

NEGOTIATED AUCTIONS

Auction property sales via EnergyNet began to ramp up in October 2009 and have accelerated well into 2010. The fourth-quarter 2009 transaction dollar volume alone equaled the total volume of the anemic first three quarters. The

normal and expected first-quarter auction-activity malaise was, fortunately, nonexistent in 2010.

It is interesting to note that in terms of bidding activity, buyer behavior did not change significantly through the 2009

A&D meltdown. The number of bidders per lot increased slightly year-on-year from 9.3 to 11.3, while the number of bids per lot averaged 43.2.

A recently published book titled *Negotiauctions*, by Guhan Subramanian, brings together the two parallel, but separately developed, streams of scientific research in auctions and negotiations. The term negotiauctions® is spot on when describing the dynamics of auction sale closings since January 2009.

Both auction sellers and buyers want to negotiate on more than just price in the event the seller's reserve price is not met. Buyers have plenty of dry powder, but have become much more discerning in deploying their dollars. They purchased too many properties during the gas-price run-up and are chastened from that experience. For their part, sellers are doing their best to maximize values, particularly with regard to gas-heavy properties, when a sale into current low commodity prices becomes necessary.

Of all the lots closed from January 2009 through January 2010, about 75% were sold during auction and the other 25% were sold during post-auction negotiation. This ratio fluctuated dramatically, trending toward a need for more negotiation starting in second-quarter 2009 and becoming more pronounced through the balance of the year.

Working-interest and royalty metrics suffered through 2009 in terms of both cash-flow multiples and price per thousand cubic feet equivalent (Mcf) per day. These metrics recovered nicely in first-quarter 2010 as oil prices continued to climb.

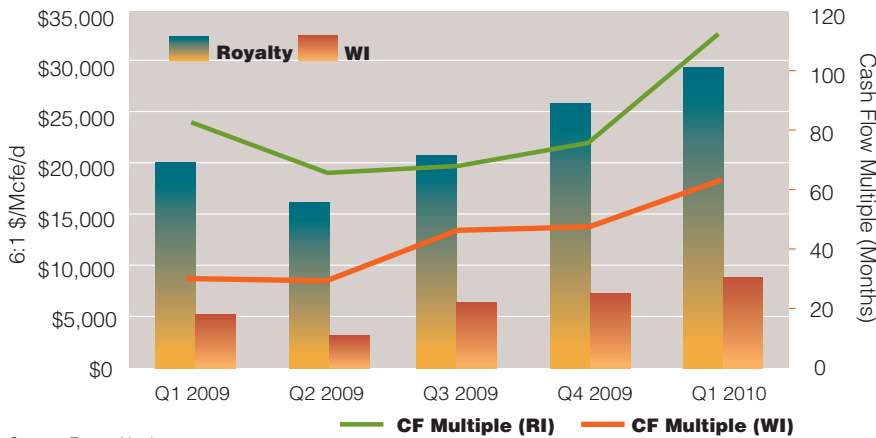
First-quarter weighted averages are 112 months for royalties and 63 months for working interests, times the most recent six-month cash flow. Working interests averaged \$8,764 and royalties averaged \$29,094 per Mcfe per day.

Regardless of A&D activity levels, high-quality properties continue to garner high prices.

The summation of the past year is that we find ourselves in an environment where auctions have morphed into negotiauctions, and seller, buyer and broker are all working harder than ever to make transactions happen...but happening they are.

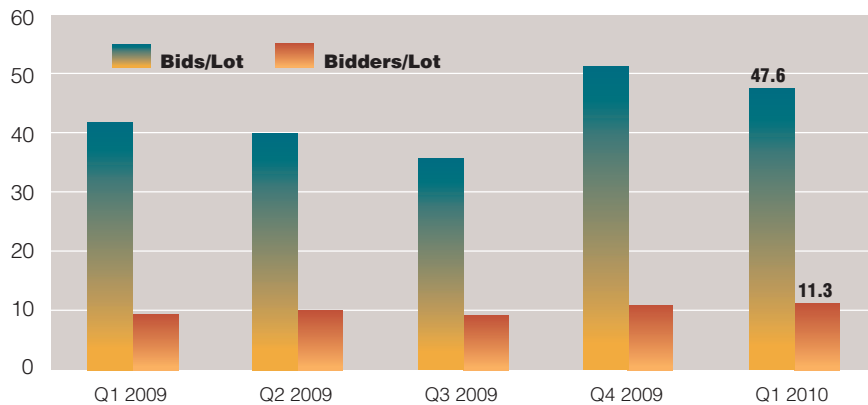
—Bill Britain, president and chief executive, EnergyNet Inc.

Auction Metrics



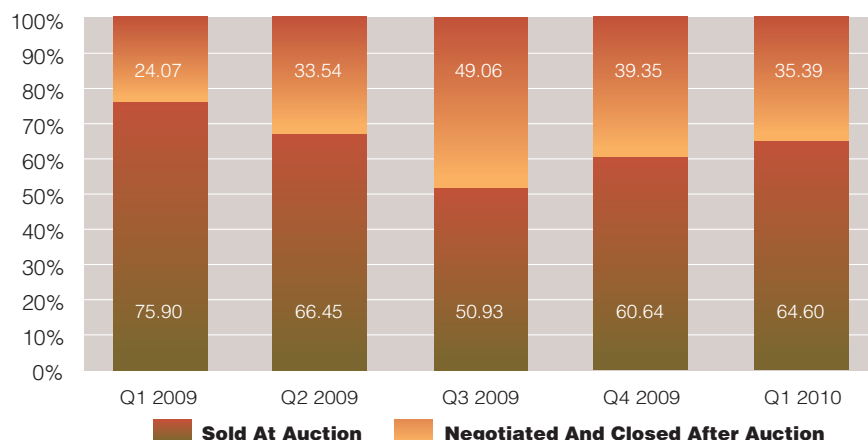
Source: EnergyNet Inc.

Per-Lot Buyer Participation



Source: EnergyNet Inc.

Properties Sold At Auction vs. Negotiated After Auction



Source: EnergyNet Inc.

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