

ON POINT

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GORDON ENERGY
SOLUTIONS

Candid, Forward-Looking Analysis of the Oil & Gas Industry

IN THE NEWS

ExxonMobil Builds in Black Sea

ExxonMobil and TPAO signed an agreement to explore two deepwater blocks in the Black Sea. Expected investments on the two blocks ranges between US\$400 and US\$450 million. The blocks are in water depths ranging from 5,576 feet to 7,216 feet. ExxonMobil and TPAO will share the blocks on a 50/50 basis. ExxonMobil also announced an exploration agreement with Petrom involving participation in the Neptun Block in Romania.

Fort Hills Decision Delayed

After expected costs of the Fort Hills oil sands project were revised upward by 50% in September, Petro-Canada, UTS Energy and Teck Cominco have delayed the investment decision for the mine portion of the project until next year and a likely cancellation of plans to build an upgrader.

OMV Production Targets Cut

OMV's output target of 400 Mboe/d by 2010 has been cut to 350 to 360 Mboe/d. Also, hoped for output of 100 Mboe/d from future acquisitions is considered unlikely.

Alberta Offers Transitional Royalty

A "transitional" royalty option is being offered for a five year period on qualifying wells. This alternative is being offered to new conventional oil and gas wells drilled from 2009 through 2013 at depths of 1,000 to 3,500 meters. Existing production will be subject to the revised royalty system announced in late 2007.

California Oil Severance Tax Proposal

Governor Schwarzenegger called a legislative special session to address California's budget deficit. Proposals include repeat of an earlier effort to impose a 9.9% ad valorem severance tax on oil production.

Petro-Hunt Relinquishes Alaskan Acreage

The company has withdrawn from 820,000 acres that it won in the September BLM lease sale on the National Petroleum Reserve in Alaska. The BLM reported that Petro-Hunt considers exploration to be non-viable in view of lower oil prices.

Capital Strategy Back in the Forefront

Faced with dramatically lower oil and natural gas prices, the credit crunch and a global economic recession, it is time for both companies and governments to face some fundamental facts and re-evaluate strategy.

The run-up in oil and gas prices after 2003 triggered a major surge in profits and cash flows for both the oil companies and governments controlling oil and gas resources.

As was noted in our October supplement last year, two different processes have been at work since early 2004.

- The first was and still is an internally driven cyclical expansion of world oil markets that (1) is a repetition of the same cyclical process we have seen throughout the industry's existence and (2) has its roots in very real and sustained supply and demand-side forces.
- The second process was the same financially driven, speculative bubble that was active in the financial markets and housing and has contributed to the global economic recession. The effects of this second, external process were amplified by the impact of rising price expectations in the industry and among non-industry investors.

From early 2004 until the last quarter of 2007 the industry cycle was the dominant driver of price. Absent the effects of the financial bubble, industry experience in prior cycles suggested that a "pause" of several years was likely in the oil sector. During this pause, nominal prices might remain relatively flat but real prices would fall. However, the financially driven process became dominant, creating a second, premature price rise. This price increase was not only premature (i.e., not

rooted in the market fundamentals at that time) but it was also extreme in magnitude, leading to what can now be seen to be only a temporary oil price bubble.

It is only in perhaps a few exceptional cases that one can demonstrate that the surging profits and share prices of the last three years was driven by superior company strategies or management skills. To the contrary, the explosive increase in profits and cash flows was externally driven. It was primarily inventory gain fueled by the industry cycle and by expectations that these inventory gains were not transitory but would persist and even rise further.

The consensus for some time in the industry has been to pursue aggressive growth strategies as a means to generate value for shareholders. Rising oil and natural gas prices fed this consensus view to the point of excess.

