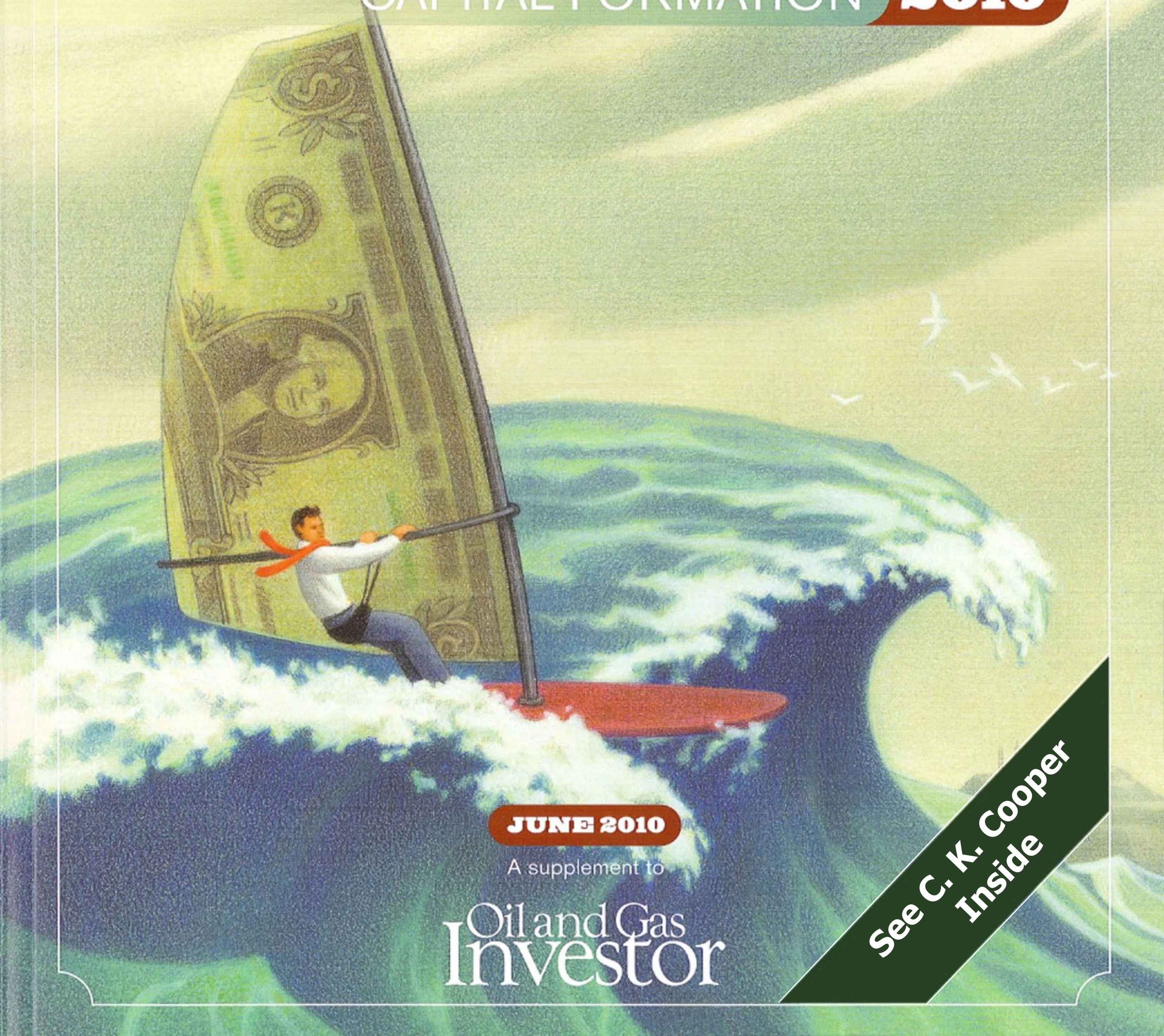
HERE'S THE MONEY

CAPITAL FORMATION 2010



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See C. K. Cooper Inside

Markets Open For Small- and Mid-Cap E&Ps

The capital markets will continue to fill the funding void for E&Ps through 2010.

Article and Data By ADAM B. CONNORS

For the past five years, C. K. Cooper & Co. has tracked capital markets activities for relevant small-cap and mid-cap exploration and production companies. In the last six months of 2009, for the universe we cover, there were 15 equity issuances totaling approximately $687 million in gross proceeds, with an average issuance size of $46 million. As one may recall, the last six months of 2009 were riddled with balance-sheet concerns, and investors and bankers alike were focusing on potential credit-facility redeterminations, although elevating oil prices served as a silver lining in accelerating confidence.

