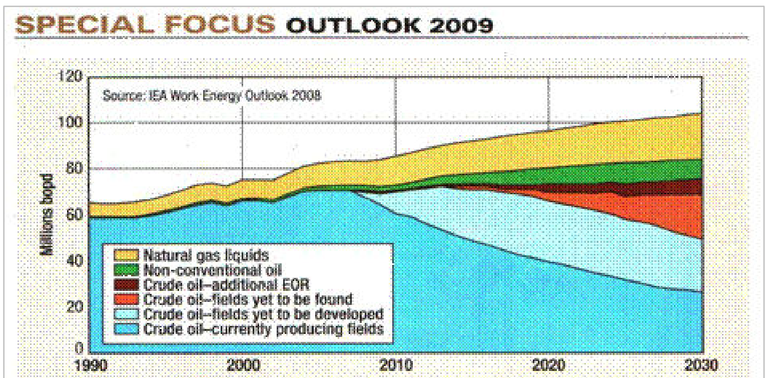
The present state of the global energy business is depressed because of several variables, the most important of which is the impact of the worldwide economic situation. For the first time in years we have a surplus of oil; many energy manufacturing projects are on hold. The construction of many clean burning power plants is also on hold. Refineries have delayed repairs, upgrading and new construction because of the uncertainty of the Energy business and threat of disallowance of manufacturing expenses. Producers worldwide are cutting back on drilling exploratory and development wells. Oil companies and investors are storing crude oil in offshore tankers in an effort to wait for better prices.

Natural gas prices are very low resulting in the cancellation of many deep and expensive exploratory wells worldwide.

The members of the CFA Energy IPG Committee believe that energy holds potential to ease the current economic crisis. On the domestic scene for example, we must have public and political support for developing our nation's energy reserves. This is imperative to create real jobs, real money, real fast. An in-depth study of domestic reserves will reveal that so much of the nation's domestic energy reserves are off limits with very little hope that our politicians will change their positions. Off the coast of Florida an invisible line separates the United States from Cuba, yet Cuba is selling oil leases to companies from Russia and China. These companies could drill wells 50 miles from the USA. The same is true in the Great Lakes area where Canada has 250 wells in the region. If they can drill there safely and cleanly, why can't we?

I. Global Reserves and Demand for Oil & Gas

We have witnessed a trend in global oil demand for years. Matthew R. Simmons, Simmons & Company International recently reminded us in the February, 2009 issue of World Oil that in 1993 global oil demand was around 67 million barrels per day and by year 2000 demand had grown to 76.7 million barrels and today is 86 million. He stated that in the 15 years of his reporting, oil demand grew by 18 million barrels. This was a growth trend that can't be sustained as crude oil supply growth is decreasing.



Future world hydrocarbon liquid production components showing sources of crude and other liquids under certain assumptions.

II. Oil and Gas Pricing

For many analysts to say that we have a volatile oil and gas market is a gross understatement. The global economy is referred to as a roller-coaster and this is certainly true with oil prices. There has been a dramatic down-turn since oil peaked in mid-summer at $147.00 per barrel. Associated Press reported in successive days for early March, 2009 that oil supplies had flooded the market and was being stored in all kinds of facilities and tankers pending better prices. The next day, AP reported that demand increased by 9% because inventories had dropped 700,000 barrels. The vacillating market is difficult to understand and is no doubt influenced by the US and China's economy. The Department of Energy has revised the average oil price for 2009 from $101.00 per barrel to $63.50.

In order to maintain natural gas production, more wells have been drilled despite the abnormally low spot prices.

Shale gas drilling will continue throughout the USA, Canada, Europe and beyond.

It is difficult to understand the volatility and pricing of oil and gas. Since 1983, crude oil has been traded on the New York Mercantile Exchange (NYMEX) and natural gas began trading on the NYMEX in 1987. Most of the physical buying of crude oil and natural gas takes place on the spot markets. Only a small portion of the trades result in physical delivery. An important part of the trading scene was the Intercontinental Exchange (ICE) which has grown 230% since 2005 with 138 million contracts traded in 2007.