The degree of strategic dependence on growth has varied dramatically but the effects are widely shared. These effects have been discussed in multiple issues of this newsletter. Key effects have included:

- accumulating land inventories, sharply higher land acquisition costs throughout the world, and spending obligations that often have relatively short fuses,
- acceptance of heavy spending commitments (including long-term, high cost drilling rigs) in a rising cost environment associated with very large multi-phase projects or high-risk frontier exploration,
- severe cost inflation pressures have undermined project economics, including some legacy producing assets, across the board except if

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CONTACTS



Gordon Energy Solutions is an energy consulting firm specializing in competitor analysis, strategic decisions, political risk analysis, and global issues concerning the international, integrated oil & gas industry. We anticipate future opportunities and challenges confronting our clients and assist in exploiting those opportunities.

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one is prepared to assume continued high or rising prices,

- Demand-induced inflation of government take and restrictions on company access to new business development opportunities and
- National oil companies have been forced into international expansion programs that are generally ill-timed and not sustainable except, again, if prices remain high and rising.

The capacity of many companies to fund spending obligations and deliver on promises of growth is now seriously compromised. For others the capacity to fund growth may still be intact, but the will to take on the spending has been eroded and the appropriate priorities in future spending are unclear.

Capital strategy is a company's composite strategy for managing its entire resource portfolio. This includes the portfolio of physical assets (land, projects in hand or in early evaluation stages, and legacy assets), financial resource management (dividends, share repurchases and raising capital), and human resources.

Among companies that still possess the capacity to fund growth programs, multiple issues must be confronted.

First, what is the actionable mid-cycle price expectation that management is willing to accept? If the mid-cycle expectations are being revised downward, it is likely that many companies have locked themselves into high cost assets now on-line or under construction or entered new business development ventures that are now marginal or uneconomic. Which projects should continue and which should not? In a number of cases companies have made extended term, high cost rig commitments. These commitments will affect finding and development cost performance for some time even if other costs fall.

On the other hand, if it is expected that long-term prices will again rise to considerably higher than current levels, both tactical and strategic issues must be addressed.

The tactical issue is clear. Is there now an opportunity in which costs will fall in the coming months and, therefore, phased projects should be postponed or

decelerated? This is clearly the hope of a number of companies that have recently announced deferred investment decisions on major projects.

Early responses illustrate the direction of these tactical responses:

- Multiple delays in decisions on future stages of world scale projects (the Athabasca and the Fort Hills oil sands projects plus StatoilHydro has withdrawn its application to build an upgrader in support of its Leismer oil sand project)
- Suspension of the Entrada development in the Gulf of Mexico and the Petrobras rejection of the TLP bids for the Papa Terra development in Brazil on the grounds of excessive cost
- Retrenchment from previous land acquisition program commitments in Lower 48 shale gas plays and attempts to re-negotiate leases
- Announced cuts in capital spending at companies like EnCana (17.6% cut in 2009 spending relative to 2008); Petro-Canada (down 36%); TNK-BP (down 25%); Nexen (down 13%) and Chesapeake (since July the company has cut planned drilling and leasehold acquisition spending by 58% -- roughly 1/3rd due to recent deals in which CHK is carried on part of its well costs)

Look also for the usual, conventional budget freezes or personnel cuts as managements attempt to mitigate the coming adverse earnings reports in 2009. ConocoPhillips has just announced a 4% cut in staff.

Chesapeake is an extreme example of a land-rich company. It is instructive of the pressures being felt and the responses that are being undertaken. In late November Chesapeake made two filings with the SEC concerning the possible issuance of new shares. These included a possible 50 million shares to fund asset purchases including mineral interests. In the prospectus the company acknowledged that its access to capital markets has been restricted by the credit crisis. The company also stated that:

"... Due to the current financial crisis, decreases in natural gas prices and concerns about an over supply of natural gas in the U.S. market, we and other exploration and production companies significantly curtailed leasehold acquisition efforts during September and October of 2008. As a result, we have entered into negotiations with several

significant leaseholders seeking to re-negotiate terms ... Which we anticipate would involve our acquiring the leasehold in question at reduced prices. Some leaseholders may agree to accept Chesapeake common stock for some or all of the consideration..."

Responding to severe adverse market reactions to the plans, Chesapeake has since reduced the shares to be registered from 50 million to 25 million.

