October 12, 2012 • Volume 05, No. 13

PLS CAPITALMARKETS

Serving the marketplace with news, analysis and business opportunities

ENERGY FINANCE

Seadrill to be 1st driller in MLP space with $225 million IPO

Seadrill Ltd. took its first formal steps toward bringing its vision of an MLP subsidiary to reality, filing to IPO **Seadrill Partners** in the US with plans to raise $225 million. Proceeds will be used to acquire LP interest in four vessels: the West Aquarius semisub, Capella drillship (both with 10,000-ft capacity), Capricorn semisub (7,500 ft) and Vencedor tender rig (5,000 ft). Seadrill Partners will operate the rigs with plans to acquire others (presumably from Seadrill) for operation on long-term contract.

Driller plans to drop down ~$1.2 billion in debt to Seadrill Partners.

Seadrill Ltd. said the move will diversify assets, reducing investor risk and increasing the company's flexibility. Seadrill Ltd. hopes Partners will be able to distribute ~$70 million next year. The parent firm will retain LP interests, incentive distribution rights (IDRs) and ownership of the vessels. It also plans to drop down ~$1.2 billion in debt, including $181 million in current debt.

On completion of the offering, Partners will have a 30% LP interest in **Seadrill Operating LP** as well as 100% interest in its GP, and a 51% stake in **Seadrill Capricorn Holdings LLC.**

Continues On Pg 12

Riverstone backs shale player Kerogen for $200 million

Riverstone Holdings announced it will back private unconventional E&P company **Kerogen Energy Holdings** with up to $200 million in equity. Kerogen is focused on oil and liquids exploration and development in both the US and Canada, with particular expertise in shale oil and offices in Houston and Alberta.

Kerogen is focused on low-entry-cost, highly prospective shale oil plays.

The venture was formed in late 2010 with private investment support. Since then, it has performed technical evaluations and taken initial acreage positions in proprietary shale plays in both countries. Kerogen and its wholly owned Canadian sub **BlackShale Resources** are engaged in JVs in the San Joaquin, Permian, Powder River and Western Canadian Sedimentary Basins.

Kerogen is targeting low-cost plays with valuation derived from its team's technical expertise. It is currently continuing acreage accumulation in four unspecified projects (two US and two Canadian) and is initiating key drilling with the objective of converting contingent resources into proved reserves.

Continues On Pg 6

Linn Energy completes $1.1 billion non-MLP IPO

Linn Energy launched a 30.25 million-share IPO of its LLC sub **LinnCo** Friday priced at $36.50/share, raising $1.1 billion before the underwriters' allotment. Shares closed up 4.8% at $38.26/share on their first day of trading. The IPO pricing was pulled back from a previously proposed $41.24/share. Underwriters have an option for ~4.54 million shares, which would raise an additional $165 million.

LinnCo's sole purpose will be to hold units of Linn Energy; it will have no other assets. LinnCo will use net proceeds to buy Linn Energy units equal to the number of LinnCo shares in the IPO—with Linn using those proceeds in part to finance acquisitions, repay debt and pay LinnCo's offering expenses. The filing said LinnCo will "enhance Linn's ability to raise additional equity capital to execute on its acquisition and growth strategy." It will allow investors to hold interests in the parent company while avoiding tax implications such as reporting business taxable income and filing related state income tax returns.

The offering is a way to get Linn's 7% yeild without complicated tax impacts.

Continues On Pg 4

Now is the time to buy gas reserves, says Vanguard

Vanguard Natural Resources showcased its approach to upstream at the recent OGIS conference in San Francisco, revolving around an opportunistic acquisition strategy and strong investor yield and hedging.

Vanguard engaged in ~$2.1 billion in strategic acquisitions since its 2007 IPO. As opposed to many upstreamers that focus on growth investments, Vanguard focuses on cash flow and targets mature, long-lived investments with high PDP reserves and step-out development opportunities. This pushes the company's capex as a percentage of EBITDA to a best-in-class 15%, compared to an average 49% for MLP E&Ps and a hefty 172% for traditional resource-focused upstream C-corporations.

Vanguard typically hedges acquisition-related production out three to five years.

Continues On Pg 11

Capital Market News

E&P losses expected to end S&P 500's 11-quarter win streak

An energy sector struggling with lower oil and gas prices is expected to drag down the S&P 500 to a 1.7% sequential earnings decline in Q3, ending an 11-quarter streak of profit growth. Consensus estimates of more than 1,200 analysts suggest that oil and gas producer income fell 22% in the quarter ending September 30—the largest sequential decline since 2009. However, the weakness is not expected to last into the longer term.

If not for the energy sector decline, analysts would instead be predicting a 1.9% S&P 500 increase in Q3, led by solid bank and computer sector performance.

Hedge funds are also turning bearish on the global stock market, with the ratio of bulls to bears declining and below historical norms, according to an **International Strategy & Investment Group** survey.

Top five upstream stock winners & losers

Shares of **Lone Pine Resources** rose 29% over the past month on news of an **RBC**-led asset review to help de-leverage the company, improve its liquidity and position it to increase remaining asset value. Lone Pine subsequently announced two agreements worth a total $19 million with unidentified private upstreamers for certain non-core assets in the Kaybob area of Alberta's Deep Basin.

Quicksilver Resources is up 18% after announcing a ~330,000-net-acre 50:50 Niobrara JV and AMI with **Shell Western E&P Inc.** in Colorado's Sandwash Basin. The Shell sub is paying Quicksilver an undisclosed sum for its acreage contributions over the 50% mark, which **Tudor, Pickering, Holt & Co.** estimates to be in the $25-75 million range.

Recent Gulfport Utica well tested at a liquids-rich 29 MMcfed; stock up 16%.

Shares of **Gulfport Energy** rose 16% this month after the company's Shugert 1-1H well in the Utica tested over 29 MMcfed (41% NGLs, 3% condensate). Gulfport also said **Grizzly Oil Sands,** in which it holds a 25% stake, closed a $125 million revolver to fund infrastructure for its Algar Lake SAGD project near Fort McMurray, Alberta. Capex for 2013 is projected at $365-375 million, with a reduction to $317-327 million if its planned Permian divestiture to **Diamondback Energy** goes as planned.

Meanwhile, **Penn Virginia** shares fell 24% on news of a planned $100 million equity raise including a 12 million-share offering of common stock which will ultimately dilute interest of equity holders by 26% (or more if an overallotment option is exercised). Proceeds will be used to pay down Penn Virginia's revolver and for general corporate purposes.

Upstream Market Movers—Past 30 Days

Source: **Capital IQ**

	Company	Ticker	$/Share 9/11/12	$/Share 10/11/12	% Change
Top 5	Lone Pine Resources	LPR	$1.26	$1.62	29%
	Quicksilver Resources	KWK	$4.02	$4.75	18%
	Gulfport Energy	GPOR	$28.17	$32.80	16%
	Exco Resources	XCO	$7.66	$8.80	15%
	Energy Partners	EPL	$19.12	$21.46	10%
Bottom 5	Penn Virginia	PVA	$6.56	$5.00	-24%
	ZaZa Energy	ZAZA	$3.07	$2.42	-21%
	FX Energy	FXEN	$7.96	$6.41	-19%
	Halcon Resources	HK	$8.55	$7.15	-16%
	Clayton Williams Energy	CWEI	$55.23	$47.63	-14%

Note: Data includes public, US-based companies operating in the oil & gas space, limited to companies >$100MM market cap & >$1.00/share.

Capital Market Briefs

• Power company **FirstEnergy** announced plans for 200 layoffs, with the possibility of additional layoffs next year. Results of an organizational study will be announced next month with cuts to follow, and affected employees will be eligible for severance. CEO Anthony Alexander said the cuts are being driven by slow customer load growth and abundant generation supply which has led to low power prices. The company has ~17,000 total employees.

• A study by North Dakota's Upper Great Plains Transportation Institute found that county and town roads need $7 billion in support over the next two decades—with $834 million needed within the next two years. Fortunately, Bakken oil revenues are pushing the state to a projected $1.6 billion surplus. The institute raised estimates 28% since its last study in 2010 due to increasing construction costs and 80% growth in the number of projected wells over the next two decades to ~46,000.

PLS Inc.
One Riverway, Ste 2200
Houston, Texas 77056

713-650-1212 (Main)
713-658-1922 (Facsimile)

Public Equity & Debt Briefs

• **Chesapeake** non-executive chairman and former **ConocoPhillips** exec Archie Dunham bought $1.5 million in Chesapeake shares—75,000 shares at an average $20/share. The purchase increases his total interest ~30% to ~326,000 shares (~$6.4 million under recent pricing).

• **Contango Oil & Gas** chairman Kenneth Peak is selling up to 250,000 shares of the company, reducing his ownership 12.5% to 1.75 million shares. With voting rights for another 284,296 shares, Peak retains a total 13.3% interest in outstanding shares. Peak is making the move for tax- and estate-planning purposes, after announcing a medical leave last month which could last up to six months.

• **Houston American Energy,** after a strategic review, completed a $9.2 million equity offering to continue development of its assets. Company has assets in Texas, Louisiana, and Colombia.

• **Miller Energy Resources** closed a ~$2.6 million offering of Series B Redeemable Preferred stock yielding 12%. Investors also received warrants exercisable at $5.28/share. Proceeds will fund asset development and drilling. Miller then priced and closed a shelf offering of 10.75% Series C Cumulative Redeemable Preferred stock at $23/share, with expected gross proceeds of ~$15.8 million to be used for general corporate purposes. **MLV & Co., Maxim Group, Williams Financial** and **National Securities Corp.** are underwriting.

• **SM Energy** is exchanging up to $400 million in privately issued 6.5% senior notes due 2023 for an equivalent amount in registered but otherwise identical notes. The registered notes are freely transferrable.

• **TexStar Holdings** announced plans to offer 2 million shares of 8% convertible preferred stock at $5.00/share, for gross proceeds of $10 million. Shares will convert to 10 shares of common in two years. Net proceeds will fund oil and gas reserve acquisitions and working capital.

Public Equity & Debt

Susser IPO nets $210 million, beating projections by 20%

Motor fuel distributor **Susser Petroleum Partners LP** netted proceeds of $209.8 million in its recently completed IPO with shares priced at $20.50—above the midpoint of its $19-$21/share range. In addition to the baseline 10.925 million units in the offering, the full underwriters' overallotment option for an additional 1.425 million units was exercised. Net proceeds were well above the most recent company projections of $174.3 million. Proceeds will be used to reimburse Susser's parent **Susser Holdings Corp.** for capex and to buy ~$146.8 million of securities to be used as collateral for a long-term loan.

Part of proceeds will buy ~$147MM of securities as collateral for long-term loan.

Susser Petroleum Partners distributes motor fuel at the wholesale level, serving more than 540 Susser Holdings retail convenience stores largely in Texas. The company reported $24 million in H1 gross profits on $2.16 billion in sales, up 14% and 16% YOY. It first filed to IPO in June, when it said it hoped to raise $200 million.

Susser trades on the NYSE under SUSP. Lead underwriters were **BofA Merrill Lynch, Barclays, Wells Fargo** and **UBS.** Co-managers are **RBC, Raymond James, BMO, Baird** and **Janney Montgomery Scott.**

Alpha tenders for $350 million in 2015 Massey convertibles

Coal miner **Alpha Natural Resources** and sub **Alpha Appalachia Holdings** (formerly **Massey Energy**) commenced a tender offer for up to $350 million in outstanding Massey-issued 3.25% convertible senior notes due 2015, along with the funding to fuel the buy. The companies are offering 94% of par for the notes including early tender, and 92% of par without.

The new issue yields 9.75%, much higher than the convertibles' 3.25%.

To cover the tender offer, Alpha is issuing $500 million in 9.75% senior notes due 2018 with expected net proceeds of $479.8 million. Beyond the tender offer or if the tender offer is not successful, net proceeds will be used for general corporate purposes. Assuming a successful tender, the additional $150 million net increase to long-term debt is fairly small compared to the company's overall $2.9 billion in long-term debt as of Q2.

