

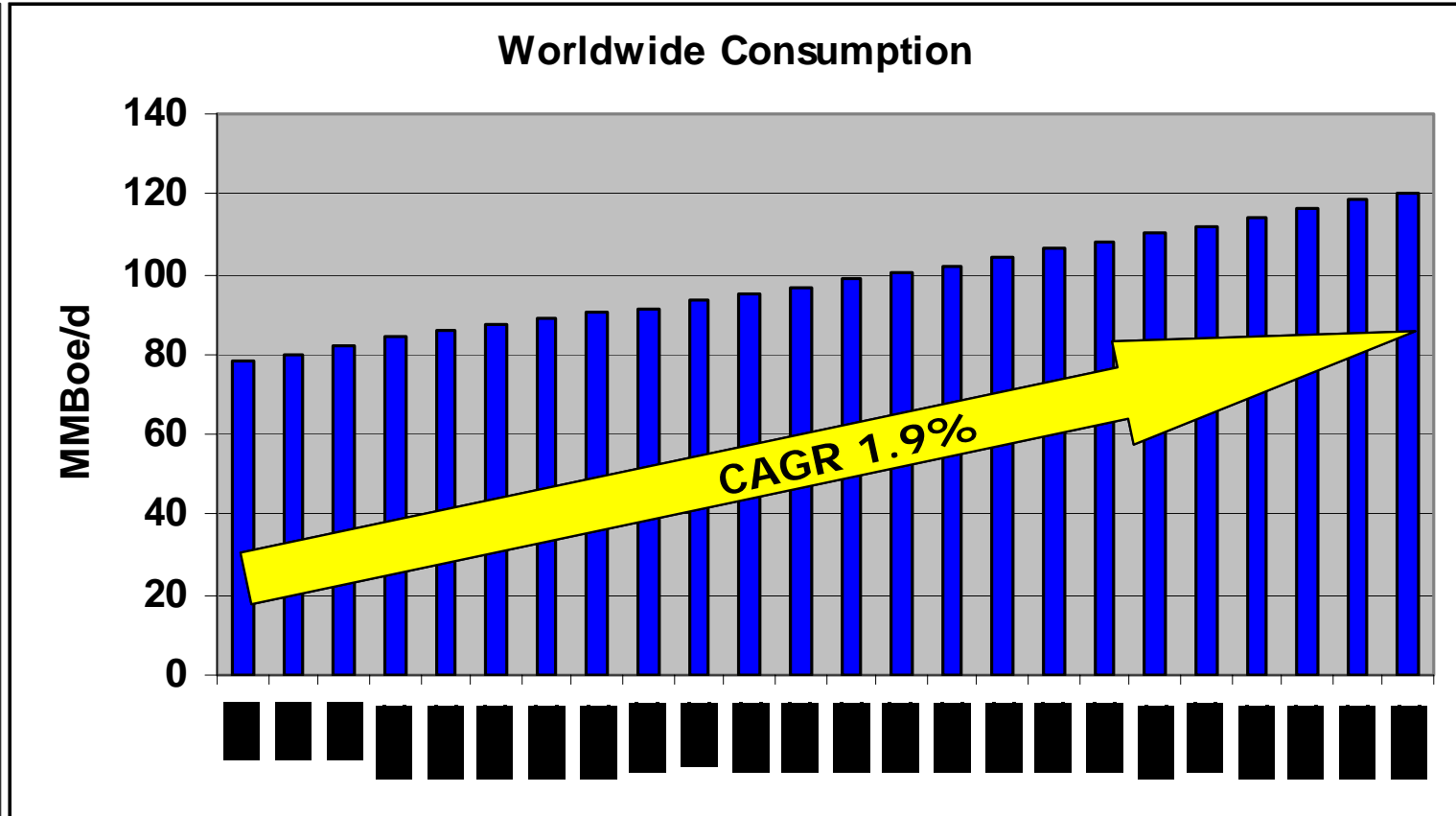
RANDALL & DEWEY
A division of Jefferies & Company, Inc.