The above mentioned trading removes the transparency of trades. Large traders can move easily and make an impact on the pricing of the commodities. New large institutional investors-not energy companies, make most of the trades.

III. Current Activity – 2009

Exxon/Mobil announced in early 2009 that their global Exploration and Production budget for 2009 will be the highest in its history.

Apache arranged $350M financing for Australia oil projects offshore Western Australia. The two projects; Van Gogh and Pyreness are expected to add a total of 40,000 barrels per day to Apache's worldwide net oil production over the next 18 months.

Chevron's subsidiary, PT Chevron Pacific Indonesia has started crude oil production from North Dun Field Area 12 in Indonesia. First oil was achieved on November 14, 2008 and production is projected to increase to 34,000 barrels of crude per day by 2012.

IV. Alternative Sources of Energy

Liquefied Natural Gas (LNG)

LNG will be an imported source of supply for most gas importing countries in years to come. There are 1,000 TCF of proved reserves in the world and annual use of 100 TCF. The world has a 70 year supply.

Coalbed Methane Gas

This resource is still attractive to Exploration and Development companies because of moderate depths, abundance of coal reserves on the North American continent and good economics

Solar Energy

The cost of producing solar power continues to fall according to a report from Royal Bank of Canada. The average cost for installed photovoltaic solar power could drop to $4.40 per kilowatt by 2011 compared to $7.37 this year. This is competitive with grid power or $3.50 per kilowatt in 2012 and 2014.

Wind Power

In 2008, US wind installations exceeded the 2007 total of 5,249 with approximately 7500 MW (enough electricity to power 2.2 million homes). Europe leads the globe in total electricity produced from wind power.

Insitu Combustion in Fractured System

Recent studies at the Heavy Oil Symposium in Calgary proved that heavy oil recovery from fractured carbonate reservoirs is feasible and economic with in-situ combustion.

Biofuels

This alternative energy sector consists primarily of corn-based ethanol and lesser volumes of biodiesel in US markets. Common biodiesel blends in different proportions with soybean oil as the principal manufacturing feedstock.

Gas Hydrates

The resource potential of gas hydrate is increasing in the US and several other countries. Recent drilling results indicate commercialization within a decade or less if funding is available for production scale testing. Gas hydrate is a solid crystalline substance composed of water and natural gas (primarily methane) in which water molecules form a cage-like structure around the gas molecules. These conditions occur along continental margins of moderately high pressure and low temperatures in water depths greater than 1,600 feet and beneath the permafrost in the Arctic.

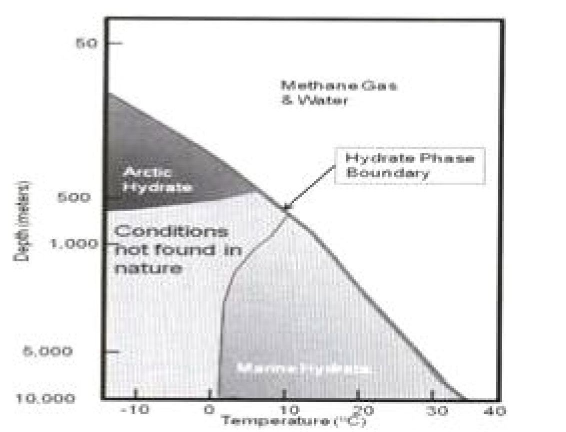


Figure 1. Phase diagram for methane hydrate showing conditions in nature where hydrate is stable. Note that the depth scale is logarithmic. (Adapted from Johnson, 2007)