The tender offer is conditional on Alpha's consummation of senior note offerings sufficient to fund it. **Citigroup** and **Barclays** are dealer managers for the tender offer. Citi, Barclays, **JP Morgan, BofA Merrill Lynch** and **RBS** are underwriting the new offering.

Downstream Capital

Private equity battling to buy chemical company TPC

A bidding war is developing between two top-tier private equity firms to takeover **TPC Group.** Backed by **Blackstone Capital Partners**, chemical company **Innospec** submitted a bid of $44-$46 per share or as much as $721 million (given the current number of outstanding shares) which trumped the $40.00 per share bid by **First Reserve** and **SK Capital Partners. Oppenheimer & Co.** analyst Edward Yang expects the bidding will continue with the final sale price likely to be in the $50 per share range or over $780 million.

Blackstone's $44-$46/share offer tops First Reserve's/SK's $40/share offer.

TPC makes specialty chemicals including high purity isobutylene and butadiene. There is currently a shortage of butadiene which is used to make heavy rubber. Yang says that since the company holds a third of the butadiene market, it is likely to fetch a higher price.

Innospec is a specialty chemicals company with fuel specialties, active chemicals and octane additives divisions. Innospec is the world's largest dedicated fuel treatment firm and if it successfully acquires TPC, TPC would be rolled into that division.

Public Equity & Debt

Diamondback ramps IPO plans significantly to $225 million

Diamondback Energy priced its planned IPO at $17-$19/share with plans to sell 12.5 million shares. At midpoint, gross proceeds would be $225 million ($208.5 million net)—far exceeding the $50 million Diamondback projected when it first filed to IPO back in February. An underwriter option for an additional 1.875 million shares would add $33.8 million at midpoint for $258.8 million total.

Gross proceeds should be ~4.5x the $50MM offering proposed in February.

Diamondback operates in the Permian, primarily in the Wolfberry, with 51,709 net acres (99% WI) and 185 net producing wells as of August 31. In May, **Gulfport Energy** agreed to sell Diamondback all its interests in the play for 7.9 million shares of pre-IPO stock (representing 35% of total equity) and a $63.6 million non-interest promissory note.

With its IPO proceeds, Diamondback plans to pay $100 million toward its revolver (resulting in $90 million in borrowing capacity), $63.6 million to repay the Gulfport Permian note, $30 million to repay private equity backer **Wexford Capital LP** for borrowings under a note, and $8.4 million to settle existing crude swaps. The balance will be used to fund a portion of E&P costs as well as leasehold and property acquisitions, working capital and a closing adjustment related to the Gulfport deal.

$19.8 million in pro forma 1H12 profits, vs. $8.2 million for all of 2011.

Wexford, which has over $5.5 billion in AUM, may purchase as much as $30 million worth of the offered shares, which would push its stake in Diamondback to 41.9%. Meanwhile, Gulfport's interest will drop to 22.5% under the offering.

Diamondback is led by CEO Travis Stice, a petroleum engineer who previously held positions with **Apache, Laredo, ConocoPhillips** and **Burlington Resources.** It will trade on Nasdaq as FANG. **Credit Suisse** is leading the offering with support from **Raymond James, Tudor Pickering, Wells Fargo, Capital One, Scotiabank, Simmons & Co., Sterne Agee, SunTrust** and **Wunderlich Securities.**

Linn's non-MLP IPO to streamline ownership Continued From Pg 1

LinnCo trades on the Nasdaq Global Select Market as LNCO. **Barclays, Citigroup, RBC, Wells Fargo, BofA Merrill Lynch, Credit Suisse, Raymond James** and **UBS** are joint book-running managers; senior co-managers are **Goldman Sachs** and **JP Morgan**; and co-managers are **Baird, BMO, Credit Agricole, CIBC, Scotiabank** and **Mitsubishi UFJ.**

Offer price reduced to $36.50/share from previously proposed $41.24.

In addition, Linn has undertaken an exchange offer for its full $750 million in privately issued 6.5% senior notes due 2019 for an equal amount of publicly registered but otherwise identical notes. The exchange will allow free transfer of the notes.

Linn Energy projects Q3 adjusted EBITDA of ~$380 million, up 19% vs. Q2.

Linn also provided Q3 guidance, predicting midpoint adjusted EBITDA of ~$380 million with production of 760-780 MMcfed, compared with $319 million and 630 MMcfed reported for Q2. For full-year 2012, the company anticipates midpoint adjusted EBITDA of $1.365 billion with production of 660-685 MMcfed.

The same release also provided updated drilling results from the Hogshooter play in the Texas Panhandle where Linn said it has identified an additional 50 well locations based on technical mapping. Nine new Q3 wells (beyond Linn's previous three in the play) IPed at an average ~3,080 boepd (64% oil, 17% NGLs). Oil content is down slightly from the original three wells, which tested at 2,110 bopd; NGL content is slightly higher.

Private Equity & Debt Briefs

• Houston's **Cub Energy** arranged a $3 million, 5% interest line of credit through its largest shareholder **Pelicourt Ltd.** Proceeds will fund development of Cub's Transcarpathian Basin position in western Ukraine, including purchase of service equipment and production facility upgrades. Proceeds can be drawn in tranches of at least $100,000. Repayment is due in September 2013. Cub's chairman and CEO Mikhail Afendikov holds an indirect 31% interest in Pelicourt.

• **Endeavour International** announced a $54 million offering of 12% notes due 2018 via private placement. Net proceeds will be used to retire Endeavour's outstanding 12% senior subordinated notes due 2014 and fund construction, improvement and other capex for Endeavour's US and UK oil and gas properties. The notes bear identical characteristics to those issued in a $350 million February offering, and the two issuances will be treated as a single class of debt.

• **Grid Petroleum** completed negotiations for $2.5 million in convertible preferred financing through an unidentified private small-cap venture fund. Proceeds will fund direct drilling and field development working capital and expenses. The financing, an initial round according to Grid, will occur over the next five quarters in $500,000 tranches on attainment of certain lease acquisition and development milestones.

• As a result of the mid-year redetermination under its revolver, **Northern Oil & Gas'** borrowing base increased to $350 million from $300 million. Northern reported $68 million in current outstanding debt under the facility. CEO Michael Reger said the increased borrowing capacity positions the company well for growth. **Bank of Nova Scotia** and **ING Capital** also joined Northern's lender syndicate.

Private Equity & Debt

Cantera gets $100 million backing from Kayne Anderson

The Woodlands-based upstreamer **Cantera Energy** announced its formation, alongside $100 million in backing from **Kayne Anderson Energy Funds.** Cantera will focus on acquisition and development in the onshore Gulf Coast. The backing comes from Kayne's **Kayne Anderson Energy Fund VI,** and management backing is incorporated into the total, as well.

Kayne: onshore Gulf Coast a good opportunity w/ ample non-core asset sales.

Cantera founders John Kelly and Nico Garza are **El Paso** alumni, with Kelly having served as VP of El Paso's southern division and Garza as director of its Haynesville efforts. The partners' expertise lies in technical evaluation and operations. Both hold petroleum engineering. degrees

Kayne Anderson managing director David Iverson said the current market presents an ideal opportunity, with sellers divesting non-core assets to fund development elsewhere.

Kayne Anderson Energy Funds manage $3.8 billion in committed capital, directed toward PE in the energy sector.

Private Equity & Debt Briefs

• **Genesis Energy LP** priced a secondary offering of 6 million units owned by **Quintana Capital Group II LP** and other third parties at $32.15/unit, a 7.0% discount to its closing price the day prior to the announcement. Genesis will receive no proceeds. The partnership also announced a $0.4725/unit Q3 distribution, up 2.7% vs. Q2 and 10.5% YOY.

• A $25 million overallotment option was exercised on **Sanchez Energy's** private $125 million convertible preferred stock offering, bringing net proceeds to $144.6 million. Proceeds will fund Eagle Ford drilling. Sanchez also will soon close on a $250 million three-year first-lien revolver with an initial $27.5 million borrowing base and a $250 million 42-month second-lien term loan with an initial $50 million commitment. The latter facilities are being entered to add liquidity, with no planned use for either in 2012.

Public Equity & Debt

Penn Virginia gets liquid, plans equity offering

Penn Virginia announced improvements to its liquidity picture, primarily through closure of a new five-year, $300 million revolver. The facility's $300 million borrowing base is $70 million higher than the base under its previous revolver. The new facility also includes a $300 million accordion feature.

Currently has $225 million in liquidity.

Penn said it has drawn $77 million under the new facility and also has $2 million in letters of credit and $4 million in cash on hand after receipt of a $32 million federal tax refund. All told between cash and available credit, Penn now has $225 million in liquidity.

Revolver interest runs from 1.5-2.5% plus Libor, unchanged from the previous facility.

Penn can also maintain a slightly higher debt-to-EBITDA ratio under the new revolver. **Wells Fargo** and **RBC** were co-lead arrangers; Wells Fargo also served as administrative agent and administering bank.

At 55% of Q2 production, Penn seems likely to drive much of that cash and credit into continued leasing and expansion of its Eagle Ford position. In its latest presentation, the company says it will have spent $300-325 million in capex by year's end—with 92% targeting the Eagle Ford. Much less spending will go toward Penn's gas-heavy Haynesville, Cotton Valley and Mississippi Selma Chalk positions, which it is holding as it waits for gas prices to recover. Oil and liquids are expected to rise from 45% to 47% of total output as a result.

Eagle Ford leasing & development are the likely focus of credit & proceeds.

Subsequently, Penn announced plans to pay down its outstanding balance to presumably free up even more of a liquidity buffer via a split offering that appears likely to raise over $100 million gross. Penn plans to offer 12 million shares of as-yet-unpriced stock and $50 million in depositary shares representing partial interests in convertible perpetual preferred stock. The public offerings will provide a 1.8 million-share option for underwriters which include **Credit Suisse,** RBC and Wells Fargo as lead underwriters for both offerings; **Canaccord Genuity, Scotiabank/Howard Weil** and **Johnson Rice** as co-managers of the stock offering; and **Capital One Southcoast** and Scotiabank as co-managers for the preferreds.

Split offering targets $100MM gross to pay down debt & free up more liquidity.

Still levered to gas, the stock offering alone (not counting the option) would amount to a 26% dilution to the public float. Shares dropped a comparatively modest 16% the day after news of the offerings.

Boardwalk raising $270 million to pay credit or up JV stake

Boardwalk Pipeline Partners LP announced and priced a 10 million unit public offering at $26.99/unit, for a projected $266.1 million in net proceeds ($270 million gross). Underwriters were granted an overallotment option for an additional 1.5 million units which, if exercised, would add ~$40.5 million in gross proceeds.

Net proceeds, alongside contributions from Boardwalk's GP sufficient to maintain its 2% stake, will reportedly be used for a combination of repayment of borrowings under Boardwalk's credit facility and acquisition of additional equity interests in Boardwalk/**Boardwalk Pipelines Holding Corp.** JV **Boardwalk Acquisition Company.**

Boardwalk had $215 million in Q2 outstanding borrowings on its revolver.

Boardwalk priced the offering at a 3.7% discount to the prior day's close. Units fell 4.6% the trading day following announcement of the offering, compared to a 4.8% dilution to equityholders.

Underwriters are **Barclays, Citigroup, Deutsche Bank, JP Morgan, Morgan Stanley, RBC Capital, UBS** and **Wells Fargo.**

Private Equity & Debt

Plains provides breakdown of $7 billion in GOM financing

Plains Exploration is filling in the blanks on its previously announced ~$6.11 billion in acquisitions of US Gulf of Mexico assets from **BP** and **Shell.** Plains has syndicated $7 billion in committed financing, consisting of a $3 billion senior secured five-year revolver, a $1.25 billion senior secured seven-year term loan, a $750 million senior secured five-year term loan and a $2 billion senior unsecured bridge loan. $5 billion in senior secured facilities will have an initial borrowing base of $5.3 billion. The five-year loans bear interest at the Eurodollar rate plus 3.0%, while the seven-year will pay Eurodollar with a 1.00% minimum plus 3.25-3.50%. The revolver features similar rate schedules to Plains' current one, except payments are 0.25% higher while the five- and seven-year term loans are outstanding.

Two biggest components are a $3B 5-year revolver & $2B bridge loan.