A&D Market Overview- Making Great Deals

Speaker - Alan G. Carnrite, Managing Director

IAEE Meeting
April 14, 2005

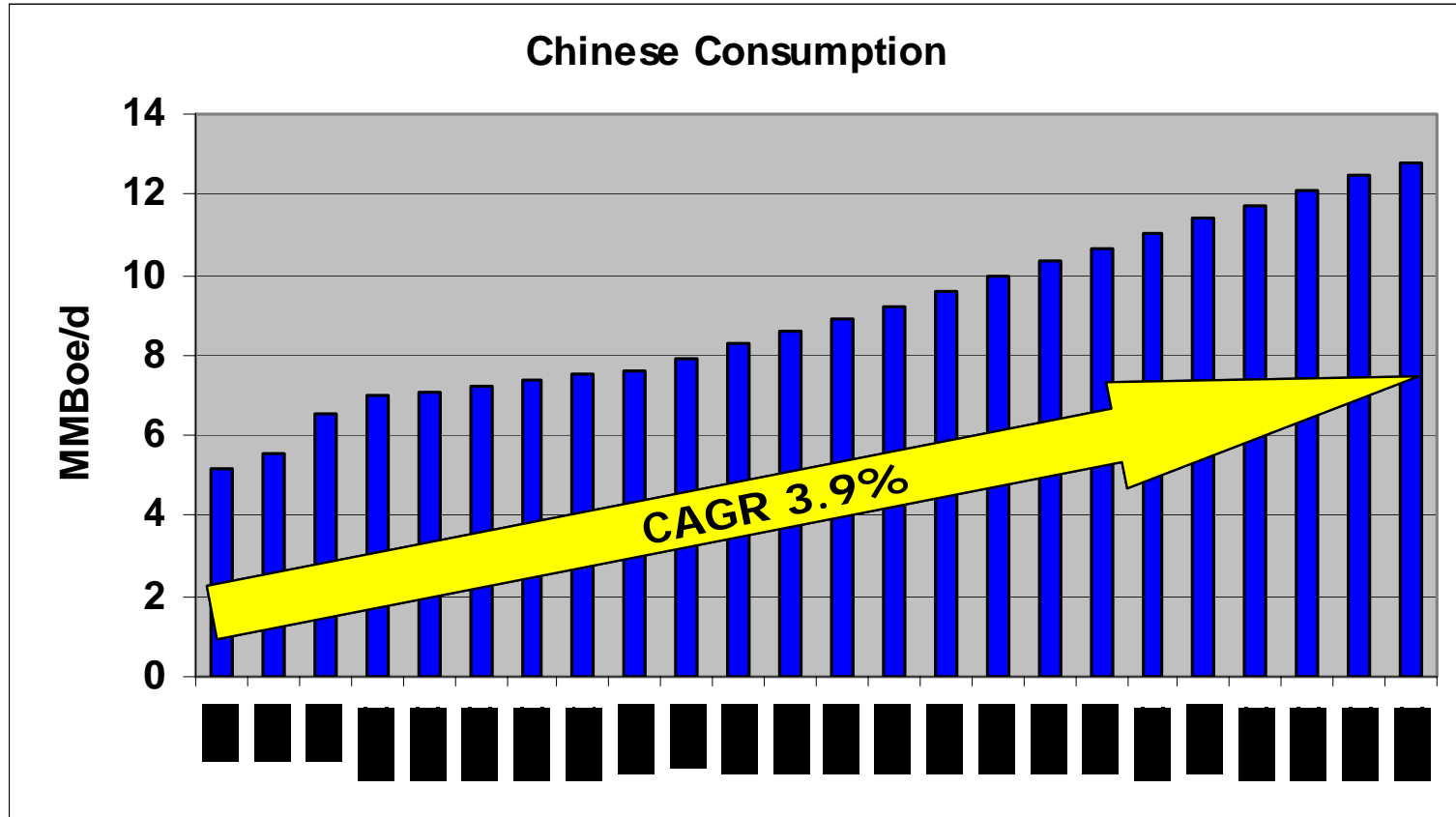
Demand Side
Macro Picture
Looks Good For
Sustained High
Commodity Prices