The strategic issue is much more challenging. If current prices are not expected to be sustained for the long haul, now is an opportunity to build new business development inventories. Should cash rich and opportunity constrained companies use the current situation as an opportunity to exploit the problems of land-rich competitors? The BP and StatoilHydro deals with Chesapeake are examples of such deals. Moreover, is this an opportunity to build acreage by maintaining or increasing the budget allocation to bidding in coming licensing rounds?

The upcoming Central sale in the Gulf of Mexico (particularly results in the deep and ultra-deepwater areas) will be a critical test of (1) company expectations with respect to the long-term future of oil and gas prices and costs and (2) the will to continue building despite the current environment.

There are multiple companies active in North America that have aggressively built land holdings and well location inventories through both leasing and acquisitions.

This situation is not, however, unique to North America. We have commented in previous issues about the likelihood that Petrobras will be hard-pressed to shoulder the burden expected of it in developing the pre-salt play. An early indicator of just how significant this emerging problem may be is offered by the company's recent request to extend its licenses on 70 exploration blocks. Like a number of companies, Petrobras has been an aggressive accumulator of land in the ANP rounds. Also, like many NOCs, the company has been consistently pressed into service as a source of capital and a tool of broader government social and energy policies.

We believe that, like Chesapeake, Petrobras will have to farm down its international obligations and, potentially, its domestic requirements as well.

Company pressure on leaseholders to re-negotiate has been reported in a wide number of sources and has impacted different plays both in the US and elsewhere. One example is provided by the just announced decision by Petro-Hunt to relinquish the 820,000 acres it won in the last NPR-A lease sale.

It is to be expected that the longer that oil prices remain low, the more likely it is that government take and policy on IOC access will respond. There is a very real possibility that a shift will occur in bargaining power from the landowner (including NOCs and national governments) back to IOCs still able and willing to build new acreage and asset positions. Look to countries whose fiscal systems are relatively rigid and whose NOCs are unlikely to be able to sustain production for possible concessions.

The financial stresses created by the combined adverse economic conditions will continue to press companies to re-evaluate capital programs (the level of spending, the composition of spending for exploration or development purposes, and the allocation of budgets between grass roots and A&D).

The ramifications of these changes for public policy should also be noted. Alberta's just-announced "transitional" royalty program illustrates the spillover effects of industry reactions in each of the critical related markets.

Entrada Development Suspended

The Callon operated Entrada project in the deepwater GoM has been suspended due to the effects of higher than expected costs and lower oil and gas prices. Fred Callon, Chairman and CEO stated:

"The current financial climate is extremely difficult and presents a significant challenge for a company of Callon's size to absorb continuing cost increases of this magnitude while commodity prices continue to fall."

Strong Shale Gas Well Results

Significant new well results have been announced in the Haynesville, Woodford and Marcellus shale gas plays:

- Exco's first Haynesville well was producing 22.5 Mmcf/d after five days. The company applied a nine-stage fracture to the well. Also in Haynesville, a Petrohawk well drilled earlier this year averaged 15.4 Mmcf/d over the first 30 days of production. The most recent Petrohawk announcement includes results from three wells reporting initial production rates of 23.4, 21.1 and 28.2 Mmcf/d, respectively in Bossier and Red River Parishes in Louisiana.
- Atlas Energy Resources announced a Marcellus vertical well (a two-stage frac) produced 5 mmcf/d over a 24 hour period and averaged 3.2 mmcf/d over 25 days.
- Also in the Marcellus, a CNX Greene County, Pennsylvania horizontal well achieved 6.5 mmcf/d from a 3,395 foot lateral with five-stage fracture.
- A Marathon Woodford shale well in Canadian County, Oklahoma yielded an initial production rate of 5.2 mmcf/d

License Awards

The impact of lower prices and threatened extended worldwide recession is being felt in new licensing rounds.

Looking forward, the coming Central Sale in the Gulf of Mexico (GoM) will be an important test of the impact of lower prices on companies' strategic choices. (more on this can be found on page 6 of this issue).