Beginning in April of last year, the equity window began to open. This allowed E&P companies the chance to tap the awakened investor community. Using the capital thus raised, companies first "right-sided" their balance sheets, removing the potential overhang of being over-levered. This put smiles on commercial bankers' faces.

Paying down debt, while not typically a compelling use of proceeds, became a common story as companies, especially the oilier ones, demonstrated sound EBITDA (earnings) performance thanks to increasing commodity prices. Thus, a quick pay-down of debt began to make

SELECTED DEBT ISSUANCE–

Last Six Months 2009

Issuer	Symbol	Exchange	Issue Date	Maturity Date	Type	Gross Proceeds Raised	Coupon	YTM at Offering	Current YTM	Years Until Maturity	Conversion Premium
Altagas Income Trust	ALA.UT	TSX	06/29/09	06/29/16	Senior	$100,000,000	6.9%	6.8%	5.5%	7.0	-
Bill Barrett	BBG	NYSE	07/08/09	07/15/16	Senior	$250,000,000	9.9%	10.2%	8.2%	7.1	-
Petrobank Energy	PBG	TSX	07/10/09	07/10/15	Convertible Preferred	$400,000,000	5.1%	-	-	6.0	27.0%
Quicksilver Resources	KWK	NYSE	08/14/09	09/15/19	Senior	$300,000,000	9.1%	9.6%	8.3%	10.2	-
Baytex Energy Trust	BTE	NYSE	08/26/09	08/26/16	Senior	$150,000,000	9.2%	7.8%	7.1%	7.0	-
Plains Exploration	PXP	NYSE	09/11/09	10/15/19	Senior	$400,000,000	8.6%	8.7%	7.8%	10.2	-
Concho Resources	CXO	NYSE	09/18/09	10/01/17	Senior	$300,000,000	8.6%	8.4%	7.9%	8.1	-
Goodrich Petroleum	GDP	NYSE	09/28/09	10/01/29	Convertible Preferred	$190,000,000	5.0%	-	-	20.1	30.0%
Venoco	VQ	NYSE	10/07/09	10/01/17	Senior	$150,000,000	11.5%	12.3%	10.5%	7.9	-
GMX Resources	GMXR	NASDAQ	10/28/09	05/01/15	Convertible Senior	$75,000,000	4.5%	-	-	5.6	25.0%
Pacific Rubiales Energy	PRE	TSX	11/10/09	11/20/16	Senior	$450,000,000	8.8%	8.0%	7.9%	7.1	-
Callon Petroleum	CPE	NYSE	11/24/09	09/15/16	Senior	$138,000,000	13.0%	-	20.3%	6.9	-
Swift Energy	SFY	NYSE	11/25/09	01/15/20	Senior	$225,000,000	8.9%	9.0%	8.2%	10.2	-
					Mean	$240,615,385	8.4%	9.0%	9.2%	8.7	27%
					Median	$225,000,000	8.8%	8.7%	8.1%	7.1	27%
					Total Gross Proceeds	$3,128,000,000					

SELECTED DEBT ISSUANCE–

First Four Months 2010

Issuer	Symbol	Exchange	Issue Date	Maturity Date	Type	Gross Proceeds Raised	Coupon	YTM at Offering	Current YTM	Years Until Maturity	Conversion Premium
Forest Oil	FST	NYSE	01/21/10	02/15/14	Senior	$600,000,000	8.5%	7.1%	6.6%	4.1	-
Stone Energy	SGY	NYSE	01/26/10	02/01/17	Senior	$275,000,000	8.6%	8.9%	8.9%	7.0	-
Venoco	VQ	NYSE	02/03/10	10/01/17	Senior	$149,000,000	11.5%	10.7%	10.2%	7.7	-
Continental Resources	CLR	NYSE	02/09/10	10/01/19	Senior	$300,000,000	8.3%	8.0%	7.1%	9.6	-
NFR Energy	Private	NA	02/12/10	02/15/17	Senior	$200,000,000	9.8%	10.0%	10.1%	7.0	-
Harvest Natural Resources	HNR	NYSE	02/17/10	03/01/13	Senior Convertible Debt	$32,000,000 "	8.3%	8.3%	8.3%	3.0	30.0%
Plains Exploration	PXP	NYSE	03/29/10	04/01/20	Senior	$300,000,000	7.6%	7.7%	7.6%	10.0	-
Continental Resources, Inc.	CLR	NYSE	4/05/2010	10/01/2020	Senior	$200,000,000	7.4%	7.3%	6.9%	10.5	
NFR Energy LLC	Private Co	NA	4/14/2010	2/15/2017	Senior	$150,000,000	9.8%	10.0%	10.1%	6.8	
Rosetta Resources, Inc.	ROSE	NASDAQ	4/15/2010	4/15/2019	Senior	$200,000,000	9.5%	9.2%	9.1%	9.0	
					Mean	$240,600,000	8.9%	8.7%	8.5%	7.5	30%
					Median	$200,000,000	8.6%	8.6%	8.6%	7.4	30%
					Total Gross Proceeds	$2,406,000,000					