Source: EIA

- Worldwide Oil consumption is predicted to reach 120 MM Barrels per day by 2025

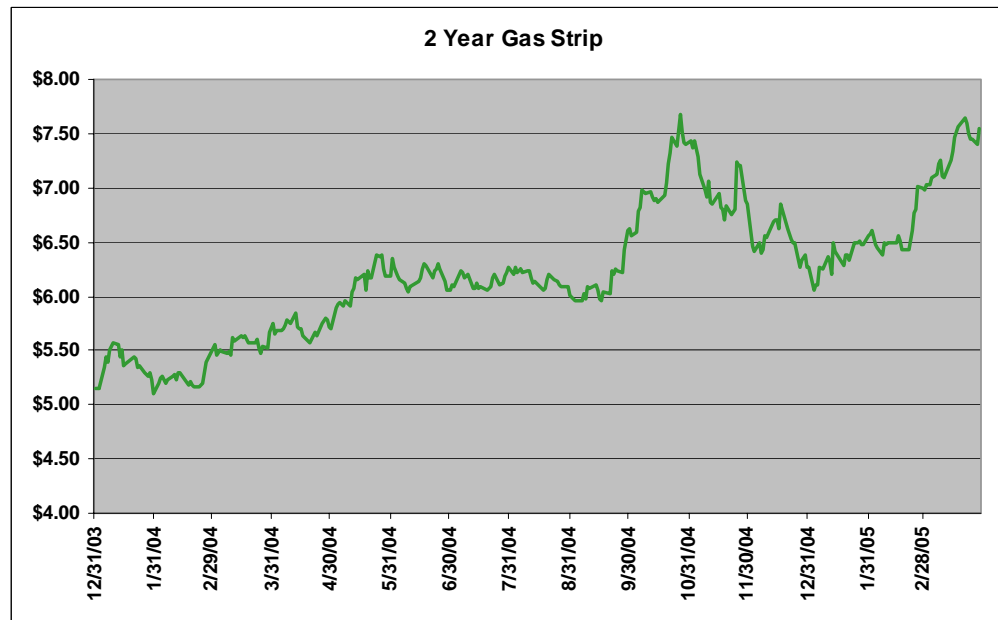
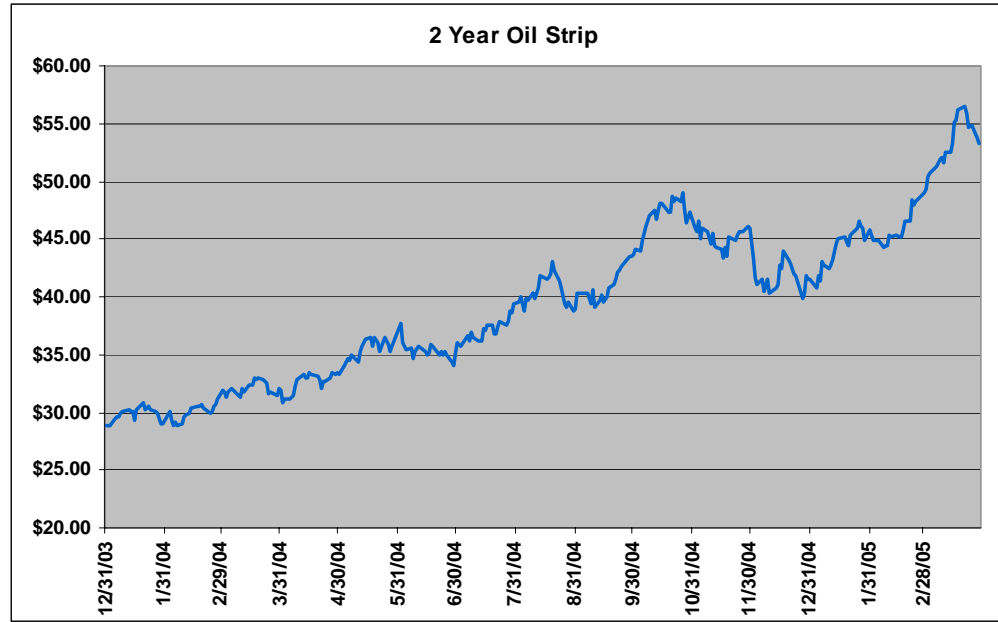
Underpinned To A Large Degree By China



