

## Energy Lender Price Survey



### Q3/08 Overview

We are pleased to present Tristone Capital's Quarterly Energy Lender Price Survey, a commodity pricing poll of energy reserve-based lenders. Our survey of energy lenders' price forecasts covers a broad spectrum of regional, U.S. national and international banks, and all of the Participating Banks engage in energy reserve-based lending. This quarter's survey includes 42 Participating Banks.

### Base Case Results

The data provided for the Q3/08 Survey appears to show the Participating Banks still believe in strong commodity prices. With oil and gas prices breaking record levels, we are seeing a big increase in the bank's forecast. For the survey, front-year oil prices breaks above the \$70/Bbl threshold, with the average at an all-time high of \$76.64/Bbl compared to our previous high of \$67.15/bbl.

For 2008, the Q3/08 Survey indicates an average Base Case WTI oil price forecast of \$76.64/Bbl and an average Base Case Henry Hub gas price forecast of \$7.56/MMBtu. The five-year trend shows a backwardated forward price deck for both oil and gas, with average 2012 oil and gas price forecasts of \$61.49/Bbl and \$6.44/MMBtu, respectively. Modest escalation of both oil and gas prices after 2012 is common, but prices are capped at an average of \$62.73/Bbl and \$6.56/MMBtu, respectively. The average discount rate used by Participating Banks is 9%. Operating costs on average are escalated 1% per year.

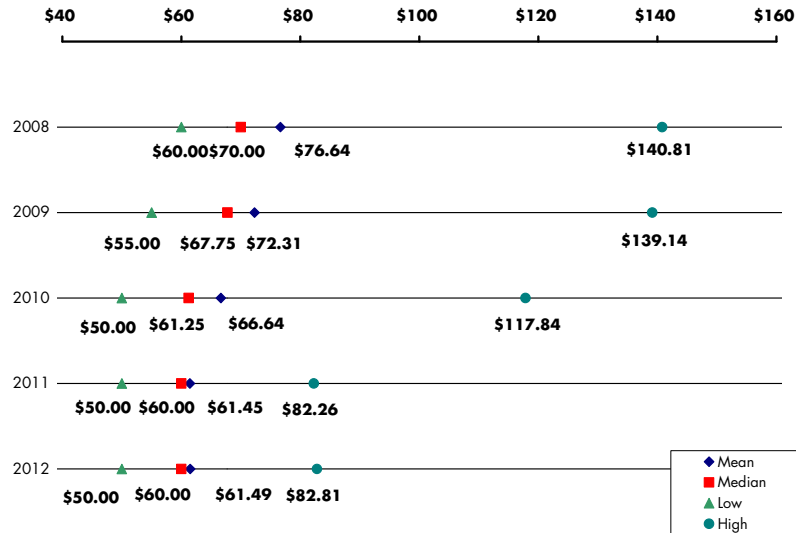
#### 3rd Quarter 2008 Price Survey: Mean of 42 Participating Banks - Base Case

|                      | <u>Oil (\$/Bbl) - WTI</u> | <u>Gas (\$/MMBtu) - Henry Hub</u> |
|----------------------|---------------------------|-----------------------------------|
| <b>2008</b>          | 76.64                     | 7.56                              |
| <b>2009</b>          | 72.31                     | 7.01                              |
| <b>2010</b>          | 66.64                     | 6.65                              |
| <b>2011</b>          | 61.45                     | 6.47                              |
| <b>2012</b>          | 61.49                     | 6.44                              |
| <b>2013+</b>         | 0.5%                      | 0.5%                              |
| <b>Cap</b>           | 62.73                     | 6.56                              |
| <b>LOE Esc</b>       | 1%                        | 1%                                |
| <b>Discount Rate</b> | 9%                        | 9%                                |

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For all years, the mean exceeded the median for both oil and gas. Therefore, it could be argued the outlier points that are closer to the NYMEX strip prices are pulling the averages higher, and the median is a better representation of a typical Lender’s price deck.