Additionally, Plains announced preliminary Q3 average sales volumes of ~105,000 boepd, up 5% sequentially and representing ~60% of total sales volumes.

Swift raising $150 million in private debt to pay down loans

Swift Energy announced a $150 million private debt offering of 7.875% senior unsecured notes due 2022. The notes were priced at 105% of par, pushing yield to worst to 6.993%. Net proceeds will be used to repay outstanding debt on the company's revolver and for general corporate purposes. The notes are a follow-on offering of $250 million in otherwise identical notes sold last November.

10-year notes priced at 105% of par to yield 7.0%.

Swift reported no outstanding borrowings under its $500 million, $375 million borrowing base credit facility in Q2, so borrowings to be repaid must be recent.

Riverstone backs shale player Kerogen

Continued From Pg 1

Management said Riverstone's investment should help achieve those ends.

Both Chairman Dr. Alexander Kulpecz and president and CEO Murray Grigg have technical and management experience specific to shale oil E&P. Kulpecz is a petroleum engineer with an MBA who spent two decades with **Shell** as well as advising the **Boston Consulting Group** and energy funds such as **Carlyle Group** and Riverstone. Grigg, also a petroleum engineer, has studied tight gas, gas shale and coalbed methane for over 30 years. He has held positions with **EOG, Tom Brown, Encana** and **Mariner Energy.** Other Kerogen execs have backgrounds with **Canadian Hunter, Triangle Petroleum,** Mariner Energy, **Eastex, Sirius Solutions, ConocoPhillips** and **XCL.** Riverstone co-founders Pierre Lapeyre and David Leuschen called Kerogen's team uniquely qualified to identify and capitalize on onshore unconventional opportunities.

Kerogen next plans to expand acreage positions & begin drilling.

Riverstone also recently funded Three Rivers & Fairfield Energy.

Riverstone has raised over $22 billion in equity capital across seven funds and is a prominent PE player in the energy and power markets. Last month, Riverstone made a significant midstream investment, joining **Kaiser Midstream** in forming new venture **Sage Midstream** with a joint $500 million in equity commitments. Sage will have a particular focus on NGL infrastructure. Recent upstream investments include Austin, Texas start-up **Three Rivers Natural Resources** and UK North Sea-focused **Fairfield Energy.**

MidstreamNews Vol 5 No 8

Riverstone's latest move: formation of Sage Midstream with Kaiser.

Private equity driving energy accounting boom

Private equity is driving accounting business growth for the energy segment of accounting firm **BKD LLP,** according to energy head Blake Randolph. In an interview with the Houston Business Journal's Collin Eaton, Randolph said that the volume of PE's acquisition activity in E&P, oilfield services, midstream and power in recent months is driving the move.

The nature of private equity investment is particularly beneficial for accounting firms. Because the ultimate goal is a profitable exit from an investment years down the line, PE wants corporate records in tip-top shape, with a higher volume of audits, due diligence and reporting, in addition to the extra workload brought on by the acquisitions themselves. And because in most instances the investments were formerly private companies with little accountability, this can come as quite a shift. In some instances, energy acquisitions have increased work volumes tenfold from a dollar-value perspective.

Accounting firm BKD estimates 800 to 900 energy PE firms in Texas.

BKD has grown its energy practice to about 70 employees largely in oil-patch states since the division's 2008 launch. It was Houston's seventh largest accounting firm in 2011, according to HBJ.

Public Equity & Debt

Gulfport more than tripling debt to fund revolver & capex

Gulfport Energy announced plans to offer $250 million in senior notes due 2020 via private offering. Proceeds will be used to repay outstanding debt under the company's senior secured revolver and for general corporate purposes, to include a portion of 2012-2013 capex.

As of Q2, Gulfport reported $68 million in outstanding borrowings under its $100 million revolver, while reporting total long-term debt of $70 million, so long term debt will be increased at least by 260%. As for capex, Gulfport securities filings show the company plans $212-226 million in total 2012 capex, with $81.5 million spent in 1H12, equating to another $130.5-144.5 million in planned 2012 spending. Explicit 2013 capex has not yet been projected.

Midstream Capital

El Paso raises $278 million equity for Cheyenne credit

El Paso Pipeline Partners closed an 8.165 million unit public offering priced at $34.34/unit and netting $277.5 million for the partnership. El Paso intends to use proceeds to repay outstanding borrowings under subsidiary **Cheyenne Plains Gas Pipeline**'s credit agreement and short-term debt, as well as for general corporate purposes. El Paso may also apply some proceeds toward its own revolver.

Cheyenne Plains pipeline runs ~380 miles from Colorado to Kansas.

The offering was initially to consist of 7.1 million units, but underwriters fully exercised an option for an additional 1.065 million units, increasing gross proceeds 15%. With 207.6 million units previously outstanding, the offering amounts to a 3.9% dilution to equityholders.

Lead underwriters were **Wells Fargo, Barclays, Citigroup, Credit Suisse, JP Morgan** and **UBS**. Co-managers were **Deutsche Bank** and **RBC.**

Marquez triumphant, takes Venoco private

After scrambling for the better part of 2012 to get the deal done, Timothy Marquez has finally succeeded in securing financing and otherwise agreeable terms to take **Venoco** private through his **Denver Parent Corp.** vehicle for $750 million. As part of the deal, Venoco closed on a $315 million five-year senior secured term loan bearing interest at LIBOR (with a 1.5% floor) plus 7%, as well as an amended $500 million revolver with a $175 million initial borrowing base and $156 million in initial commitments.

Marquez praised Venoco's assets, particularly its stable, long-lived oil properties and its team of employees. **Citigroup** was exclusive financial advisor to DPC and Marquez, and lead arranger for the term loan and revolver.

Breitburn raises combined $380 million in debt & equity

Breitburn Energy Partners LP tapped both debt and equity markets in September, selling $200 million in private debt and nearly $178 million in common units. The debt offering is in 7.875% senior unsecured notes due 2022, which come as an add-on offering to a previously issued $250 million in otherwise identical notes. Priced at 103.5% of par, net proceeds should exceed value of notes sold at $202.8 million. Those proceeds will be used to repay borrowings under Breitburn's credit facility. Breitburn Energy reported $774 million in long-term debt in Q2.

Unit prices fell only ~4%, while equity dilution was 14.5%.

Breitburn's equity offering consisted of 10 million common units priced at $18.51/unit, for projected net proceeds of $177.6 million. If an underwriter option for another 1.5 million units is executed, net proceeds will rise to $204.2 million. Again, net proceeds will repay borrowings under Breitburn's credit facility.

The offering was priced 4.0% below unit closing price the day prior to announcement of the equity offering, while equating to a 14.5% dilution to equityholders assuming the option is not exercised. Shares dipped to the offer price on the news, but recovered to pre-offering levels over the next few weeks. Equity offering underwriters were **Wells Fargo, BofA Merrill Lynch, Barclays, Citigroup, RBC** and **UBS.**

Approach prices offering to raise $152.5 million

Approach Resources priced a previously announced 5 million share public offering at $30.50/share, for projected gross proceeds of $152.5 million. Underwriters have an option for an additional 750,000 shares which if exercised would push gross proceeds to $175.4 million. Net proceeds will fund Wolfcamp capex and general working capital, and pending those uses will repay outstanding debt under Approach's revolver.

Approach plans to use the proceeds to fund Wolfcamp capex.

Approach priced the offering 6.6% below share closing price the day before news of the offering was announced, compared to a dilution to current shareholder interest 15%, or 17% if the option is exercised.

JP Morgan increased its rating on Approach from Neutral to Overweight and increased its price target from $28.50/share to $39.50. JPM said Approach features not only above average production growth but an attractive valuation. However, Benchmark reduced its price target on Approach from $52/share to $50, but maintained its Buy rating.

JP Morgan is sole book-running manager; **KeyBanc, RBC, Wells Fargo, Scotiabank/Howard Weil** and **Wunderlich** are co-managers.

Midstream Capital

Cheniere again taps markets to roll Sabine Pass debt

Cheniere Energy Partners LP recently executed some deft financial market maneuvering that should result in a small debt reduction and significant rollover for subsidiary **Sabine Pass LNG.** The wrangling began with an 8 million-unit public offering from Cheniere LP at $25.07/unit for net proceeds of $194 million. The stated use of proceeds was to repay a portion of a planned tender offer for $550 million in Sabine debt. Days later, Cheniere LP announced that Sabine was issuing $420 million in 6.5% senior secured notes via private placement due 2020 and priced at par to cover the difference in the tender offer.

Cheniere LP priced equity offer 4.5% below prior day's closing price.

Financing covered, Cheniere LP appears positioned to handle Sabine's cash tender offer for all $550 million in outstanding 7.25% senior secured debt maturing in 2013. Consideration was priced at a healthy $1,073.55 per $1,000 value with $30 included for early tender, so total consideration if all notes are tendered should come in at ~$590 million. But between net equity proceeds and gross debt proceeds Cheniere LP should generate $614 million, more than covering costs.

Sabine's debt being rolled from 2013 to 2020 with 75-basis-point lower coupon.

The equity offering also incorporates an as-yet-unexercised 30-day option for an additional 1.2 million common units. At 8 million units, the offering diluted equity holder interest by 2.6%. The equity offering was made via shelf registration with **Morgan Stanley, Credit Suisse, Citigroup, Deutsche Bank, JP Morgan** and **RBC Capital** underwriting. Credit Suisse is dealer manager for the tender offer.

LNG market forecast—

Reflecting on outlook, parent firm **Cheniere Energy** sees global LNG demand outstripping supply around 2019 largely through Asian and European demand, VP Renato Pereira said in a recent webinar. Pereira said Asian imports will rise from 24.6 Bcfd in 2015 to 31.0 Bcfd in 2020 while European imports grow from 11.1 Bcfd to 15.7 Bcfd. Pereira also touted an "enormous" opportunity for stationary sources in those markets to switch from burning oil to gas (to the tune of 41 Bcfd in Asia and 17 Bcfd in Europe) which could act as a "shock absorber" should too much LNG supply come online.

Finally, Pereira noted Cheniere's anticipated Henry Hub-indexed LNG prices of $7.60/MMbtu to Europe and $9.35/MMbtu to Asia (based on $3 Henry Hub) should be quite competitive with oil-indexed LNG costs of $11-$23/MMbtu (based on $100-150/bbl oil).

Cheniere expects to sell spot LNG from Sabine Pass by late 2015.

Meanwhile, CEO Charif Souki said Sabine Pass is likely to start selling spot LNG as soon as late 2015. Of the facility's total planned 18 mtpa of production, Cheniere intends to sell 2 mtpa spot.

Regency issuing $700 million in notes to pay down revolver

Regency Energy Partners announced and priced a $700 million public debt offering of 5.5% senior notes due 2023. Net proceeds will be used to pay down borrowings under its revolver. Regency upsized the offering by $200 million from a previously announced $500 million due to favorable market conditions.

Favorable market prompts Regency to upsize offering by $200 million.

Moody's has rated the notes B1, while **Fitch** gave them a BB rating. Regency reported $1.78 billion in long-term debt in Q2.

Regency subsidiary **Regency Energy Finance Corp.** will be a co-issuer of the notes. **Citigroup, RBS, BofA Merrill Lynch, Barclays, Credit Suisse, JP Morgan, SunTrust** and **Wells Fargo** are underwriting.

Summit Midstream raises $287.5 million in IPO

Summit Midstream Partners LP proceeded with its IPO plans, pricing 12.5 million units at $19-$21 range midpoint $20/unit. Demand was strong, and underwriters exercised their option for an additional 1.875 million units for total gross proceeds of $287.5 million. Units moved higher on first trading, closing up 5.6% at $21.11. While giving back some gains over the following sessions, Summit appears to be settling in the $20.75 range, above the offer price. Overall, Summit brought in just 5% less than the projected $302 million gross due to exercise of the option.

Summit had $16.7 million in 1H12 profits on $75.9 million in revenues.

Dallas-based Summit will use net proceeds to repay $140 million in outstanding debt under its revolver, against which it had $302 million drawn as of Q2. It will also pay $88 million to **Summit Midstream Partners LLC** as reimbursement for capex related to assets contributed to Summit.