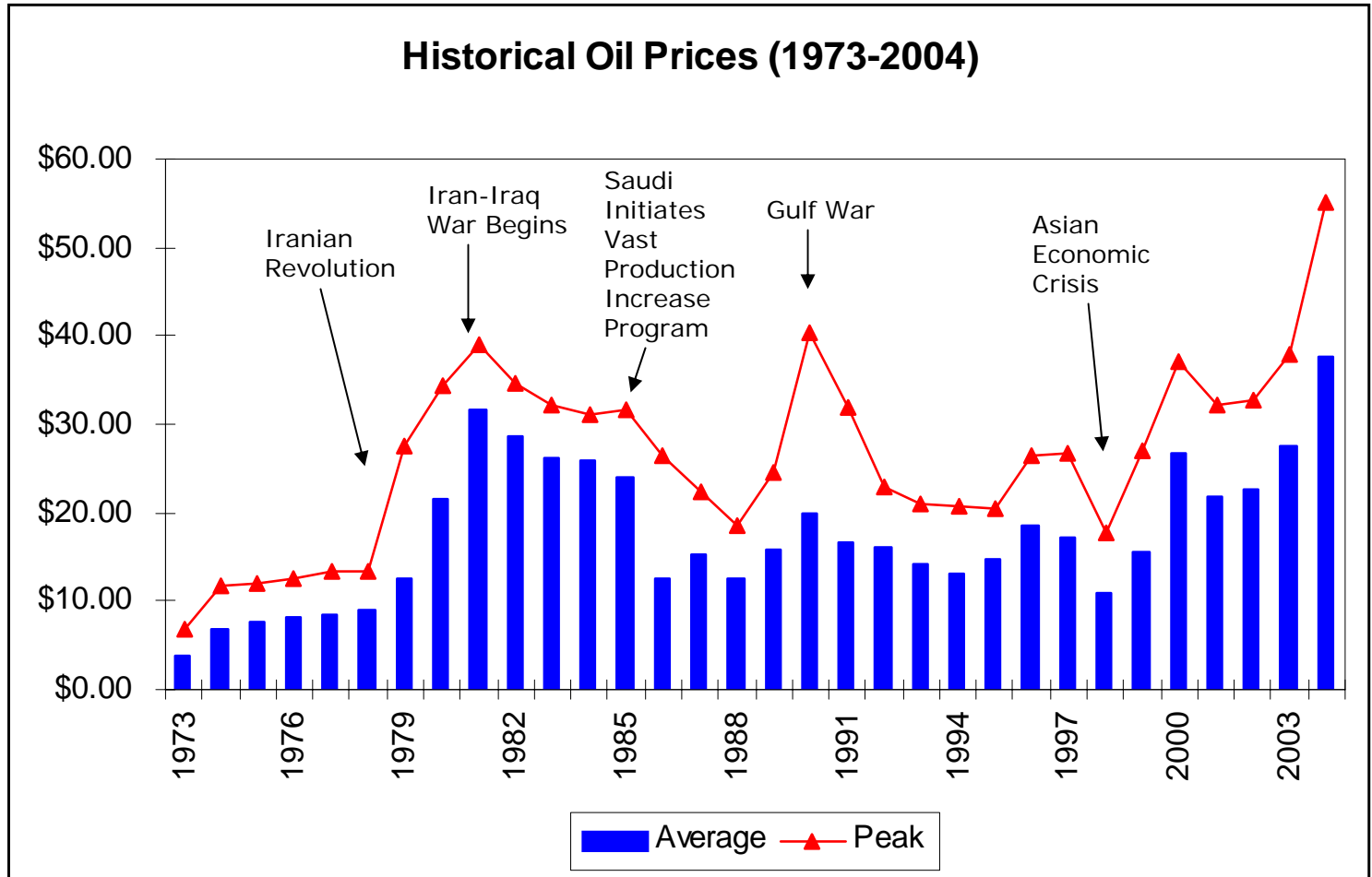
Source: EIA

- China is responsible for 33% of worldwide oil demand growth over the past 3 years