**Current Oil Pricing – Base Case (\$/Bbl)**

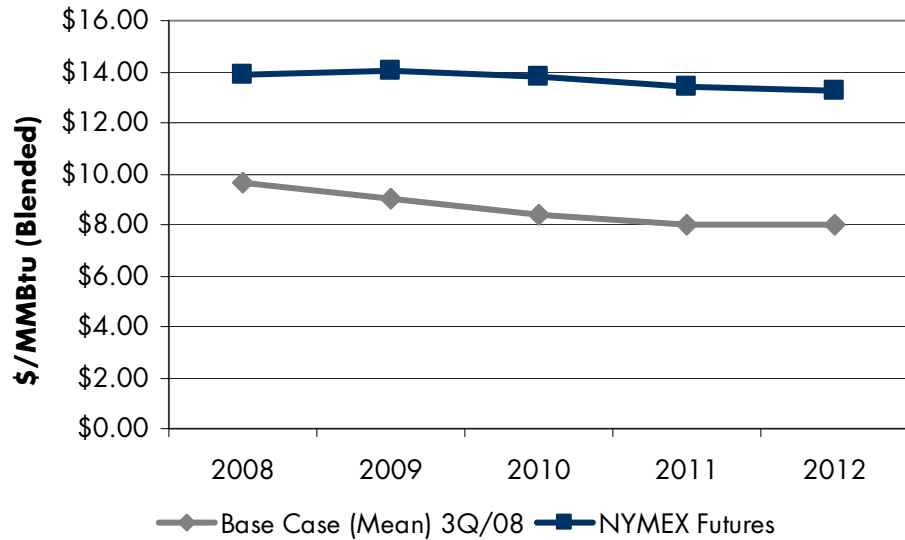


**Current Gas Pricing – Base Case (\$/MMBtu)**



Using a 60/40 blended gas/oil weighting, we compared the average Base Case against NYMEX futures pricing as of July 29, 2008, as shown on the following page. When compared with NYMEX futures pricing, the average Base Case results were 70% of NYMEX futures in 2008, gradually trending downward to 60% by 2012. Thus, banks continue to use a significantly more conservative outlook than observed in the market.

**Base Case Q3/08 vs. NYMEX as of July 29, 2008 - Blended (Gas:Oil = 60:40)**



**Quarter-to-Quarter Trends**

Compared to last quarter’s Survey, oil prices increased by 14% for front-year pricing and gas prices increased by 10% for the Base Case price decks being used by the Participating Banks. By 2012, oil prices increased by 12% while gas prices increased by 7%.