Summit sold 28.9% of total LP equity interest via public float. General partner **Summit Midstream GP** will hold the remainder. Ultimately, Summit's GP's owner Summit Midstream Partners LLC is controlled by **Energy Capital Partners II LP** (with 88.75% interest) and **GE Energy Financial Services** (with 11.25%).

Long-term contract customers include Encana, Chesapeake, Total & Carrizo.

Summit operates in the Piceance Basin and Barnett shale with ~385 miles of gas gathering line and 147,600 hp of compression capacity. Summit added 72% of its total gathering lines and 64% of throughput in October via acquisition of the Grand River gathering system in the Piceance from Encana for $590.2 million.

Units will trade on the NYSE under SMLP. Lead underwriters are **Barclays, BofA Merrill Lynch, Goldman Sachs** and **Morgan Stanley;** co-managers are **BMO, Deutsche Bank, RBC, Baird** and **Janney Montgomery Scott.**

Earnings & Capex

PDC goes solo in Utica with $145 million drilling program

After failing to find a JV partner to helpbuild out its 45,000 net Utica position, **PDC Energy** said it was no longer seeking a partner and that management believes it is in the best long-term interest of shareholders that the asset be developed solo. Instead, the company announced plans to spend $95 million this year and another $50 million next year in Utica capex, with plans for a southeast Ohio district field office in 1Q13 and D&C of 4-5 horizontal wells next year in Guernsey, Noble and Washington Counties. First well sales are expected in 2Q13.

JV suitors didn't hit PDC's value expectations.

PDC said it received various JV offers, but they did not meet the company's value expectations. The company said a number of recent very high IP-rate, high liquid content well results from peers in the region have reinforced this decision, since one of its goals in seeking a partner was to accelerate de-risking and these results have "substantially achieved" those ends. PDC also noted half of its acreage in the play is HBP and the rest is under multi-year primary term leases.

PDC rolling $200 million in debt at lower rate & adding liquidity.

PDC is also moving to clear up its debt picture, closing on a private offering of $500 million in 7.75% senior unsecured notes due 2022. PDC will use proceeds to redeem its $203 million in 12% senior notes due 2018 and repay other debt, as well as for general corporate purposes. PDC reported ~$592 million in long-term debt in Q2, amounting to a net ~50% increase to long-term debt. The offering was upsized 25% from a previously announced $400 million.

Denbury levers down with $1.1 billion in Exxon Bakken cash

Denbury Resources is liquidating its Bakken stake with a ~$1.1 billion post-tax cash sale of ~196,000 net acres to **ExxonMobil.** Denbury will also receive Exxon's operating interests in Texas and Wyoming fields with another ~$400 million in pre-tax value, according to Denbury chief Phil Rykhoek. Denbury said the fields lie in core operating regions, are near CO2 pipelines and appear ideal for CO2 flooding. The two fields collectively produce ~3,600 boepd net.

Cash proceeds will probably be used initially to reduce net debt 38% to $1.8B.

Rykhoek touted the positive economics of the asset swaps, saying existing CO2 infrastructure means only minor expansions are required, that the swaps brought tax benefits and Denbury is now operator of all its remaining major assets.

Post-sale, Debury's proved reserves will decline 19% to 417 MMboe and 3P reserves will drop 15% to ~1.1 Bboe. Closure is expected in Q4.

Denbury also agreed to either take an interest in Wyoming Exxon CO2 reserves, with the possibility of a lower cash payment from Exxon depending on structure.

Denbury initially suggested multiple options for use of proceeds, including additional CO2 flood-suitable Gulf Coast or Rocky Mountain acquisitions, capex or repayment of debt. It also said it would resume buying under its stock repurchase program, which has another $305 million in authorized purchases remaining. However, it appears the company will first use proceeds to reduce bank debt, as new presentation data indicates a ~$1.1 billion net debt reduction (equal to projected post-tax proceeds) to ~$1.8 billion.

Denbury acquired the Bakken position when it bought Encore Acquisition in 2010 for $2.8 billion in equity and $1.0 billion in assumed debt. Between $1.7 billion in 2011 proved reserves, ~$3.6 billion in received or anticipated proceeds from divestitures and $400 million in 2010-2011 net cash flow, the company values its original investment at ~$5.7 billion today.

Denbury's Bakken holds 96MMboe 1P & produced 15,400 boepd (88% liquids) in H1.

In 2010 Denbury made the Bakken seem almost an afterthought, focusing on EOR opportunities in Encore's Rocky Mountain assets.

As for Exxon, the deal increases its Bakken stake by ~50% to nearly 600,000 acres, and SVP Andrew Swiger called the deal "a strategic addition" to the company's North American unconventional asset base. It appears Exxon wants to buttress sub XTO's performance with the deal, as it has designated America's largest gas producer as operator of the assets.

A&D Transactions Vol 23 No 8

Read about Exxon's new Bakken assets & Denbury's new EOR fields.

Denbury Post-Bakken Sale Overview

		Pro forma for sale[1]
Total 3P Reserves (12/31/11)	~1.3 BBOE	~1.1 BBOE
% Oil Production (2Q12)	93%	~93%[2]
Total Net Debt (6/30/12)	$2.9 billion	~$1.8 billion
Total Daily Production – BOE/d (2Q12)	72,337	~60,300[2]
Proved PV-10 (12/31/11) $96.19 NYMEX Oil Price	$10.6 billion	~$10.6 billion[3]
Market Cap (10/1/12)	~$6.4 billion	
CO_2 3P Reserves (12/31/11)	~16 Tcf	
CO_2 Pipelines Controlled & Under Construction	~1,000 miles	
Credit Facility Availability (6/30/12)	~$1.1 billion	

(1) Pro forma for recently announced Bakken sale, includes Hartzog Draw and Webster.
(2) Pro forma production adjusts for production sold and includes roughly 3,600 BOE/d from recently announced acquisition of Hartzog Draw and Webster.
(3) PV-10 value at 12/31/11 pro forma for recently announced Bakken sale, excluding Bakken at 12/31/11 and including previously disclosed PV-10 for Oyster Bayou and Hastings at 6/30/2012 using a $95.67 NYMEX Oil Price for Oyster Bayou and Hastings. Does not include Thompson, Hartzog Draw or Webster, nor does it exclude net cash flows from the first six months of 2012.

Source: Denbury October 9 Presentation via **PLS docFinder www.plsx.com/finder**

Downstream Capital

Icahn unlocks CVR asset value through refining MLP IPO

CVR Energy subsidiary **CVR Refining, LP** has filed to raise up to $300 million in an IPO. Carl Icahn, who took control of CVR Energy this year in an unsuccessful effort to resell the company, has opted to pursue the capital raise for the refining unit as an MLP. Proceeds will be used, alongside cash contributed from additional CVR subsidiary **Coffeyville Resources,** to repurchase Coffeyville's 10.875% senior secured notes due 2017, prefund maintenance and environmental capex through 2014, fund turnaround expenses for CVR's Wynnewood refinery in 4Q12, and support general corporate purposes.

Carl Icahn has an 82% interest in CVR Energy after taking control this year.

Assets will include CVR's 115,000 bpd Coffeyville, Kansas refinery, its 70,000 bpd Wynnewood, Oklahoma refinery, midstream assets and a fuel-sales business. Pro forma 1H12 profits for CVR Refining were $222.2 million, with sales of $4.128 billion.

CVR investors responded positively to the asset monetization, with shares rising 9.3% to $40.18 the day following the news. Icahn may have succeeded in changing some opinions regarding his takeover of the company, as well. Management initially balked at his $30/share offer for undervaluing the company's assets, so if recent share prices hold Icahn will have achieved value recognition for the company despite lack of acceptable sale offers.

Shares of CVR rose more than 9% to $40.18 on news of the refining IPO.

CVR Refining will trade on the NYSE under CVRR. **Credit Suisse, Citigroup, Barclays, UBS** and **Jefferies** are underwriting.

CVR also announced CVR Refining and CVR Energy subsidiary **Coffeyville Finance** have undertaken a $500 million private offering of as-yet-unpriced second lien senior secured notes due 2022. Net proceeds will be used to finance the purchase of a $447.05 million tender offer for outstanding 9% first lien senior secured notes due 2015 and issued by the two companies. Any remaining proceeds will be used for general corporate purposes.

As for the tender offer, CVR's subsidiaries are offering $1,042 in consideration per $1,000 in value, including a $30 early tender/consent payment. Any notes not tendered may be redeemed. Credit Suisse is dealer manager and solicitation agent.

With Texas City sale, BP hits $35 billion in divestments

BP is finally getting the beleaguered 475,000 bpd Texas City refinery off its books through a $2.5 billion sale to **Marathon Petroleum.** Marathon is paying $598 million cash, $1.2 billion in inventories and a $700 million, six-year earn-out keyed to margins and throughput. Marathon said Texas City and included assets will be accretive in their first year and that it will fund the deal with cash on hand. CEO Gary Heminger called the price attractive and said the assets will add long-term shareholder value.

BP returned the facility to profitability in recent months but said it does not fit within the firm's long-term strategic refining focus. The sale brings total divestments since 2010 to over $35 billion, with a year-end 2013 divestment target of $38 billion.

Midstream & Downstream Briefs

• **Enbridge Energy Partners LP** announced underwriters fully executed their option for an additional 2.1 million shares under the partnership's recent 14 million unit, $388.9 million unit shelf offering. At $28.64/unit, net proceeds on the additional units were $48.3 million, and total offering net proceeds were $447.2 million. Net proceeds will fund capex and general corporate purposes. Underwriters were **Morgan Stanley, BofA Merrill Lynch, Barclays, JP Morgan, UBS** and **Deutsche Bank.**

• **Synthesis Energy Systems** announced closure of an $8.7 million, 5.78 million share equity investment from **Hongye Investment Group,** equating to a 9.99% ownership interest. Around 7% of Hongye's investment is yet to be funded due to China's regulations regarding foreign investment in US companies, pending closure of a previously announced $6.27 million (4.18 million share, 6.7% equity interest) equity investment from **Zhongmo Investment Management.** The investment will fund projects in China with an eye toward securing low cost, reliable gasification feedstocks and generating income and free cash flow.

Commodities

ICE energy swaps transition to futures for Monday trading

Over-the-counter swaps and options traded on ICE will expire, transitioning the positions to futures contracts over this weekend, with the transition being final for the start of trading Monday. Energy swaps have traded alongside energy futures on the ICE trading platform for over a decade.

The transition will include all of ICE's OTC energy swaps and options including

Transition creates the first set of futures contracts covering all NGLs.

NGLs priced against postings from the Oil Price Information Service. This includes ethane, propane, normal butane, isobutene and natural gasoline from storage facilities across the US. Crude, natural gas and refined product OTC swaps will also make the transition to futures, including crude prices and crude differentials based on Argus and Platts pricing; diesel contracts for the US and Europe; fuel oil, fuel oil differentials and fuel oil cracks; various specifications of gasoil and gasoil cracks; gasoline and gasoline cracks; heating oil and heating oil cracks; jet fuel and jet fuel cracks; and naphtha and naphtha cracks.

The decision to transition the OTC swap trades to futures contracts follows the passage of the 2010 Dodd-Frank Act,

Transition allows traders to avoid some requirements of Dodd-Frank.

which among other things regulates swaps. The new futures contracts should settle substantially the same as swap contracts, except that the contracts will fall out of Dodd-Frank regulatory coverage.

The transition was moved up from a previously planned January 2013 date. "Our customers are seeking regulatory certainty amid the continued evolution of new swap rules and how those rules might impact their operations," ICE said in an FAQ. "They have strong familiarity with operating in the futures markets in their risk management and hedging activities, and have expressed a preference for a timely transition to gain operational and regulatory certainty."

Vanguard: Now is time to buy gas reserves Continued From Pg 1

Most recently, Vanguard bought all of **Antero Resources'** Arkoma Basin assets (with 402 Bcfe of proved and ~250 Bcfe of proved developed reserves plus 76 MMcfed in production) and hedges in June for $434 million. The core draw for Vanguard was the 82% gas composition of the reserves, which doubled the company's overall gas reseerves share to 54%.

Vanguard's $52MM in 2012E capex is just ~20% of projected adjusted EBITDA.