Rising Commodity
Prices Enhance
Accretion of
Recent Deals

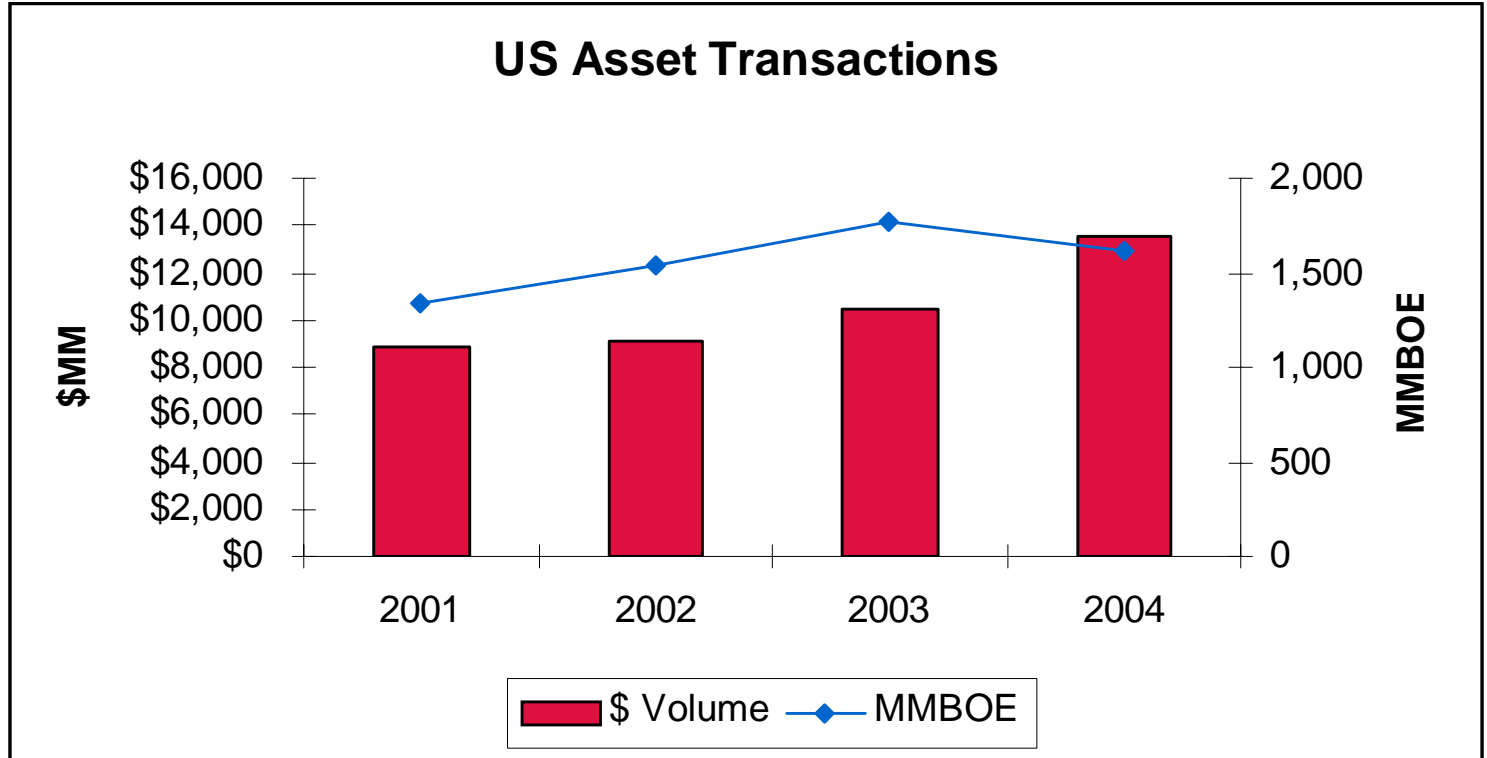


However We All
Recognize That
Commodity Prices
Can Be Very
Volatile



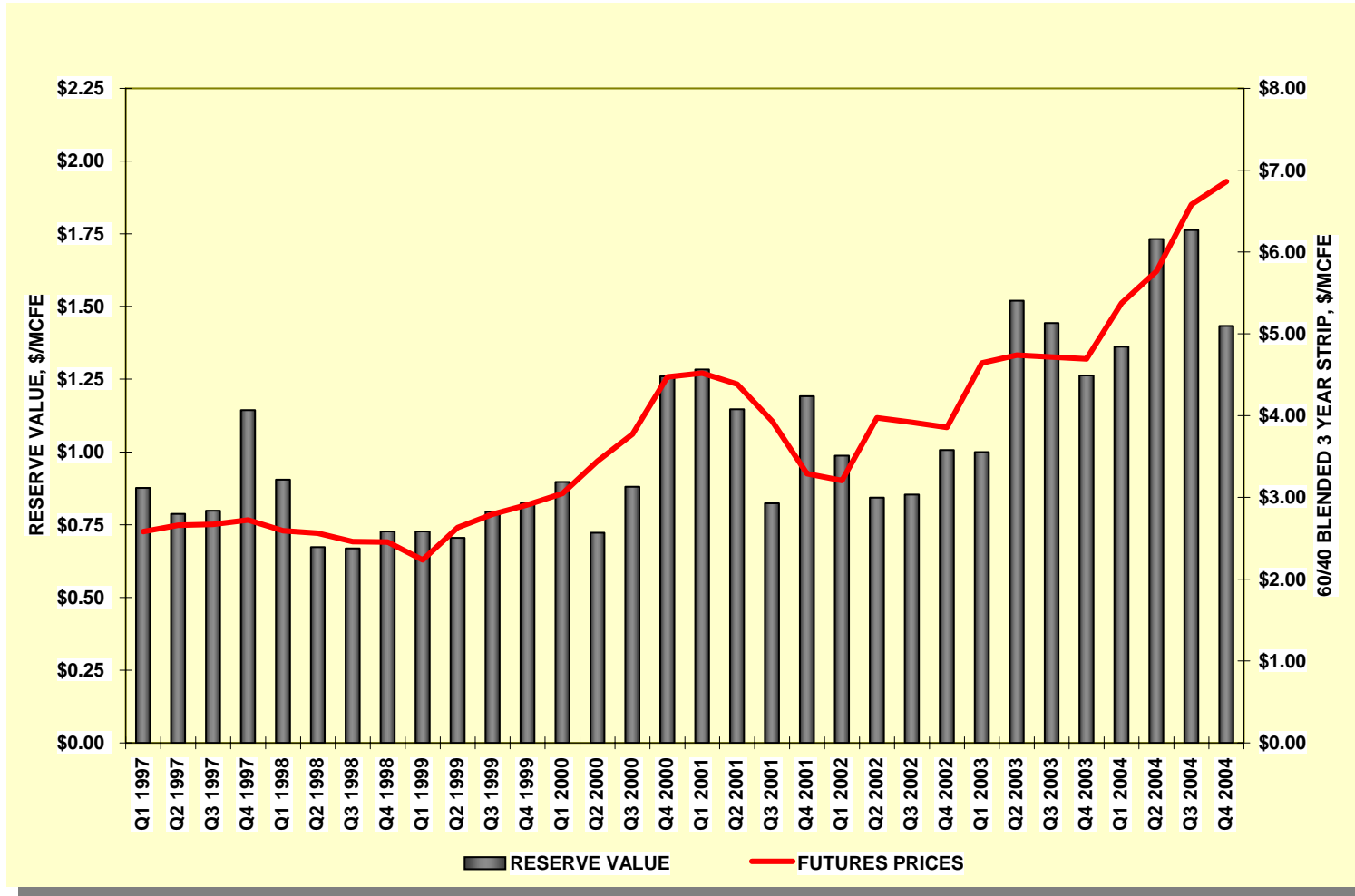
- Former Saudi Oil Minister Sheik Yamadi believes that continued high oil prices will curb demand and bring down prices over the next 2 years similar to what occurred in the late 70s and 1980s