sense as a means to take the "investor-credit-worries lid" off their respective stock prices, by decreasing interest expense—and providing confidence that equity dollars were available if banks came knocking.

For the first five months of 2010, we have already witnessed 13 equity issuances totaling more than $1 billion in gross proceeds. While the same story rings true concerning companies paying down debt with equity, we have also witnessed a "back to business" theme. Companies now quickly deploy new investor capital into the ground as a way to take advantage of higher oil prices that appear to be here to stay.

It is interesting to highlight that both the average market capitalization of the issuers, and gross proceeds per issuance, have approximately doubled between the two periods. This undoubtedly is a function of an investor revival in the E&P space, along with higher oil prices.

TWO CASE STUDIES

We note two deals, by Brigham Exploration Co. and Northern Oil & Gas, in particular. Brigham, one of the most active operators in the oily Bakken shale play, raised $168 million in October 2009, and at the time was an $885-million company. Brigham tapped the equity markets again in April 2010 for $290 million, and only six months after its 2009 raise, was valued at $1.8 billion.

Brigham was one of the stretched E&P companies during the equity-market collapse of early 2009, with looming debt issues. However, once the company was able to tap the equity markets, it first addressed its balance sheet. Later, it went back into the markets to accelerate its Bakken drilling program, with investor confidence flooding back to the company along the way.

Additionally, Brigham began to fire on all cylinders when it started announcing huge IP (initial potential) flow rates in its Bakken wells. When it was time to tap the equity markets again in April 2010, its use of proceeds was very simple: put as many rigs to work on its Bakken acreage as possible, and keep hitting great wells.

Northern Oil & Gas, a Bakken story as well, tapped the equity markets in October 2009 to help pay down debt, protect its lease positions and acquire new leases. At the time, Northern was a $340-million company. On the heels of Brigham's raise in April 2010, Northern also revisited the equity markets, but this time it had recovered to a size of $695 million. Its stated use of proceeds of the $86-million raise was to fund a war chest, to continue leasing highly sought-after Bakken acreage and position itself for the flood of authorizations for expenditures on the verge of pouring in.

Of course, the equity markets and investors always favor great, proven management teams. Other factors also keep the sector's buzz alive: oil prices are back in favor, some factors point to a global economic uptick, and the dramatic increases in share prices over the past year keep at least the short-term E&P investor's outlook rather favorable.

PIPEs

In 2010, we have also seen evidence of the "Return of the PIPE" (private investment in public equity). For all of 2009, only one PIPE was issued, early in the year. However, thus far in 2010, we have already tracked three PIPEs, suggesting that investors might be nudging out a little further on the risk curve, to take on the six-months-or-so illiquidity risk of a PIPE, if the issue is right. This could signal the revival of a key capital source for microcap E&P companies that are not eligible for a shelf registration (S-3) and wish to forgo the S-1 process.

DEBT

The debt yield has continued to come down in 2010 from 2009, and even yields from issues in the first quarter of 2010 have declined, indicating a growing appetite for debt and risk tolerance. A string of recent debt transactions have come to market.

We believe that the outlook for oil prices, coupled with strong yields versus comparable interest-bearing securities, is drawing investor attention to E&P issuers with solid production profiles. This suggests a more secure position for investors in an inflation-adjusting underlying product.

We generally believe that commercial banks are reluctant to lend aggressively to the sector, so we expect the capital markets to continue to fill the funding void through the end of 2010. •

Adam B. Connors is director, corporate finance group, for investment bank C.K. Cooper & Co. in Irvine, California.