Vanguard says this is the perfect time for gas dealmaking. If prices increase, existing production can be sold at higher prices and additional drilling locations once again become economic.

Vanguard is also heavily focused on hedging, incorporating it into its acquisition strategy to lock in margins, protect distribution levels and mitigate interest rate risk. The hedges associated with the Antero deal alone cover ~100% of proved production over a five-year period at $5.04/MMbtu. Overall, the company has hedged ~80% of oil production through 2014 with a $91.18/bbl floor and ~85% of gas through 1H17 at $5.11/MMbtu.

The firm has a strong ~8.6% annual distribution yield amounting to $2.40/unit. Yield is key for Vanguard, and management said their proudest achievement was the company's ~41% distribution growth since its IPO. In July, Vanguard shifted distributions from a quarterly to a monthly cycle.

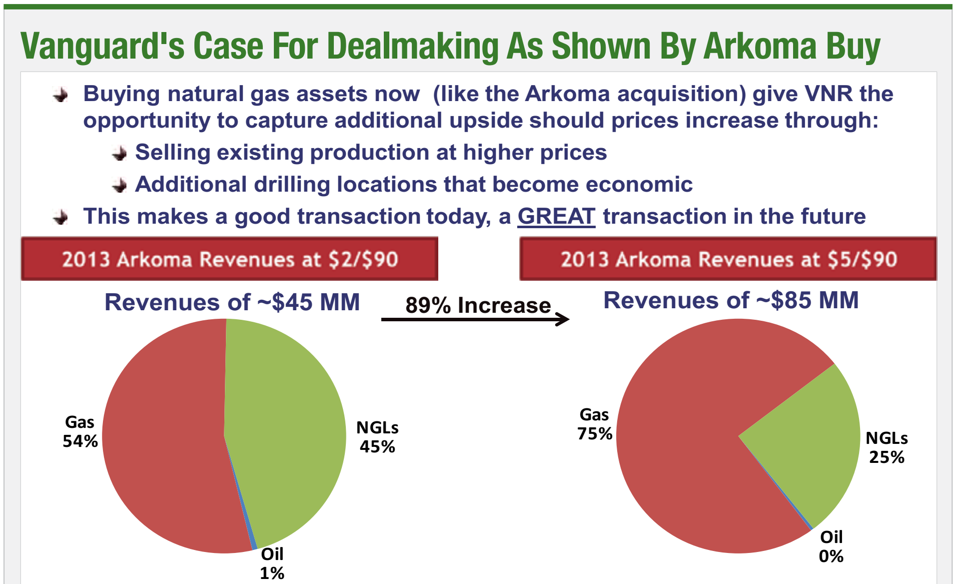
Vanguard also recently launched a Direct Reinvestment Plan (DRIP) administered by **American Stock Transfer & Trust,** allowing automatic rollover of distributions into new units. Vanguard highlighted the "power of the DRIP" showing that through reinvestment over a 20-year period total overall return should increase from ~430% without the DRIP to over 1,200%.

Vanguard has grown distributions by 41% since 2007 IPO, faster than all peers.

Committed to keeping long-term debt under three times EBITDA, Vanguard is not outspending cash flow. Although the company has said it would tap equity markets as needed, it must have ultimately determined equity dilution was less favorable than increasing interest payments: The LLC just priced at par a public offering of $200 million in 7.875% senior unsecured notes due 2020. Net proceeds will be used to repay outstanding borrowings under the company's senior secured reserve-based credit facility. Vanguard reported $734 million in outstanding borrowing under the $1.5 billion facility in Q2—of a total borrowing base of $975 million. Joint book-running managers are **RBC, Citigroup, Credit Agricole, Deutsche Bank, RBS, Wells Fargo, JP Morgan** and **UBS.**

A&D Transactions Vol 23 No 8

Vanguard doubled gas portion of output with Arkoma buy.



Source: Vanguard September 24 Presentation via **PLS docFinder www.plsx.com/finder**

Service Capital Markets

KKR enters service sector with $650 million Acteon deal

Kohlberg Kravis Roberts has spent a reported $650 million or more for a majority stake in UK offshore services player **Acteon Group.** KKR made the purchase from **First Reserve,** and although deal price was not officially disclosed, informed but unidentified sources advised Reuters that the deal valued Acteon in the $1.30-1.45 billion range. If accurate, this would give KKR's investment a minimum $650 million pricetag. Smaller Houston-based PE firm **White Deer Energy** also took a minority position in conjunction with KKR's buy. Management is retaining a significant share of equity, and will stay on with the company.

Insiders say the deal valued Acteon at $1.30-1.45 billion.

Dealmakers said the investment would support Acteon's ambitions and its goal of defining the relatively new market segment. Acteon provides mooring, foundations, risers, conductors, flowlines and marine electronics products and services, as well as engineering and project management. It has 17 subsidiary companies including **InterMoor, Menck GmbH** and **Team Energy Resources,** with facilities in eight countries including the US and Brazil.

Acteon generates substantial revenues from deepwater work.

KKR's Dominic Murphy and Josselin de Roquemaurel called Acteon a "growth investment." Exiting owner First Reserve managing directors Will Honeybourne and Jeff Quake said Acteon had completed eight acquisitions, quadrupled operating profits and significantly grown its geographic footprint since 2006 when First Reserve made its initial investment.

First Reserve, which has raised over $23 billion toward energy investment since its 1983 foundation, paid £70 (or $113 million at current exchange rates) for its 52% position in Acteon in 2006, amounting to a ~5x+ return in just six years.

KKR had $61.5 billion in AUM as of Q2. Although it has made significant recent waves in energy PE of late including a massive, $7.2 billion takeover of private upstreamer **Samson Investment** and a recent 33% WI deal with **Comstock Resources,** the Acteon deal represents the firm's first publicized foray into oilfield services.

White Deer is an $822 million PE firm focused on E&P, oilfield services and midstream. It typically makes long-term investments in the $50-120 million range.

Closure is expected by YE12. **JP Morgan** and **Simmons & Co.** jointly advised First Reserve and Acteon. **HSBC** advised KKR.

Seadrill to be 1st driller in MLP space Continued From Pg 1

Seadrill Ltd. will retain the remaining ownership interests in those entities. Partners will also have the right to purchase any Seadrill rigs coming under five-year or longer contracts post-IPO plus two tender rigs (T-15 and T-16) slated for 1Q13 completion and under five-year contracts with **Chevron.**

Seadrill Partners will trade on the NYSE as SDLP. **Citigroup** is listed to underwrite.

Partners has option to buy rigs with contracts of 5+ years, plus 2 tenders.

The MLP structure would be a first for the drilling industry. MLPs generally need stable cash flows to thrive, which is why midstream companies have taken to the structure. It is unclear whether the model will be a good fit in an environment where income can be volatile, contracts shorter and capital requirements more intense. **Tudor, Pickering, Holt & Co.** noted that companies in the sector often over-invest and see poor returns.

If Seadrill realizes value, other drillers will follow. —Tudor, Pickering, Holt & Co.

However, Seadrill Partners' rigs have contract visibilities ranging through 2015-2019, and TPH likes this new direction because it will force service companies to manage finances more conservatively. "If valuation uplift is achieved" through Seadrill's MLP experiment, said TPH, "expect followers."

Midstream Capital

Demand high for $473MM Enterprise equity offer

Enterprise Products Partners LP announced an 8 million public share offering priced at $53.07. It followed the next day with news that underwriters were fully executing their option for another 1.2 million shares, for a total 9.2 million shares to be sold for net proceeds of ~$473 million. Net proceeds will be used to temporarily reduce borrowings under Enterprise's revolver and for general corporate purposes.

The option was quickly exerccised, contributing $62 million net.

Offer price is 2.7% below EPD's closing price the day prior to announcement of the offering, compared to a 1.0% dilution to equityholders. Joint book-runners are **Wells Fargo, Barclays, BofA Merrill Lynch, Citigroup, JP Morgan, Morgan Stanley** and **UBS.**

Meanwhile, partnership management has recommended a one-cent distribution increase to the board of its GP for both Q3 and Q4, continuing the trend for all distributions in 2012. Q3's distribution of $0.65/unit would be a 1.6% increase over Q2's $0.64 and a 6.1% increase YOY. Q4's $0.66/unit distribution would represent a 3.1% increase vs. Q2 and a 6.5% increase YOY.

Also increasing Q3 & Q4 distributions with new Eagle Ford projects online.

Enterprise's GP chief Michael Creel said the increases were supported by completion and commercial start-up of over $2 billion in fee-based Eagle Ford growth capital projects YTD. Creel said initial volumes have exceeded expectations, with two Yoakum gas processing plants immediately full and processing as much as 10% more than name plate. Creel said another $1.1 billion in fee-based capital projects should begin operation in 2012, with a total ~$7.5 billion in growth projects under construction.

Service Capital Briefs

• **Chimera Energy** announced a $2.5 million line of credit for use implementing non-hydraulic shale extraction technology with **Pemex** in the Chicontepic basin in Mexico and elsewhere, as needed.

• **Frontier Oilfield Services** completed a previously announced exchange offer for the remaining 49% of outstanding interest in **Frontier Income and Growth, LLC** not previously owned by the company. All interestsholders exchanged their 1,122 units for 1.87 million Frontier restricted common shares. Frontier said the deal consolidated its East Texas holdings.

• **MRC Global** announced efforts to redeem $861 million in 9.5% senior secured notes due 2016. The company plans to achieve this goal through a new senior secured $750 million seven-year term loan facility. MRC will round out the difference through its global asset-based lending facility. MRC chair Andrew Lane said the company was undertaking the effort to extend long-term debt maturity and take advantage of historically low interest rates in the debt markets.

Service Capital Markets

Patterson-UTI enters new $600 million credit facility

Patterson-UTI announced execution of a $600 million, five-year credit agreement with a financing syndicate led by **Wells Fargo,** replacing its 2010 $400 million facility. Borrowing proceeds may be used for working capital, capex, letters of credit, acquisitions, stock repurchases or general corporate purposes. Patterson said the new agreement increases its revolver 25% to $500 million, and also includes a $100 million term loan which Patterson plans to fund in Q4. The company may can request an increase of up to $100 million to either the revolver or term loan under certain conditions.

Patterson's new agreement increases revolver to $500 million.

Terms are comparable to those under the 2010 agreement, except interest at each pricing level is a half-point lower.

Additionally, CEO Douglas Wall has retired and has been replaced by COO Andrew Hendricks, Jr.

Basic rolls debt maturity to 2022 with $300 million issuance

Basic Energy Services announced and then upsized a private debt offering of $300 million in 7.75% senior notes due 2022 and priced at par. The offering was upsized from a previously announced $250 million. Basic is using net proceeds to fund a tender offer and redemption of $225 million in existing notes, with the remainder going to general corporate purposes.

Tender offer debt was due until 2016, but Basic grossing an extra $75 million.

The notes subject to tender are 7.125% senior notes due 2016. Early tenders will be paid $1,027.25 per $1,000 note, while standard tenders will receive $1,007.25. Performance under the tender offer is conditional on Basic receiving a majority of outstanding notes in tender and completion of its 7.75% note offering. **BofA Merrill Lynch** is dealer manager and solicitation agent for the tender offer.

It seems noteworthy that Basic was willing to pay a higher coupon for debt that was not slated to mature until 2016. Of course, it will also tap another $75 million in gross proceeds, which should help the company weather current difficult US onshore service market dynamics. **Tudor, Pickering, Holt & Co.** recently cited the company's strong $104 million cash position as a positive for similar reasons.

Next OilfieldServices

Catch up on additional service sector reporting.

PE firm Avista growing Sidewinder through Union buy

Avista Capital Partners-controlled **Sidewinder Drilling** commenced a tender offer for all outstanding shares of **Union Drilling** at $6.50/share, as part of its plan to take Union private for $139 million in cash plus $104 million in Q2 reported long-term debt.

Sidewinder's $139 million cash offer is 27% premium to 30-day average price.

Sidewinder must receive at least 67.2% of shares to succeed in a takeover, and the offer price is just 6% above Union's closing price the day prior to announcement of the planned deal. However, Union shares have been on the upswing and the offer represents a 27% premium to 30-day average prices and a 40% premium to the 60-day. Shareholders owning over half of outstanding shares have voiced support for the deal.

