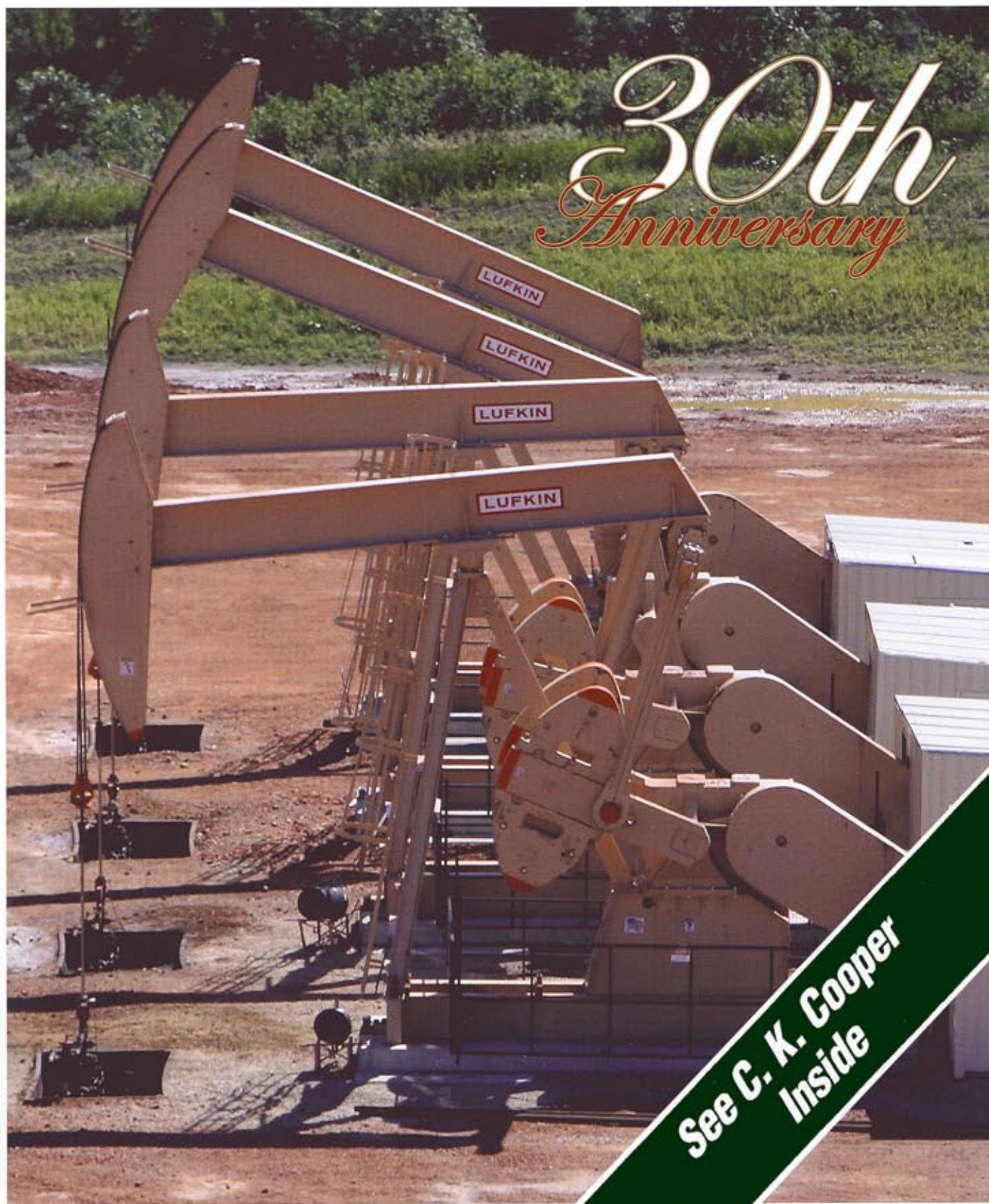


Oil and Gas Investor

A HART ENERGY PUBLICATION/AUGUST 2011

*30th
Anniversary*



All pumped up: Bakken oil is on the rise.

2011: SO FAR, SO GOOD

Myriad macro, external factors in the energy markets contributed to high oil-price volatility in the past six months. Crude prices continued to climb in the first quarter of 2011, thanks to increased world demand related to a global recovery from the Great Recession.

Scarcity and uncertainty, both close friends of high commodity prices, took over headlines and fueled upward price momentum as civil unrest boiled over in Egypt's now-famous Tahrir Square and spread throughout the oil-producing region. Investors remembered past Suez Canal crises as WTI trudged upward from \$90 per barrel in early February to peak at \$114 in late April.

Partial resolutions to the uprisings, the death of Osama Bin Laden, expiration of quantitative easing (one of the Fed's tricks), tapping of the U.S. Strategic Petroleum Reserve, and the re-emergence of European austerity issues, snapped oil prices back to the \$90s as summer began, where they remained at press time.

Domestically, a harsh, record-breaking winter followed by a treacherously wet spring slowed the seemingly unstoppable Williston Basin's Bakken/Three Forks play, in opposition to upstream investors' enthusiasm.