**Quarter-over-Quarter Pricing Trends – Base Case**

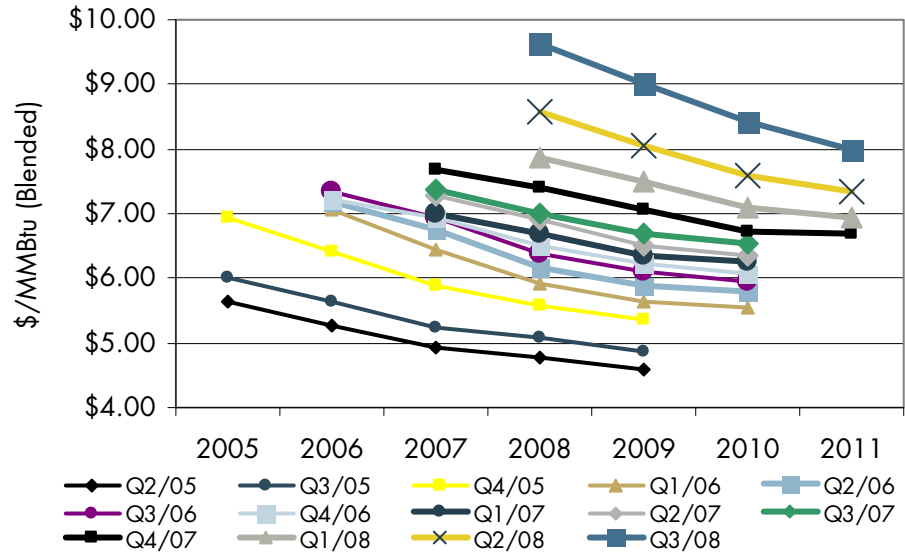
|              | Oil (\$/Bbl) - WTI |         |                           | Gas (\$/MMBtu) - Henry Hub |         |                           |
|--------------|--------------------|---------|---------------------------|----------------------------|---------|---------------------------|
|              | Q2/08*             | Q3/08** | % Increase/<br>(Decrease) | Q2/08*                     | Q3/08** | % Increase/<br>(Decrease) |
| <b>2008</b>  | 67.15              | 76.64   | 14%                       | 6.88                       | 7.56    | 10%                       |
| <b>2009</b>  | 63.22              | 72.31   | 14%                       | 6.48                       | 7.01    | 8%                        |
| <b>2010</b>  | 58.57              | 66.64   | 14%                       | 6.21                       | 6.65    | 7%                        |
| <b>2011</b>  | 55.67              | 61.45   | 10%                       | 6.08                       | 6.47    | 6%                        |
| <b>2012</b>  | 54.68              | 61.49   | 12%                       | 6.00                       | 6.44    | 7%                        |
| <b>2013+</b> | 0.4%               | 0.5%    | nmf                       | 0.4%                       | 0.5%    | nmf                       |
| <b>Cap</b>   | 55.06              | 62.73   | 14%                       | 6.06                       | 6.56    | 8%                        |

\*45 Participating Banks

\*\*42 Participating Banks

Since starting the Tristone Capital Energy Lender Price Survey in Q2/05, the Participating Banks’ oil and gas price decks have continually increased in the extended years from the previous quarter’s results.

**Quarter-to-Quarter Base Case Pricing Trends - Blended (Gas:Oil = 60:40)**



**Sensitivity Case Results**

The Q2/08 Survey also includes a Sensitivity Case, which represents the lenders’ low or conservative price decks. Of the 42 Participating Banks, 35 banks provided a Sensitivity Case which averaged a 25% discount to Base Case lending policies for both oil and gas for 2008.

**3rd Quarter 2008 Price Survey: Mean of 35 Participating Banks – Sensitivity Case**

|                      | <b>Oil (\$/Bbl) - WTI</b> | <b>Gas (\$/MMBtu) - Henry Hub</b> |
|----------------------|---------------------------|-----------------------------------|
| <b>2008</b>          | 57.49                     | 5.76                              |
| <b>2009</b>          | 53.41                     | 5.43                              |
| <b>2010</b>          | 50.30                     | 5.13                              |
| <b>2011</b>          | 48.53                     | 5.08                              |
| <b>2012</b>          | 48.46                     | 5.07                              |
| <b>2013+</b>         | 0.4%                      | 0.4%                              |
| <b>Cap</b>           | 49.97                     | 5.25                              |
| <b>LOE Esc</b>       | 1%                        | 1%                                |
| <b>Discount Rate</b> | 8%                        | 8%                                |

**Current Oil Pricing – Sensitivity Case (\$/Bbl)**

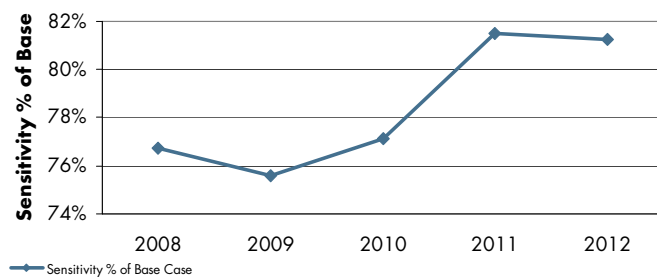


**Current Gas Pricing – Sensitivity Case (\$/MMBtu)**



Using a 60/40 blended gas/oil weighting, we charted the average Sensitivity Case as a percentage of the average Base Case, as shown below.