Avista has over $4 billion in AUM, and the buy is a continuation of private equity's move into the service sector.

Sidewinder will fund the deal with debt. **RBC Capital** advised Union Drilling on the deal; Avista advised Sidewinder.

Legal & Regulatory News

Conoco closer to resolving MF Global & PDVSA disputes

A Manhattan federal judge ruled a $205 million dispute between **ConocoPhillips** and **MF Global** had standing to be decided in her court. Conoco used letters of credit as opposed to cash in its trading accounts with MF, which is undergoing liquidation. Cash depositors are taking cuts to their positions as part of the liquidation. Conversely, Conoco is arguing its expired letters of credit should be canceled, sparing it from losses. MF Global's liquidator has taken the position that CFTC rules treat letters of credit the same as cash.

Conoco wants $205 million protected from MF Global liquidation losses.

Meanwhile, Conoco reported a $66.8 million International Chamber of Commerce ruling in its favor regarding 2006-2007 production cuts by **PDVSA** at the Petrozuata project. Compounded quarterly interest is 10.55%. The arbitration tribunal concluded PDVSA breached terms in applying OPEC output cuts during the period, which occurred before appropriation of the project. The tribunal rejected a separate $102.9 million claim for similar cuts related to its Hamaca heavy oil project. The ruling is separate from another arbitration between the two companies before the International Centre for Settlement of Investment Disputes.

Ecuador legal wranglings impacting US majors

Two Ecuador-related disputes for US oil majors **Occidental** and **Chevron** appeared to be heading in decidedly different directions in recent weeks, with Occidental taking a major win against the South American nation and Chevron seeing efforts to block enforcement of a judgment against it stymied. World Bank arbitrator ICSID ordered Ecuador to pay ~$1.77 billion to Occidental for a 2006 nationalization of corporate assets, as well as 4.188% annual compounded interest from May 2006. The dispute revolves around a concession Ecuador expropriated from Oxy after the company sold an operating stake in Block 15 to **Encana** without consent of the government.

Occidental awarded ~$1.77 billion, ~1/3 higher than profits from Q2.

Since 2006, production in Ecuador has fallen 6.2%. Ecuador, which also nationalized reserves and revised oil contracts to be more favorable to the state or canceled them outright under leftist President Rafael Correa, plans to appeal the ruling. Ecuador wants a new panel and an annulment; the process could take up to two years. The country withdrew from ICSID in 2009, but is not exempt from the ruling because the dispute was filed in 2006. **Conoco's Burlington Resources** and French operator **Perenco** also have claims through the arbitrator against Ecuador.

Meanwhile, Chevron failed in its appeal to the US Supreme Court to block a $19 billion Ecuadorean court judgment against it for **Texaco-**related environmental damages occurring from 1964-1992, before Chevron acquired the company. The court upheld a federal court ruling which rejected a New York-issued worldwide injunction against collection, on grounds that Chevron was premature in the timing of its challenge since plaintiffs had not attempted to enforce the judgment in New York. Chevron has no assets in Ecuador and plaintiffs are seeking enforcement in Canada and Brazil. The appellate court also found the US judge did not have jurisdiction to prevent enforcement in other countries.

Damages against Chevron of $8.6 billion more than doubled by court.

Chevron alleged the underlying Ecuador decision was fraudulent and thus unenforceable under New York law. Chevron is pursuing a racketeering suit related to the underlying claims alleging intimidation and extortion, and is also challenging the judgment before an arbitration panel set to begin hearing the dispute next month.

Legal Briefs

• **Chevron** is paying a $17.3 million Brazilian fine assessed by regulator ANP for irregularities related to the Frade field spill. Because it did not contest the 24 associated violations and paid promptly, the company will receive a 30% discount to the fine, reducing it to $12.1 million. A knowledgeable source told Reuters the company did not contest the findings because it is eager to put the episode behind it and return to production. Operations were stopped at the 70,000 bopd field when traces of oil were found in the water.

• Power producer **Dynegy** emerged from Chapter 11 bankruptcy less than a month after winning approval of its bankruptcy plan. The company, pressured to file by plant lease expenses and a dispute with sub **Dynegy Holdings** over $1.25 billion in coal plant assets, said it would have ~$800 million in cash liquidity and will have eliminated over $4 billion in debt. Dynegy Holdings has merged into Dynegy as part of the process. Units remaining under bankruptcy protection include **Dynegy Northeast Generation, Hudson Power, Dynegy Danskammer** and **Dynegy Roseton.**

• **Kinder Morgan** won dismissal of a suit filed by **El Paso Pipeline Partners LP** investors claiming their interests were harmed in Kinder Morgan's $21.1 billion **El Paso Corp.** takeover. Delaware judge Sam Glasscock III noted that the partnership agreement explicitly stated El Paso was not legally obligated to transfer assets to Partners, which was the root of the plaintiffs' complaint.

People Briefs

• **Allied Energy** appointed *Kenneth L. Poskey* as CFO.

• **Chesapeake** replaced *Henry Hood* with *James Webb* as chief legal counsel. Webb served in the position on a contract basis for the past four months, and was previously a partner at Oklahoma's largest law firm **McAfee & Taft.** Hood will continue in his land and regulatory counsel roles.

• **Northern Oil & Gas** announced the departure of *Ryan R. Gilbertson* as president. He will serve as an advisor to its board of directors.

• **Parker Drilling** announced the departure of *Robert L. Parker Jr.* as president and CEO. *Gary Rich* has been appointed to replace him. Parker will remain executive chairman.

• **Patterson-UTI Energy** announced the promotion of COO *Andy Hendricks* to CEO. Hendricks will replace *Douglas Wall*, who retired September 30. The company also appointed *Michael W. Conlon* to its board.

• **Quantum Energy Partners** appointed Eric Nielsen as managing director of business development.

• *Christy Clancy* joined **Quantum Resources Management** as manager of business development. Previously, she was VP of business development and origination with **Constellation Energy Commodities Group.**

• **SM Energy** promoted COO *Javan Ottoson* to president, replacing Anthony Best who will continue as CEO and a board member. Ottoson will also continue to serve as COO.

• **Tudor, Pickering, Holt & Co.** appointed *John E. Lowe* as senior executive advisor.

Financial Takes

Our **CapitalMarkets** editors are working hard to keep their fingers on the pulse of the latest funds, pricing, news and professional opinions pertaining to the oil and gas finance sector. Whether it's through a one-on-one interview, heard-it-on-the-street feedback or energy conference coverage, each issue of the CapitalMarkets contains insights about how things are shaping up for current and future financial trends. Below is a round up of current thoughts from some of the sector's well-known analysts and portfolio managers. Read On!

Chevron (CVX; $117.36–Oct. 9; Overweight; PT: $133)

We believe CVX's 3Q12 interim update will have a negative impact on the stock. Both liquids realizations (in the US and international) and US liquids production came in below our expectation. However, lower US liquids production is due entirely to greater-than-expected downtime following Hurricane Isaac, while lower-than-expected realizations reflect downtime from higher-than-portfolio-average fields. We assume a reversal of these negative impacts in 4Q12. We estimate US and international oil realizations of $91.9/boe and $98.4/boe compared to our previous estimate of $95.9/boe and $101.8/boe, respectively. **We also now expect US and international liquids production of 435 and 1,249 mb/d, respectively, compared to our previous forecasts of 455 and 1,278 mb/b.** In the US, we had assumed Hurricane Isaac related downtime of 5 mb/d compared to our revised assumption of 25 mb/d for the quarter, the entire variance between our old and new forecasts. We lower 3Q12 EPS estimates to $2.79 from $3.34 previously to reflect impacts of lower-than-expected production and realizations, $300 million FX loss in upstream and $335 million in negative inventory and timing effects across both US and international downstream. We increase expected corporate charges to $550 million from $350 million previously. We lower our FY2012 EPS estimate to $12.60 from $13.15 previously. —Paul Y. Cheng, CFA, **Barclays**

PDC Energy (PDCE; $31.09–Sept. 24; Outperform; PT: $39)

Tuesday morning, PDCE announced the company plans to offer $400MM in 8 year notes, using a portion of the proceeds to redeem the $203MM of 12% 2018 notes. PDCE also filed an 8K, stating the company has increased the senior note/ refinancing indebtedness allowed per the credit agreement, which will facilitate the new offering. We view the potential offering as a positive in light of last week's release highlighting their go-it-alone plans for the Utica. **The company's balance sheet was a bit stretched after the Merit acquisition, in our view we have PDCE's unfunded budget at ~$155MM between now and YE13.** Terming out the high interest 18s, at what we expect to be a lower interest rate, while keeping the remaining proceeds for general corporate purposes alleviates much of our concern. The 8K also reiterated FY12 production guidance of 51.5 Bcfe. We are currently below this at 50.7 Bcfe as we remain concerned about potential infrastructure constraints in the DJ Basin. —David Tameron, **Wells Fargo**

Denbury Resources (DNR; $17.34–Sept. 20; Outperform; PT: $20)

DNR announced an agreement to swap its ~200,000 Bakken acres with ExxonMobile (XOM) for $1.6B cash and interests in two tertiary fields, Webster Field (Texas) and Hartzog Draw Field (Wyoming). Assuming $90,000/flowing boe and $1.00/EOR recoverable boe, total considerations received approximate $2.0B. DNR sold 15,400 boe/d of current production (88% liquids) or 107 MMboe of proved reserves. Assuming $90,000 per flowing boe, DNR received $1.4B for current production and implied $3,200/acre. **While per-acre pricing seems light compared to recent Bakken transactions, this transaction is strategic as it capitalizes on DNR's niche EOR strategy and its existing CO2 infrastructure.** $20 price target is based on average of NAV and EV/EBITDAX methods. NAV approach derives $21/share, including net proved reserves value of $11.89 and 2P/3P value of $8.81 (using a 10% discount rate). Equates to $19 based on target EV/EBITDAX multiple of 7.5x our 2012 EBITDAX of $1.47B. —Hsulin Peng, **Baird**

Who's Hot, Who's Not—as of 10/10

Analysts' view on select stocks

Key: Ticker/Current Price/52-Week Low/52-Week High/Market Cap

Upgrades:

- **Atwood Oceanics Inc.** (ATW/$46.07/$34.93/$49.75/$3.01B) from Neutral to Buy by Guggenheim.
- **Approach Resources Inc.** (AREX/$28.12/$20.56/$39.18/$942.69M) from Neutral to Overweight by JP Morgan.
- **Chevron Corp.** (CVX/$113.35/$92.29/$118.53/$22.41B) from Market Perform to Market Outperform by Howard Weil.
- **FMC Technologies Inc.** (FTI/$44.18/$36.89/$55.19/$10.53B) from Neutral to Buy by Guggenheim.
- **Lufkin Industries Inc.** (LUFK/$54.39/$45.11/$85.68/$1.83B) from Market Perform to Market Outperform by Howard Weil.
- **Marathon Oil Corp.** (MRO/$29.30/$22.99/$35.49/$20.66B) from Neutral to Outperform by Credit Suisse.
- **Questar Corp.** (STR/$20.34/$18.23/$21.47/$3.58B) from Neutral to Buy by UBS.
- **Schlumberger Ltd.** (SLB/$72.42/$59.12/$80.78/$96.10B) from Market Outperform to Focus Stock by Howard Weil.