The Dollar Volume Of Asset Transactions Has Increased At A Much Greater Rate Over The Past Four Years Than The Reserve Volume Of Asset Transactions

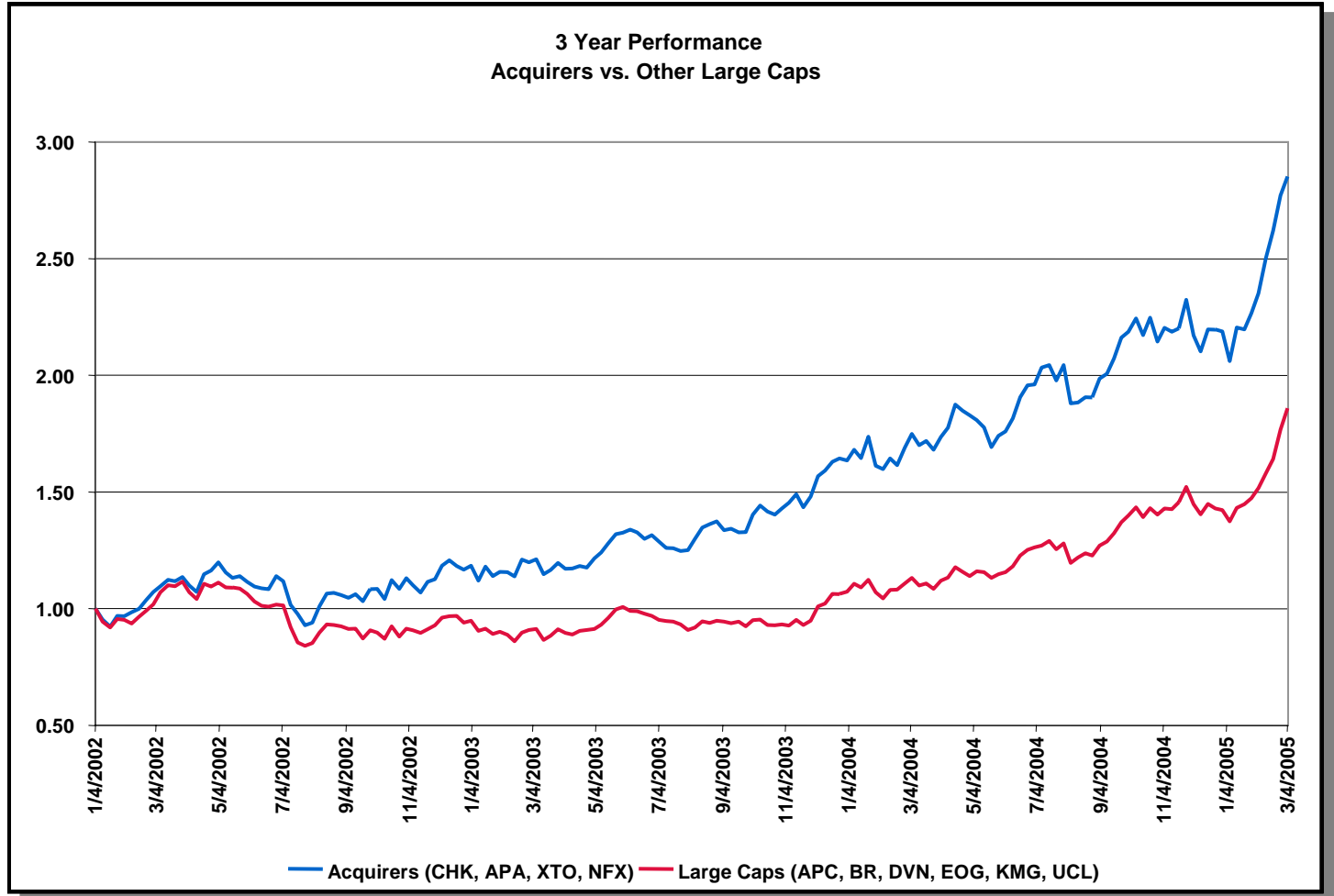


Data per John S. Herolds and Randall & Dewey

Reserve Values Of Asset Deals Have Followed The Forward Curve



Aggressive Buyers Have Been Rewarded In The Market For Making Acquisitions



**Winning Bidders
Must
Demonstrate
Flexibility,
Honesty, Speed
and Creativity**

- Premium buyers favored
 - Buyers paying full value for PDPs, PDNPs, PUDs using forward curve pricing
 - Assign some value to probables and possibles

- Ability to close in rapid order without complication
 - Pre-arranged financing
 - Experienced due diligence team
 - Top bidder occasionally loses out to quick, clean closer