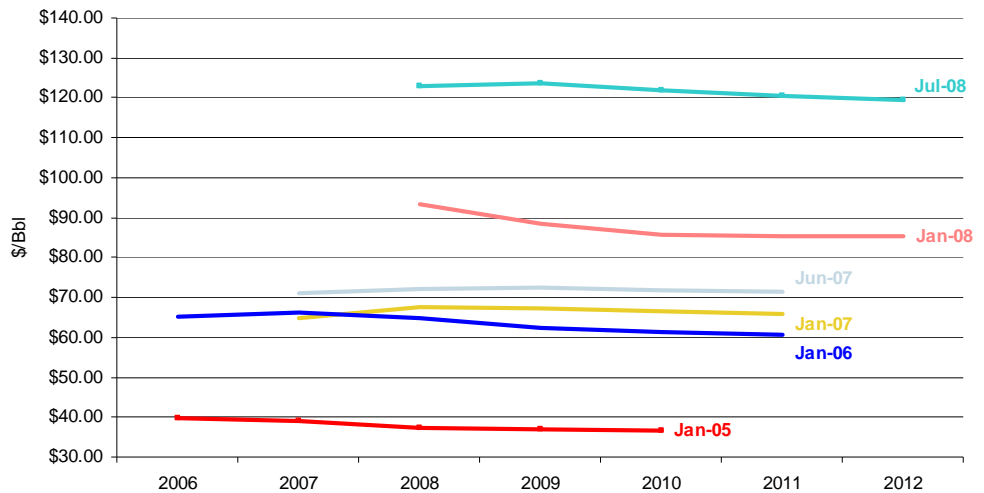
**Sensitivity Case as a Percentage of Base Case - Blended (Gas:Oil = 60:40)**



## Historical Forward Strip Pricing

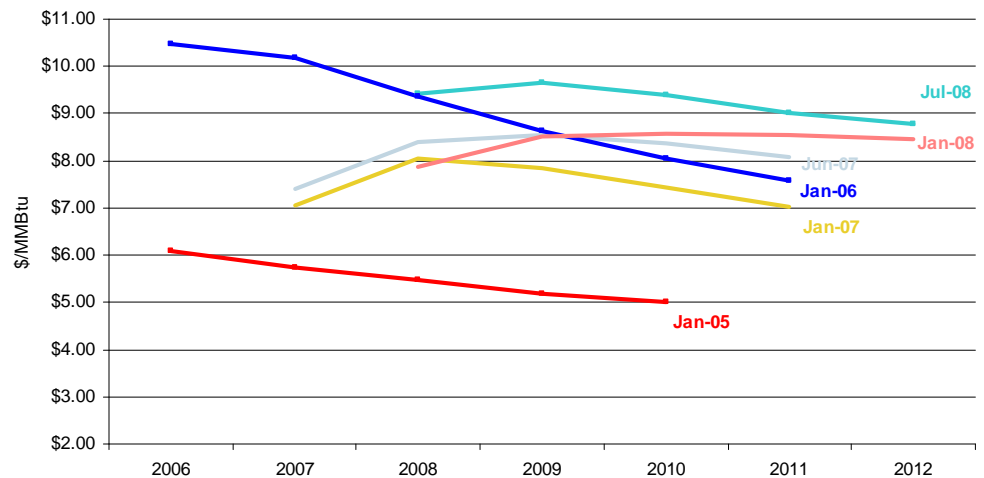
Over the last 48 months, volatile fluctuations in oil and gas prices and NYMEX futures contracts have resulted in large changes in the Energy Lenders' price expectations. The following graphs represent yearly averages for both oil and gas NYMEX futures prices. As shown below, prices for both oil and gas have varied drastically since the beginning of 2005.