New Coverage:

- **Basic Energy Services** (BAS/$11.53/$8.52/$23.41/$469.61M) at Hold by Wunderlich.
- **Cameron International** (CAM/$54.09/$38.38/$60/$13.32B) at Buy by Lazard.
- **Chevron Corp.** (CVX/$113.35/$92.29/$118.53/$22.41B) at Hold by Dahlman Rose.
- **Dawson Geophysical Co.** (DWSN/$25.10/$20.20/$40.76/$196.93M) at Buy by Wunderlich.
- **Devon Energy** (DVN/$61.61/$54.01/$76.34/$24.92B) at Outperform by Credit Suisse.
- **Energy XXI Ltd.** (EXXI/$33.40/$24.88/$39.65/$2.66B) at Buy by Canaccord Genuity.
- **EQT Midstream Partners LP** (EQM/$30.05/$22.58/$30.72/$1.04B) at Buy by Citigroup.
- **Exxon Mobil** (XOM/$91.17/$73.90/$93.36/$420.84B) at Buy by Dahlman Rose.
- **FMC Technologies Inc.** (FTI/$44.18/$36.89/$55.19/$10.53B) at Buy by Lazard.
- **Halcon Resources Corp.** (HK/$7.17/$2.04/$13.35/$1.52) at Overweight by Barclays.
- **Halcon Resources** (HK/$7.17/$2.04/$13.35/$1.52) at Buy by Canaccord Genuity.
- **Key Energy Services Inc.** (KEG/$6.94/$6.52/$18.18/$1.05B) at Hold by Wunderlich.
- **Laredo Petroleum Holdings** (LPI/$20.80/$17.25/$27.91/$2.64B) at Buy by C.K. Cooper.
- **Magnum Hunter Resources Corp.** (MHR/$4.50/$3.42/$7.71/$758.42M) at Outperform by RBC Capital Markets.
- **Pacific Drilling S.A.** (PACD/$10.10/$7.69/$11.47/$2.19B) at Buy by Dahlman Rose.
- **Patterson-UTI Energy** (PTEN/$16.87/$12.81/$23.90/$2.54B) at Buy by Wunderlich.
- **Pioneer Natural Resources Co.** (PXD/$104.11/$67.76/$119.19/$12.81B) at Outperform by Wells Fargo.
- **Plains Exploration & Production Co.** (PXP/$37.08/$25.25/$47.13/$4.78B) at Neutral by Credit Suisse.
- **TETRA Technologies Inc.** (TTI/$6.05/$5.85/$10.66/$472.11M) at Buy by Wunderlich.
- **Tyco International Ltd.** (TYC/$27.46/$27.69/$58.12/$12.63B) at Overweight by Barclays.
- **U.S. Silica Holdings Inc.** (SLCA/$13.17/$9.02/$22.14/$696.97M) at Market Perform by William Blair.
- **Vanguard Natural Resources** (VNR/$29.15/$22.81/$30.04/$1.52B) at Buy by UBS.

Downgrades:

- **Baker Hughes Inc.** (BHI/$44.65/$37.08/$61.90/$19.63B) from Buy to Accumulate by Tudor Pickering.
- **Basic Energy Services Inc.** (BAS/$11.53/$8.52/$23.41/$469.61M) from Buy to Accumulate by Tudor Pickering.

ARK-LA-TEX

HOUSTON CO., TX PROPERTY

PLS

2-Producing Wells.
NAVARRO CROSSING
Woodbine. ~6,300 Ft.
50% OPERATED WI; 38.5% NRI
Gross Production: 51 BOPD & 32 MCFD
Net Production: 20 BOPD & 12 MCFD
CALL AGENT FOR MORE INFO
PP 1133

PP 51 BOPD

GULF COAST

TUSCALOOSA CO., AL PROPERTY

500-Wells (CBM). ~43,000-Net Acres.
BLACK WARRIOR BASIN
ROBINSON'S BEND FIELD
100% OPERATED WI; 75% NRI
Daily Production: 16,000 MCFD
Average Cash Flow: $1,000,000/Month
Total Proved Reserves: 280.4 BCF
Total Proved Rsrvs (PV8): $85,600,000
3rd Party Reserve Report Available
AGENT IS ASSEMBLING PACKAGE DATA
PP 8999L

PP 16,000 MCFD

GULF COAST PRODUCTION SALE

4-Wells. 4-PUD's. 1-SWD. 160-Acres.
WILKINSON COUNTY, MISSISSIPPI
BELMONT LAKE OIL FIELD
Frio Sand. 2,800 Ft.
CONVENTIONAL SHALLOW OIL
3-D Seismic Data & Well Logs Available
58-66% OPERATED WI; 44-50% NRI
Opportunity to Purchase 100% WI
Avg Net Prod: 133 BOPD; 265 BOPD Gross
Net Operating Cash Flow: $325,000/Mth
Net Proved Reserves: 238 MBO
Net Proved Reserves PV10: $14,500,000
3rd Party Reserve Report Available
AFE Drill & Completion Cost: $568,000
BIDS DUE BY OCTOBER 23, 2012
PP 1973DV

PP 133 BOPD

BROOKS CO., TX PROPERTY

46-Active. 34-PUD. 7,481-Gross Acres.
DIABLO FIELD
MATURE CONVENTIONAL ASSETS
Upper & Lower Vicksburg Play
3D Seismic Covers Entire Area.
OPERATED WI AVAILABLE
Gross Prod: 167 BOPD & 3.8 MMCFD
Cumm'd Production:2.6 MMBO & 64 BCF
Total Gross EUR/CG&A: 330 BCFE
10-Probable & 8-Possible.
3rd Party Reserve Report.
AGENT PREPARING DETAILED PKG
PP 2219DV

PP DIABLO/3D

Who's Hot, Who's Not—as of 10/10

Analysts' view on select stocks

Key: Ticker/Current Price/52-Week Low/52-Week High/Market Cap

Downgrades:

- **Berry Petroleum Co.** (BRY/$40.34/$31.92/$57.26/$2.18B) from Neutral to Underperform by Credit Suisse.
- **CARBO Ceramics Inc.** (CRR/$64.99/$61.34/$162.36/$1.50B) from Buy to Hold by Oppenheimer.
- **Chesapeake Energy Corp.** (CHK/$20.14/$13.32/$29.87/$12.93B) from Buy to Hold by Stifel Nicolaus.
- **Core Labs NV** (CLB/$103.21/$93.30/$143.21/$4.88B) from Accumulate to Sell by Tudor Pickering.
- **Diamond Offshore Drilling Inc.** (DO/$66.23/$52.98/$73.50/$9.2B) from Outperform to Market Perform by FBR Capital
- **Encana Corp.** (ECA/$22.32/$17.02/$23.80/$16.42B) from Hold to Sell by Deutsche Bank.
- **Energy XXI Ltd.** (EXXI/$33.40/$24.88/$39.65/$2.66B) from Buy to Neutral by Global Hunter Securities.
- **EPL Oil & Gas Inc.** (EPL/$21.46/$12.14/$21.99/$839.15M) from Buy to Hold by Stifel Nicolaus.
- **Forum Energy Technologies Inc.** (FET/$22.85/18.60/$25.78/$1.96B) from Outperform to Market Perform by FBR Capital.
- **Hess Corp.** (HES/$53.33/$39.97/$67.86/$18.05B) from Neutral to Underperform by Credit Suisse.
- **IHS Inc.** (IHS/$88.52/$76.79/$118.93/$5.84B) from Outperform to Neutral by Robert W. Baird.
- **Key Energy Services Inc.** (KEG/$6.94/$6.52/$18.18/$1.05B) from Market Outperform to Market Perform by Howard Weil.
- **Lufkin Industries Inc.** (LUFK/$54.39/$45.11/$85.68/$1.83B) from Buy to Accumulate by Global Hunter Securities.
- **Nabors Industries Ltd.** (NBR/$14.67/$12.40/$22.73/$4.26B) from Accumulate to Neutral by Global Hunter Securities.
- **Patterson-UTI Energy Inc.** (PTEN/$16.87/$12.81/$23.90/$2.54B) from Buy to Accumulate by Tudor Pickering.
- **PDC Energy Inc.** (PDCE/$33.11/$18.34/$40.26/$988.1M) from Buy to Hold by Miller Tabak.
- **Penn West Petroleum Ltd.** (PWE/$13.75/$12.22/$22.37/$6.56B) from Outperform to Market Perform by BMO Capital Markets.
- **Precision Drilling Corp.** (PDS/$8.02/$5.82/$12.93/$2.22B) from Buy to Accumulate by Tudor Pickering.
- **Rowan Companies PLC** (RDC/$32.53/$28.62/$39.40/$4.04B) from Outperform to Market Perform.
- **Superior Energy Services Inc**. (SPN/$20.28/$17.54/$31.88/$3.19B) from Buy to Accumulate by Tudor Pickering.
- **Tenaris SA** ($39.92/$27.86/$44.88/$23.56B) from Market Outperform to Market Perform by Howard Weil.
- **Tyco International Ltd.** (TYC/$27.46/$27.69/$58.12/$12.63B) from Outperform to Neutral by Credit Suisse.
- **Union Drilling, Inc.** (UDRL/$6.59/$3.39/$8.42/$141.01M) from Outperform to Market Perform by BMO Capital Markets.
- **Valero Energy** (VLO/$29.49/$19.12/$34.36/$16.26B) from Buy to Hold by Argus.
- **Western Gas Partners LP** (WES/$51.83/$34.08/$52.64/$4.96B) from Buy to Neutral by UBS.

Key: Ticker/Current Price/52-Week Low/52-Week High/Market Cap
Source: **Yahoo! Finance**

GULF COAST

LAVACA CO., TX PROPERTY
39-Operated Active & 13-NonOp Wells.
WORD & NORTH WORD FIELD
HALLETTSVILLE AREA
Wilcox Recompletions (PDNP) UpSide.
Edwards InFill Drilling (PUD) UpSide.
OPERATED & NonOperated WI
Total Net Prod: 60 BOPD & 4.8 MMCFD
Total Net Cash Flow: $400,000/Mn
AGENT WANTS OFFERS NOV 8, 2012
PP 2129DV

PP OP/ NONOP

BRAZOS CO., TX PROPERTY
Multiple Active. 14,785-Gross Acres.
EAGLE FORD SHALE
Successful Eagle Ford Extension --
-- Into Brazos County.
60-Well Development Potential.
65% OPERATED WI; ~48% NRI
(3 Locations) IP: 2,493 BOPD
MidValue Express Negotiated Transaction.
CONTACT AGENT TO LEARN MORE
PP 2059DV

PP EAGLE FORD

JEFFERSON CO., TX PROPERTY
16-Active Wells. 618-Acres.
SPINDLETOP FIELD
Deeper Nodasaria Gas Play.
30-Additional Drilling Locations.
Numerous Behind Pipe Zones.
100% OPERATED WI; 73% NRI
Gross Production: ~155 BOPD
Net Production: ~110 BOPD
Net Cash Flow: ~$300,000/Mn
Est Net Proved Reserves: 4.1 MMBO
P+P+P Reserves: 4.77 MMBO & 6.5 BCF
Net Proved Rsrvs (PV10): $156,000,000
CALL SELLER FOR ADDITIONAL INFO
PP 1527DV

PP ~110 BOPD

SOUTH TEXAS LEASEHOLD
PLS
94,247-Net Mineral Acres. (Contiguous)
GONZALEZ & FAYETTE CO.
EAGLE FORD SHALE
Leases Will Deliver 75% NRI.
Offset Well IP: >2,600 BOPD
CALL PLS FOR MORE INFO
L 8006DV

L EAGLE FORD

GRIMES CO., TX PROSPECT
1,465-Gross Acres. 1,405-Net Acres.
AUSTIN CHALK
Austin Chalk A, Georgetown/Buda --
-- & Eagle Ford Shale Zones.
None Producing Leasehold.
AUSTIN CHALK --
Est Rsrvs: 450 MMCF & 150 MBOE
GEORGETOWN/BUDA --
Est Reserves: 5.0 BCF & 47 MBO
CONTACT AGENT
DV 1129

DV AUSTIN CHALK

PERMIAN

IRION CO., TX PROSPECT
PLS
1,210-Acres.
PERMIAN BASIN
STACKED PAYS
Wolffork, Wolfcamp, Cline & Fusselman.
Leases Cover All Depth Rights.
Depths Range: 4,500-8,800 Ft.
Vertical Or Horizontal Opportunities.
100% OPERATED WI; 75% NRI
Offset Well IP's: 50-350 BOPD
On Trend w/ Large Independents Activity.
3-Year Leases Starting January 2012.
CALL PLS AGENT FOR INFO
DV 8009

