YEAR-OVER-YEAR METRICS

Comparing asset-sale metrics from 2008 with those of 2009 yields some interesting footnotes. As everyone is painfully aware, A&D activity has slowed to a trickle compared with 2007 and 2008, and transaction values have contracted as well.

However, the number of transactions in EnergyNet's market is more flat than would be expected: 2,452 properties sold in 2008 and 2,036 in 2009, down only 17%. What is the cause?

Many sellers, concerned about capital gains tax rates increasing from 15% to at least 20% and probably more, forged ahead with divestitures in 2009. Majors and independents were not as occupied as usual with larger divestitures and took the opportunity to move out nonstrategic properties.

Some sellers decided this commodity-price cycle, in particular natural gas prices, would linger for the foreseeable future and continued with property sales. Other sellers were forced to sell due to bank borrowing-base redeterminations. EnergyNet also handled a number of liquidation sales for bankruptcy courts throughout 2009.

Outside the private sector, exciting new markets opened up. The Bureau of Land Management held a pilot sale of Colorado leases in September to test the effectiveness of online leasing. Some 1,500 viewers from 46 states conducted due diligence. Registered bidders enjoyed estimated travel savings of more than 30,000 miles. Currently, the FDIC is successfully selling properties from failed institutions scattered across 10 states.

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There is no shortage of well-financed buyers. As expected, their appetite is skewed toward oil properties. Multimillion-dollar, high-quality oil properties sold in 2009 for values, in some cases, higher than in 2008.

For example, a royalty interest in the Levelland Unit, Hockley County, Texas, sold for a 116-month multiple in first-quarter 2009 with cash flow representing oil prices in the range of $100 per barrel, even though oil had slipped to around $45 per barrel at that time. Overriding royalty interests with upside potential sold in the fourth quarter for a 112-month multiple and an 11% net present value (NPV) using Nymex strip pricing, with oil at approximately $70 per barrel.

That being said, many buyers show continued interest in natural gas properties because they believe they are buying at the bottom of the price cycle. It has been a much greater challenge to match buyer-and-seller expectations in these properties because sellers do not agree with buyers as to pricing.

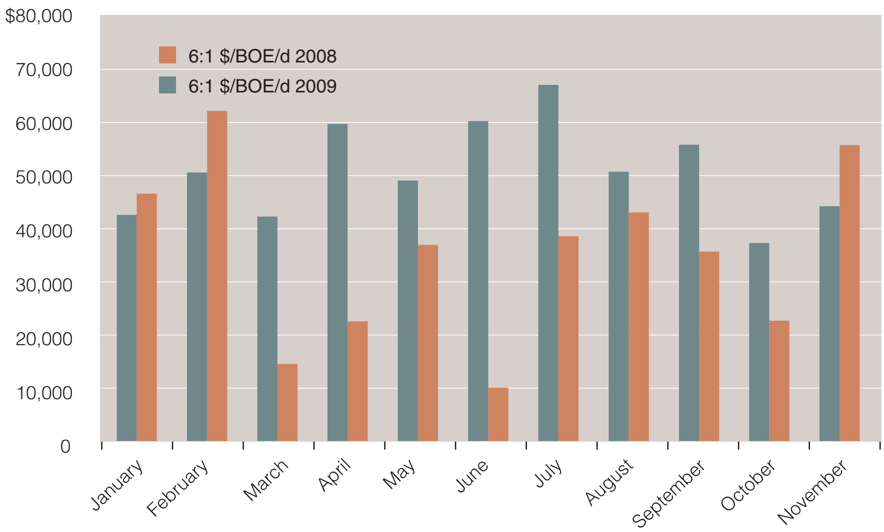
Some conclusions can be reached in comparing the two years. Only three months during 2009 saw working interests garnering higher flowing-barrel-per-day values. All three of those months were marked by falling prices in 2009 and by rising prices for the 2008 period.

As for royalty interests, six out of seven months in 2009 saw higher prices per barrel of oil equivalent per day than during the same months in 2008. The same pricing scenario applies. Both of these are counterintuitive in view of the credit crisis and the general condition of the economy during 2009.

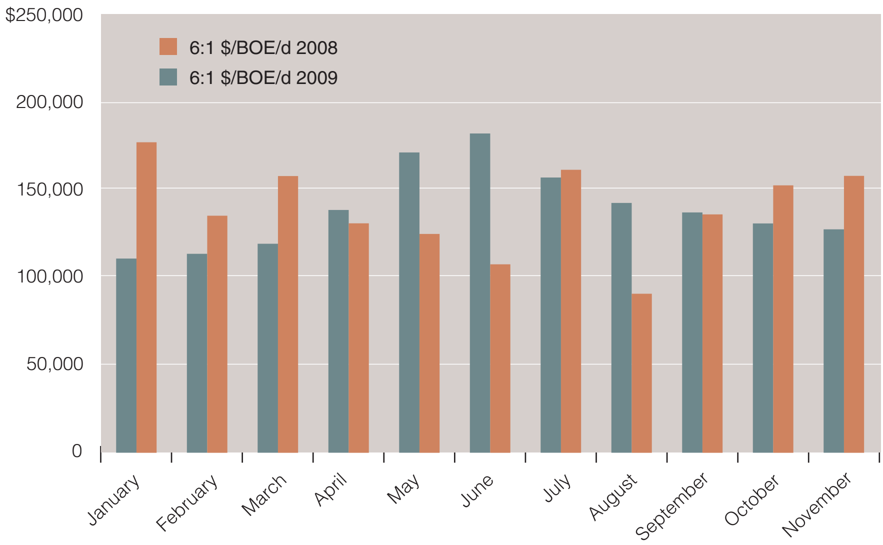
As always, high-quality, long-term, legacy-type properties hold their value regardless of commodity pricing in particular or the economy in general.

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

Working Interest Auction Metrics, 2008 vs. 2009



Royalty Interests



Source: EnergyNet

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