- Reputation in marketplace as honest broker

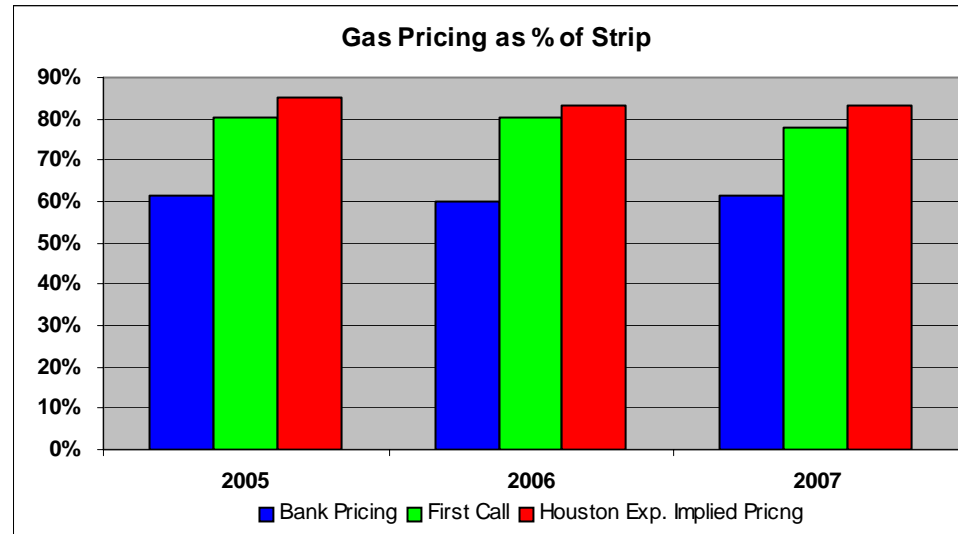
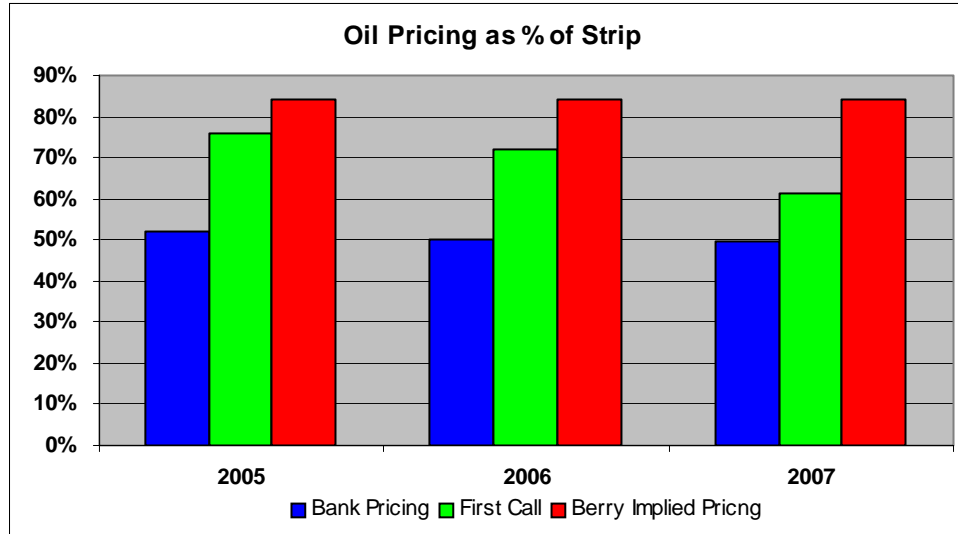
- Ability to offer creative deal structures
 - Cash / asset swap combinations
 - Additional payments if PUDs perform
 - Concerns of sellers' management

- Valuing PDPs on par with financial buyers:
 - VPPs, Royalty Trusts, Long-Term Hedgers (10 Years)

