

AUCTION DEAL METRICS

It would be kind to say that the 2009 A&D market has been slower than a bread wagon with biscuit wheels.

EnergyNet has conducted online auction sales every week during 2009 and sold 602 properties, representing about half the number sold during the same period in 2008. The property mix is also vastly different from the year-ago period. Sellers are divesting more leasehold that is out of the "fairway" or that they themselves can't get drilled prior to lease expirations.

Metrics haven't changed notably, at least in terms of multiples—but for deals to work, they are based on last month's cash flow as opposed to the trailing six months. Oil properties have brought a premium compared to gas properties. Quality royalties and overrides still fetch a premium, even in the current market malaise.

Perhaps surprisingly, the bank redeterminations heralded early in the year as opening the A&D flood gates have been anticlimactic. Thankfully, companies are in better shape, at least for now, than some predicted.

Participant attitude. There has not been a significant change since January with regard to attitudes on the sell and buy sides. Lack of liquidity generally has not yet forced sellers to divest, but those who have are running headlong into potential buyers' lack of credit to transact meaningful deals.

Sellers simply do not want to sell gas properties when the widely held belief is that prices have reached "total depth" and are now slowly coming off bottom. The memory of \$8 to \$10 per Mcf gas is too fresh. Buyers are as enthusiastic as ever and are paying premium prices for quality—particularly, long-life—oil properties.

Proved developed producing properties are what buyers are after now. Non-producing minerals will sell in this market as well. Nonproducing leases, however, are struggling unless they are directly in the path of perceived prosperity. Additionally, they must have enough term for buyers to feel comfortable.

Metric tracks. By holding continuous auctions, EnergyNet is able to track metrics on a consistent and frequent basis.

Over the years the trend has shown a one- to two-month lag between the commodity price movement and auction metrics.

During the months of March and April, EnergyNet did not have sufficient working interest data to be meaningful. A small sampling of marginal properties was sold, and they were anomalous when compared to the market before or after those two months. On the other hand, May sales consisted of royalties and working interests in a rising commodities market, so buyers were comfortable paying more. It should be noted that the properties sold during this time frame were oil-heavy properties with limited to no gas production. This, along with quality properties, accounts for the higher metrics.

Political ramifications. Add to the sticker shock of natural gas prices the looming prospect of the current administration's apparent disdain for hydrocarbons and those who are radical enough to produce them, and you have unprecedented mixed signals in the A&D arena.

Together these two factors have buyers and sellers wondering whether to hold, sell or buy. There is no doubt that buyers are factoring in the potential for loss of percentage depletion and other deductions when calculating net present value. Loss of deductions for intangible drilling costs is only slightly less a factor, as proved undeveloped locations are currently a smaller evaluation component of value.

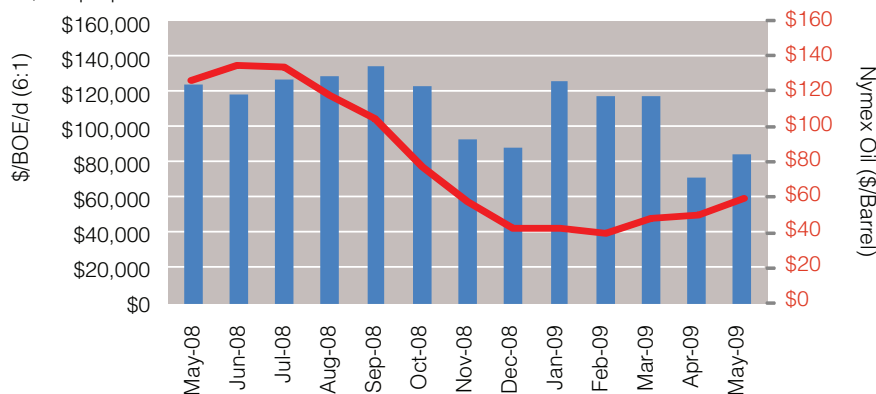
Sellers are well aware that if deductions are in fact lost, their producing properties become more valuable due to increased replacement cost. Impending "Frac Act" (fracture stimulation) bills looming in Congress would further add to that value. Sellers also know that the potential for increased capital gains tax rates is an impetus for selling prior to enactment.

The good news is, at the local wind farm near Amarillo, about half of the turbines were down for unscheduled maintenance and a number of residential solar panels were destroyed in a recent hail storm. It appears that some farmers have actually gone back to growing food. This administration's magic carpet ride will likely have to make frequent, grudging stops at the gas pump.

—Bill Britain, president and chief executive, EnergyNet Inc.

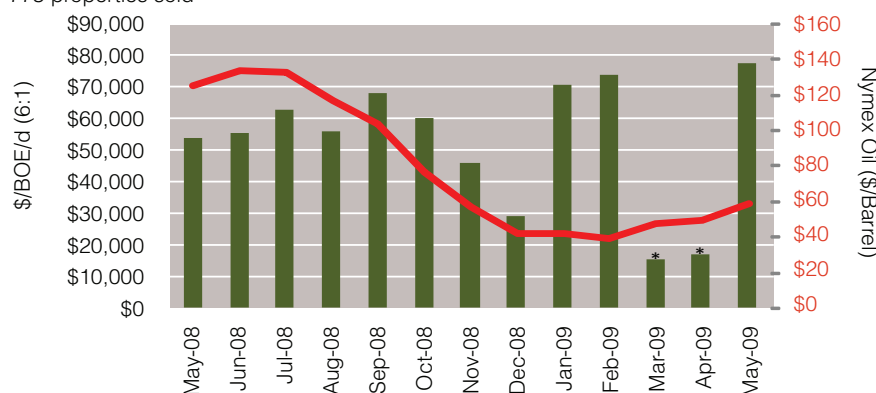
Auction Metrics: Royalty Interests

1,235 properties sold



Auction Metrics: Working Interests

773 properties sold



* Inconclusive Data. Source: EnergyNet Inc.

For more A&D market intelligence, see A-Dcenter.com.