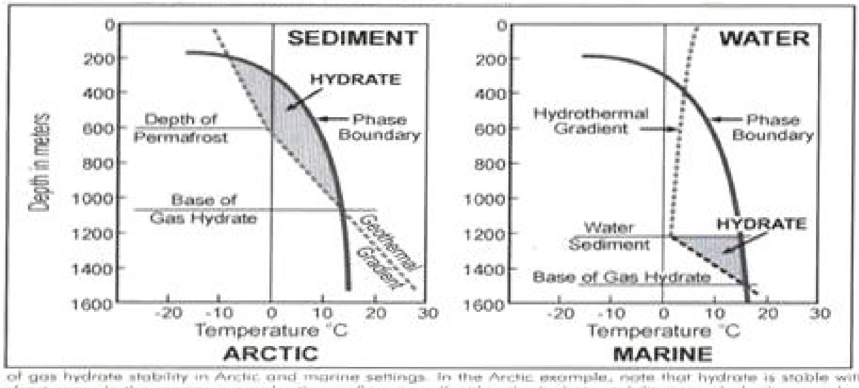


Figure 2. Examples of gas hydrate stability in Arctic and marine settings. In the Arctic example, note that hydrate is stable within the lower portion of the permafrost zone. In the marine example, the seafloor is well within the hydrate stability zone. In both examples, the thickness of the hydrate stability zone is dependent on the geothermal gradient. (Source: USGS)

V. Outstanding Exploration and Production Deals – 2009

- Concho Resources paid roughly $560 million for Henry Petroleum. Concho is a public entity trading on the NY stock exchange and has made large producing oil and gas acquisitions for “blue chip” properties in West Texas and New Mexico.
- In late 2008, Chesapeake Energy who had earlier in the year sold assets for $412 million in a transaction financed by Goldman Sachs, closed on a joint venture in the Marcellus Shale with Norway’s Statoil Hydro. Chesapeake sold 32.5% interest in its interests in Appalachian for $3.4 billion. Chesapeake received a much needed infusion in cash from Statoil Hydro at closing with the remainder from 2009 through 2012.
- Energy XXI (Bermuda) Ltd. has completed its customary semi-annual redetermination of the borrowing base under its revolving credit facility, which has been set at $400 million. Current borrowings under the facility, which matures June 8, 2011, total $280 million. Excluding Lehman Brothers’ $12 million committed but unfunded share of the borrowing base, $388 million is currently available.

VI. Recent M&A Deals in Oilfield Equipment and Services

- Chesapeake KRG Capital Partners (KRG), a Denver-based private equity firm, announced that it has completed an investment in Federal Flange, Ltd. (Federal), a leading specialty manufacturer of oilfield hardware including flanges and related components and accessories. KRG completed the acquisition of Federal by bridging the entire transaction with KRG’s fund capital and will be conducting the debt financing of the Company post closing. Federal is the third platform company for KRG’s $1.96 billion Fund IV.
- Stallion Oilfield Services Inc., a Houston, Texas-based provider of well-site support, construction and logistics services to oil exploration and production companies, has withdrawn registration for a $400 million IPO. It had planned to trade on the Nasdaq.

This is the second time Stallion has canceled a proposed IPO, previously having done so in 2006. Carlyle/Riverstone is the company's largest single shareholder.

- Regency Energy Partners LP (Nasdaq: RGNC), Alinda Capital Partners LLC ("Alinda") and an affiliate of GE Energy Financial Services announced they are forming a joint venture to finance and construct Regency's Haynesville Expansion Project, a North Louisiana pipeline that will transport gas from the Haynesville Shale, one of the fastest growing U.S. natural gas fields. Regency has already secured commitments from shippers for 84% of the pipeline's capacity. Alinda will contribute $126.5 million in cash for a 12% stake, while GE will contribute $526.5 million for a 50% stake.
- Delta Rigging & Tools (Delta Rigging), the nation's leading provider of wire rope, rigging and lifting equipment, announced the acquisition of D&M Wire Rope. The acquisition of D&M establishes Delta Rigging as a leading provider of wire rope and rigging throughout Colorado, Utah, and Wyoming. D&M is the leading rigging operation in the Rocky Mountain region focused primarily on the mining and land-based oil and gas drilling industries. Delta Rigging was acquired last summer by Austin Ventures. The acquisition is the seventh in the last three years by Delta Rigging.
- Perseus LLC has completed a leveraged recapitalization of Seismic Equipment Solutions, a Houston, Texas-based provider of seismic acquisition equipment and related services to the oil and gas exploration industry. No financial terms were disclosed.

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