Variety Of
Capital
Sources To
Meet
Operator's
Objectives

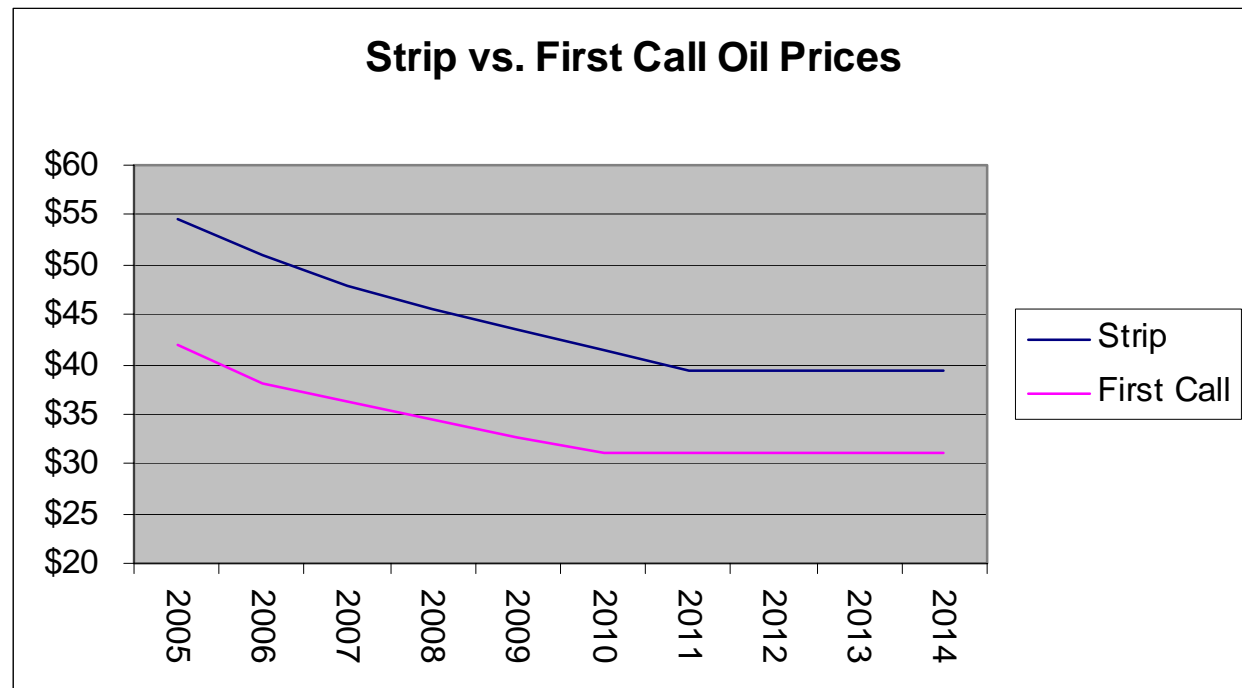
	Public Equity/ PIPES	Private Equity	Mezz.	Canadian Royalty Trusts	VPPs	"Premium" Public Buyers	High Yield	Bank Market
Expected Returns	8% - 12% 12% - 20%	20% - 30%	12% - 18%	4% - 8%	5% - 11%	10% - 15%+ (Unleveraged)	6% - 10%	2% - 6%
Security	None	Preferred	1st/2nd Lien	NA	1st Lien	NA	Secured/ Sr. Uns./Sub.	1st Lien
Use Forward Commodity Curve	No	No	No	Yes	Yes	Yes	No	No
Typical Size (\$MM)	NA	\$10 - \$100+	\$10 - \$50+	\$100 - \$300	\$50 - \$1,000	Up to \$1,500	\$100 - \$1,000	NA
Reserve Classes	Proved+	All	Proved	PDP/PDNP	Proved Developed	Proved + Probable	Proved	PDP + % PUDs
Take Development Risk	Yes	Yes	Yes	Some	No	Yes	Yes	No
Take Exploration Risk	Yes	Yes	No	No	No	Little	No	No
Take Price Risk	Yes	Yes	Yes	Yes	No	Yes	No	No
Market Depth	Large	Growing	Limited	Growing	Large	Selective	Large	Large

In Spite of Rising Commodity Prices, First Call, Industry Lenders, And The Equity Markets Value Companies At A Significant Discount To The Strip



Current Forward Prices Are Significantly Higher Than Stock Market Expectations

- A significant opportunity exists to arbitrage the forward curve versus the stock market's expectation
- At current prices, the difference between 1 Bbl / year for ten years at the two different price curves is illustrated as follows
 - NPV at 7% at strip = \$317
 - NPV at 7% at stock market price = \$247
 - Strip NPV is 28% above First Call



Risk Factors And
Implied Discount
Rates Of Winning
Bids

INDICATIVE RESERVE BIDDING METRICS

Reserve Class	Low End		High End	
	Risk Factor	Discount Rate	Risk Factor	Discount Rate
PDP	95%	10%	100%	8%
PDNP	66%	15%	75%	10%
PUD	50%	20%	75%	15%
Probable	25%	30%	50%	20%
Possible	10%	30%	25%	20%

Illustrative VPP Transactions

- In the last 18 months, there have been a number of transactions which have demonstrated the flexibility and value available from creative use of VPPs

- **Long-Term VPP:** Acquisition of San Juan Basin assets (+/- \$100 MM)
 - Fully-financed the acquisition price and future capital
 - Locked-in favorable long-term gas prices with no margin requirement

- **Leverage Recapitalization / Future VPP:** Recap for Acquisition and Equity Purchase + Future VPP Recap (+/- \$200 MM)
 - Bank debt and high yield used to finance acquisition and partial equity buyout
 - Subsequent VPP provided no margin hedge and met fall-away covenant test

- **Public Stock Buyback + VPP:** Pioneer Natural Resources (+/- \$593 MM)
 - Sold two production payments at high \$/BOE value
 - Sold 2% of reserves to buyback 8% of enterprise value