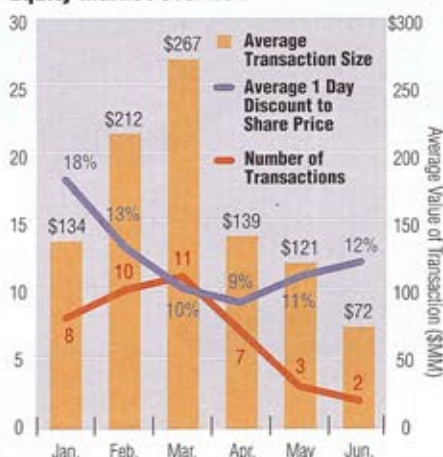
In addition, fracing has taken a new political hot seat in Texas, not as a disputed source of contamination, but due to water scarcity as Texas experiences its worst drought in more than 116 years. This is an especially troubling scenario, when a single Eagle Ford well requires more than 10 million gallons of water to frac.

The easing—albeit painfully slow—of the permitting process in offshore Gulf waters may provide some pieces to help solve the domestic production puzzle; however, a rebound in investor excitement for offshore-weighted companies, especially the smaller ones, has yet to surface.

Based on comparing the sectors, we think the midstream sector might play a key role in solving the puzzle, as it tends to be less reactionary to "headline noise" and a safer place to park investment dollars when the world's economic direction is unclear. Since the midstream industry is less susceptible to oil prices, especially compared to the upstream, and is more of an infrastructure/transportation play, it is less volatile.

In the equity market, stepped-up activity continued through the fourth quarter of 2010 and into first-quarter 2011, with 29 offerings. As oil topped \$100 per bar-

First-Half 2011 Energy Equity Market Overview



Source: C.K. Cooper & Co.

rel in March, the share prices of most oil and gas companies dramatically increased, boosting investor demand. Oil and gas share prices appreciated an average of 13.5% during the first quarter, and the companies raised more than \$6.1 billion in the equity market. Investors' appetite for oil grew steadily from January to March. The number of transactions increased, the average transaction size doubled, and the discount to the prior day's market price fell steadily, from 18% to 10% in March.

Activity in the second quarter did not fare as well, however. While oil only retreated to the mid- to low \$90s, the equity markets cooled off substantially. There were just 12 offerings, totaling \$1.5 billion, with half under \$10 million.

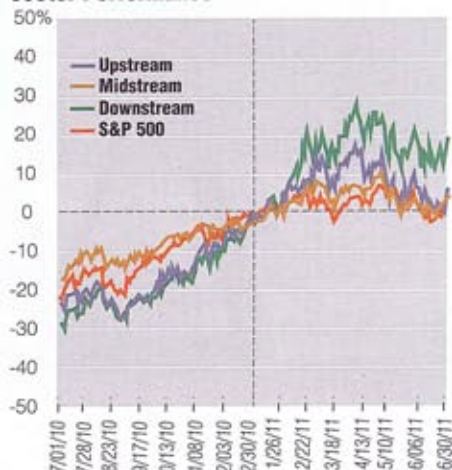
With the stock market in general looking for direction, the capital markets began drying up. The number of transactions fell by more than half, and to a smaller average size, even with companies enticing investors with higher discounts to their market prices.

June was particularly dismal, with only two equity transactions, totaling \$144.5 million. This comes as no surprise, however, as June is historically a slow month for the market.

The majority of the oil and gas equity market offerings in 2011 were in the upstream sector, with EOG Resources Inc. having the single largest offering, at \$1.4 billion, followed by the midstream and then the downstream sectors. However, in terms of offering price, downstream companies commanded the smallest discount to the prior day's market price, while upstream companies settled for the highest.

These averages are skewed, however;

Sector Performance



Source: C.K. Cooper & Co.

a handful of upstream companies that normally would get little traction in the capital markets, due to a lack of fundamentals or perceptions as being too risky, were able to successfully close offerings, albeit at a high discount to their share price, in the first half of this year.

As the equity market heated up, so did the debt market. Over the first half of 2011, energy companies issued more than \$20 billion of debt. Almost \$15 billion of this was issued by upstream companies, with the highly leveraged ATP Oil & Gas Corp. taking down the largest single offering, at \$1.5 billion. It also had the highest coupon among the debt offerings, at 11.9%.

Midstream companies were able to issue debt at the lowest coupon among the three sectors, at an average of 6.2%.

The company obtaining the best yield, gauged by the lowest coupon, was Marathon Petroleum Corp., in three separate offerings. The company was able to close its five-year, \$750-million offering at a 3.5% coupon on March 1, 2011, the lowest of any oil and gas bond offered in the first half of the year.

Unfortunately, C. K. Cooper & Co.'s proprietary crystal ball is cloudy at present, offering only a hazy picture for the rest of 2011. What may be discerned is that high oil prices should sustain a fundamental floor in investors' appetites for the energy space, while nuisances such as weather and rapidly fluctuating world views will remain nothing more than background noise.

—Adam B. Connors, director (aconnors@ckcooper.com); and Carl P. Goltermann, analyst (cgoltermann@ckcooper.com), corporate finance group, C.K. Cooper & Co.