DV WOLFFORK

PERMIAN BASIN PROPERTIES
65-Active. 4,564-Net Acres.100% HBP
NORTHERN CROCKETT COUNTY
PROLIFIC WORLD FIELD
Grayburg Formation. 2,700 to 4,500 Ft.
SIGNIFICANT UPSIDE POTENTIAL
LOW RISK DRILL OPPORTUNITIES
~100% OPERATED WI; 80% NRI
Current Net Prod: 302 BOPD (Grayburg)
LONG LIFE - SHALLOW DECLINE
Net Operating Cash Flow: $480,000/Month
Total Net Proved Reserves: 2.7 MMBO
Additional Probable Reserves: 748 MBO
Total Net Reserves PV10: $48,300,000
Additional Net PV10: $8,300,000
CA Required to View Data Package
CONTACT DALLAS AGENT
PP 1987DV

PP 302 BOPD

PERMIAN BASIN PROPERTIES
14-Active. 19,172-Gross Acres.
UPTON COUNTY, TEXAS
WOLFBERRY TREND
ATTRACTIVE HORIZONTAL WOLFCAMP
High-BTU Devonian Development
Upside Potential Clearfork/Spraberry
3-D Seismic Available Over Entire Acreage
100% OPERATED WI; 75-79% NRI
Net Production: 500 BOED
Forecast Net Peak Prod: >13.4 MBOED
Net Operating Income: $600,000/Month
Total Net Rsrvs: 67 MMBOE (84% Liquids)
Net PDP Reserves: 2.1 MMBOE
Total Reserves PV10: $593,000,000
CA Required to View Data Room
OFFERS DUE BY NOVEMBER 1, 2012
PP 1975DV

PP 500 BOED

PERMIAN

JEFF DAVIS CO., TX PROSPECT
61,520-Acres Leased/Optioned.
PERMIAN BASIN
Objectives Include: Capitan Reef, Word --
-- Leonard, Hess, Wolfcamp
100%OPERATED WI; 75% NRI
AGENT WANTS OFFERS OCT 16, 2012
DV 1086

DV DV

ECTOR CO., TX NONOP SALE
PLS
21-Active Wells. 8-Drilling. 6-Completions.
SPRABERRY TREND AREA
CORE SPRABERRY DEVELOPMENT
Upside Potential: 31 Permits
3-AFEs
Interest Under 5 Contiguous Sections
Wells Being Drilled On 20 Acre Spacing
~1.5% NonOperated WI; ~1.125% NRI
Gross Prod: 1.3 MBO & 2.1 MMCFD
Net Production: ~17 BOED
Net Cash Flow: ~$36,000/Month
EUR/Well ~145-190 MBOE
CALL PLS AGENT FOR INFO
PP 2124DV

PP SPRABERRY

WEST TEXAS PROJECT
57-Active. 12,268-Acres. 234-Locations.
BORDEN, MARTIN & HOWARD CO.
PERMIAN BASIN
Wolfberry, Spraberry, Canyon, Strawn
Chester, Miss Lime & Penn Shale
Avg Prod: 1,785 BOPD & 6,880 MCFD
CA REQUIRED TO VIEW DATA
CALL AGENT FOR MORE DETAILS
PP 1131DV

PP 1,785 BOPD

BORDEN CO., TX PROPERTY
3-Active. 1-Disposal. ~493-Net Acres. HBP
PERMIAN BASIN
Spraberry (Horizontal) & Wolfberry (Vert)
Wolfberry, Mississippian & Strawn Potential.
NonOperated Working Interest For Sale
Gross Production: ~44 BOPD & 25 MCFD
Avg Net Cash Flow: $10,230/Month
OFFERS DUE BY OCTOBER 24, 2012
PP 1980DV

PP ~44 BOPD

KENT CO., TX NONOPERATED
21-Active. 1,416+/- Gross Acres.
DOUBLE MOUNTAIN FIELD
Canyon Sand Formation.
1-WIW & 1-SWD Well.
Significant Canyon Sand UpSide.
~15% NonOperated WI; ~11,625 NRI
Gross Production: ~546 BOPD
Net Production: ~63 BOPD
Avg Net Income: $121,788/Mn
Near Immediate Waterflood Response --
-- From First Injector.
AGENT WANTS OFFERS OCT 18, 2012
PP 2139DV

PP NONOP

MIDCONTINENT

KANSAS MISSISSIPPIAN LEASES

PLS

~26,630-Net Acres.
HODGEMAN, NESS, LANE, EDWARDS,
& PAWNEE COUNTIES
Mississippian Lime, Arbuckle, LKC,
Cherokee & Atoka Formations.
100% OPERATED WI; 80% NRI
Mostly 3-Year Leases w/ 2-Year Options.
CALL PLS AGENT FOR INFO
L 8005DV

L MISSISSIPPIAN

OCHILTREE CO., TX PROPERTY

Multiple Active Wells. 1,328-Net Acres.
CLEVELAND OIL PLAY
4-Remaining Locations To Be Drilled --
-- In Cleveland Horizon.
Active Horizontal Development
7-Rigs & >100 Permits: Pan Petro Field
100% OPERATED WI; ~74% NRI(Lease)
Est Net Production: ~670 BOED
30-Day IP Rates: 230-490 BOED --
--From Initial 4 Horizontal Cleveland Wells.
AGENT WANTS OFFERS NOV 2012
PP 1259HZ

PP ~670 BOED

WICHITA CO., TX PROPERTIES

~170-Producers. 2,349-Gross Acres.
NORTH TEXAS
CENTER OF KMA OIL FIELD
Significant Proven Upside:
- Recompletion in >150 Existing Wells.
- Proven Waterflood Potential in Multi-Zones
- New Wells - Opportunities to Infill or Extend
100% OPERATED WI; ~81% NRI
Gross Production: 417 BOPD
LONG LIFE OIL PRODUCTION
Net Cash Flow: $789,897/Month
Total PDP Reserves: 1.4 MMBO/Project
Net Proved Reserves(PV10): $27,100,000
New Well Completion Cost: $65K-$225K
OFFERS DUE BY OCTOBER 30, 2012
PP 1112DV

PP 1.4 MMBO

WEST OKLAHOMA PROPERTY

117-Wells. 28,360-Acres. 51-HBP Sections
BECKHAM, CUSTER & WASHITA CO.
WEST TURKEY CREEK AREA
Des Moines Granite Wash, Hogshooter,
Cottage Grove, Red Fork, Atoka & Morrow
13%-63% NonOperated & OPERATED WI
Average Leasehold Delivered 80% NRI
Avg Net Sales: 765 BOPD, 9,935 MCFD
Operating Net Cash Flow: $3,234,018/Mn
OFFERS DUE BY NOVEMBER 20, 2012
PP 1963DV

PP 9,935 MCFD

EASTERN & APPALACHIA

WEST VIRGINIA ROYALTY

257-Active.
COUNTIES INCL: BARBOUR, GILMER
-- BOONE, HARRISON, RANDOLPH
Birdbear, Duperow, --
--- Red River Formations.
Significant UpSide Potential.
ROYALITIES FOR SALE
Net Profits Interest Under Royalty NPI
Avg Net Cash Flow: $201,916/Mn
Sealed Bid Offering.
CONTACT AGENT
RR 1569PP

RR ROYALTY

ROCKIES

KIOWA CO., CO ACREAGE

PLS

~6,800-Acres.
MULTIPAY
Morrow, Cherokee, & Atoka Targets.
All Potential Zones --
--- Pennsylvanian Aged.
100% OPERATED WI; 80% NRI
Surrounded By Pioneer & Chesapeake.
CALL PLS AGENT FOR DETAILS
L 8019

L MULTIPAY

MULTISTATE ROCKIES NONOP

238-Active Wells. ~12,220-Net Acres.
NORTH DAKOTA & MONTANA
BAKKEN / THREE FORKS PLAY
>170-Active Rigs in the Area
Operators Rapidly Developing Acreage
Avg 4.1% NonOperated WI; 3.3% NRI
Est October 2012 Net Prod: ~885 BOED
Operators Include: Continental, EOG,
Hess, Marathon, Statoil, Slawson & Oasis.
CGA 3rd Party Reserve Report
CA Required to View Data Room
OFFERS DUE BY MID-NOVEMBER 2012
PP 1974

~885 BOED

ROCKIES PROSPECTS

2-Packages. 93,135-(Pkg) Net Acres.
WYOMING & COLORADO
NORTH PARK BASIN (CO)
LARAMIE BASIN (WY)
Large Acreage Block (WY)
Multiple Vertical Targets.
Significant Horizontal UpSide Potential.
100% OPERATED WI; ~84% NRI(Lease)
Lease Expirations: 2012-2021
Leases Cover All Depths.
AGENT WANTS OFFERS OCT 17, 2012
DV 2100PKG

DV DV

ROCKIES

NORTH DAKOTA ROYALTY SALE

367-Horizontal Wells. >240-Sections.
MOUNTRAIL & BURKE CO
BAKKEN / THREE FORKS
34-Active Horizontal Rigs (Mountrail Co.)
CONSIDERABLE UPSIDE
OVERRIDING ROYALTY FOR SALE
Avg 6-Month Net Cash Flow: $127,589/Mn
Total EUR's: 628 MBOE (Bakken)
Total EUR's: 490 MBOE (Three Forks)
CALL DALLAS AGENT FOR DETAILS
RR 3998PP

RR BAKKEN

WYOMING PROPERTIES

43-Active. 11-SI. 8-PUD. 31,900-Acres.
POWDER RIVER BASIN
PORCUPINE & TUIT DRAW FIELD
Incl: Muddy, Sussex, Turner Formations.
Horizontal & Vertical Development.
MultiZone UpSide Potential.
Low Risk Development-HBP Leasehold.
Avg ~73% OPERATED WI; ~59% NRI
Gross Prod: 70 BOPD & 950 MCFD
Net Production: 44 BOPD & 561 MCFD
Est (2013)Net Cash Flow: $1,800,000/Mn
Net Prov Rsrvs: 411 MBO & 4,933 MMCF
Net P+P Rsrvs: 3,017 MBO & 22 BCF
Net Prov Rsrvs(PV10): $17,988,000
AGENT WANTS OFFERS OCT 15, 2012
PP 2169HZ

PP 93,000 BOED

MULTISTATE

TEXAS & LOUISIANA PROPERTIES

3-Fields. 46-Active. 19,380-Net Acres.
EAGLE FORD & E TX CRETACEOUS
CLAY & HARDIN (TEXAS)
GRAND LAKE (LOUISIANA)
Significant UpSide: Y-4 Horizontal Drilling
Including CO2 Flood Potential.
~100-Development Locations.
OPERATED WI FOR SALE
Net Production: 180 BOED
Net Cash Flow: $140,000/Mn
Net Proved Reserves: 10.7 MMBOE
Net Prov Rsrvs (PV10): $157,000,000
(LA)Net PDNP Rsrvs (PV10): $4,100,000
AGENT WANTS OFFERS NOV 6, 2012
PP 2309DV

PP 180 BOED

MULTISTATE ROYALTY PACKAGE

Multiple Wells. Non-Producing Minerals.
NEW MEXICO, OKLAHOMA & TEXAS
Anadarko, Bend Arch, East Texas,
Chautauqua Platform, Fort Worth, Permian,
Gulf Coast, Ouachita Folded Belt, Palo --
-- Duro & Strawn Basins
VARIOUS ROYALTY & ORRI
Gross Prod: 19,395 MCFD & ~9.0 BOPD
Avg Net Cash Flow: $4,315/Month
OFFERS DUE BY OCTOBER 25, 2012
RR 1965M

RR 19,395 MCFD

"...opportunity is a reflection of information."

Get Metrics.

Gain clarity and perspective with PLS' Transactional Database. The most functional, comprehensive and cost-effective transactional database in the industry.

PLS delivers the most comprehensive upstream transactional database in the industry by leveraging worldwide, on-the-ground information sources and proprietary internet search technology. The transactions database is an invaluable tool for all professionals engaged in upstream oil and gas transactions.

Whether you are part of an oil and gas company M&A team, financial advisor, capital provider, or lawyer, this database will help guide you to correctly value assets and identify transaction opportunities.

Take a test drive at www.plsx.com/ma or call 713-650-1212 for an in-house demo.

U.S., Canadian & International.

www.plsx.com/ma

In conjunction with Derrick Petroleum Services.

Call Now: 713-650-1212