### Historical Forward Strip - Oil



Source: www.nymex.com

### Historical Forward Strip - Gas



Source: www.nymex.com

## Reserve Based Lending Scenario

In order to show the impact of year-to-year changes in the Base Case price decks on Advance Rate amounts, we analyzed a discounted cash flow model for a U.S. onshore property acquisition using general assumptions. The objective is to calculate the change in the Advance Rate amounts (i.e. lending funds) using a typical acquisition project. The following assumptions were utilized in the model:

|                         |   |
|-------------------------|---|
| <b>Purchase Price:</b>  | \$100 MM  |
| <b>Proved Reserves:</b> | 7 MMBoe (75% PDP, 2% PDNP, 13%PUD, 10%PROB)       |
| <b>Percent Oil:</b>     | 60%   |
| <b>R/P:</b>             | 13 years  |
| <b>Acquisition IRR:</b> | 11%   |
| <b>Percent Hedged:</b>  | 80% of PDP through 2012 @ 7/28/2008 NYMEX Pricing |

Using the assumptions above, the Base Case price decks from the Q3/08 survey were used to calculate a discounted cash flow (using PV9 from bank average). With a 60% Advance Rate and 20% upside limitation, the amount loaned to a possible acquirer would be ~\$90 MM.

### Lending Scenario – Q3/2008 Price Deck

|              | Lending Amount<br>(\$M) | Advance Rate<br>Amount (\$M) (60%) |
|--------------|-------------------------|------------------------------------|
| PDP          | \$133,118               |                                    |
| PDNP         | 1,405                   |                                    |
| PUD          | <u>14,949</u>           |                                    |
| <b>Total</b> | <b>\$149,473</b>        | <b>\$89,684</b>                    |

Using the same assumptions, but using the Base Case price decks from Q3/07, the amount loaned to a possible acquirer would be ~\$72 MM. The increase in Base Case pricing from Q3/07 to Q3/08 results in a 24% increase in Advance Rate amounts.

### Lending Scenario – Q3/2007 Price Deck

|              | Lending Amount<br>(\$M) | Advance Rate<br>Amount (\$M) (60%) |
|--------------|-------------------------|------------------------------------|
| PDP          | \$112,449               |                                    |
| PDNP         | 952                     |                                    |
| PUD          | <u>6,837</u>            |                                    |
| <b>Total</b> | <b>\$120,238</b>        | <b>\$72,143</b>                    |

**Participating Banks**

|   |                                       |
|---|---------------------------------------|
| <i>ABN Amro</i>                         | <i>DZ Bank</i>                        |
| <i>Allied Irish Bank</i>                | <i>First National Bank of Midland</i> |
| <i>Amegy Bank</i>                       | <i>Frost Bank</i>                     |
| <i>American National Bank</i>           | <i>Guaranty Bank</i>                  |
| <i>BancFirst</i>                        | <i>ING Capital LLC</i>                |
| <i>Bank of Oklahoma / Bank of Texas</i> | <i>Key Bank NA</i>                    |
| <i>Bank of Scotland</i>                 | <i>NATIXIS</i>                        |
| <i>Bank of the West</i>                 | <i>National Bank of Canada</i>        |
| <i>BMO Financial Group</i>              | <i>RBC Capital Markets</i>            |
| <i>BNP Paribas</i>                      | <i>Regions Bank</i>                   |
| <i>Calyon - Americas</i>                | <i>Royal Bank of Scotland</i>         |
| <i>Canadian Western Bank</i>            | <i>Sterling Bank</i>                  |
| <i>Capital One Bank</i>                 | <i>Sumitomo Mitsui Banking Corp</i>   |
| <i>CIT Energy</i>                       | <i>TD Securities</i>                  |
| <i>Citibank, N.A.</i>                   | <i>Texas Capital Bank</i>             |
| <i>Comerica Bank</i>                    | <i>Unicredit</i>                      |
| <i>Commonwealth Bank of Australia</i>   | <i>US Bank</i>                        |
| <i>Community National Bank</i>          | <i>Wachovia Securities</i>            |
| <i>Compass Bank</i>                     | <i>Wells Fargo</i>                    |
| <i>Coppermark Bank</i>                  | <i>Western National Bank</i>          |
| <i>DNB NOR</i>                          | <i>Whitney National Bank</i>          |

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