Offshore Canada

The Canada-Newfoundland and Labrador Offshore Petroleum Board has awarded five blocks as part of the 2008 Call for Bids. Three of the blocks are in the Flemish Pass area and the other two blocks are in the Jeanne d'Arc Basin. Company results are shown in Table 1.

A total of 1.2 million acres was awarded in the round. Bids are based on the work spending obligation in the first five years of the nine year exploration term. Values assigned to the acreage by the bidders was generally low but varied greatly. The average work obligation bid was US\$88/acre. StatoilHydro placed the

highest per acre bid followed closely by Petro-Canada.

Husky won interests in four blocks (three in the Flemish Pass and one in Jeanne d'Arc).

Parcel 1 in the Jeanne d'Arc Basin was won by StatoilHydro and Petro-Canada with a US\$66 million bid (61% of the total capital committed in winning bids in the sale). This parcel is west of White Rose and north of North Ben Nevis. It adjoins EL 1092 located to the west which is also owned 50/50 by Petro-Canada and StatoilHydro. EL 1092 was awarded in 2005. Parcel 1 has had only one well drilled: a gas well in 1991.

Australian Offshore Awards

In late November 13 blocks were awarded from acreage released in 2007. The awards are summarized in Table 2.

Only eight companies won acreage with Hunt Oil and Essar notable for their entry into the play. Also, Murphy Oil has increased its position, winning WA-423-P.

Most companies were conservative in their first period commitments. The total work program in the first three-year exploration period was US\$97.5 million. An additional work program of US\$208 million was bid for the second three-year period.

One exception to the conservative bidding strategies was Essar Exploration. This company won two blocks, marking the first entry of an Indian company in Australian exploration. Essar has been expanding into international operations including a recent move into Indonesia. As shown in Table 2, Essar's first period spending program accounted for 61% of the total.

Acreage Offerings in Utah are Cut

Responding to environmental opposition, the BLM reduced planned acreage offerings

Table 1: Company Results in 2008 Newfoundland and Labrador Call for Bids

Company	# of Blocks	WI Bid US\$mm	WI Acres	US\$/Acre
StatoilHydro	2	\$43.0	113,879	\$377
Petro-Canada	2	\$39.1	160,607	\$244
Husky	4	\$17.1	608,124	\$28
Repsol	3	\$8.9	345,008	\$26

OUR PERSPECTIVE



in the December 19th Utah lease sale. A total of 163,935 acres was offered (down from initial plans to offer 359,450 acres). The lands offered in the sale were in Carbon, Duchesne, Emery, Garfield, Grand, San Juan and Uintah counties.

The BLM also reduced planned geothermal acreage from 191,000 to 142,333 acres.

UK 25th Round

In the UK's 25th round, a total of 150 new licenses were offered, including 10 licenses in the West of Shetlands area.

Farm-Ins in Argentina

Repsol YPF farmed down interests in two offshore exploration areas in Argentina. Petrobras and Pan American (BP) will drill two exploration wells in the Cuenca Malvinas area at an estimated cost of US\$100 million.

Petrobras also agreed to join RepsolYPF in the San Jorge Gulf area. Four wells are planned by end of year 2009 at a combined cost of US\$120 million.

Colombia Mini Ronda 2008

A diverse mix of companies committed to spend US\$346 million on 50 blocks awarded in Mini Ronda 2008. The top ten competitors in the round accounted for US\$250 million of the total work obligation. First phase work obligations of leading operators are shown in Figure 1.

Previously, in Ronda Colombia 2008 Pacific Rubiales was a leading competitor for heavy oil blocks. Alone or in partnerships it won interests in three heavy oil blocks with a total work obligation of US\$76.6 million (US\$43.6 million working interest share). The company also committed to a spending obligation of US\$41.7 million for three other blocks (two in the Sinu San Jacinto area and one in the Cesar-Rancheria Basin).

Mackenzie Gas Pipeline Project Delayed

A joint Federal and Provincial panel evaluating the pipeline's environmental impact will not release its decision until December 2009.

Caspian Pipeline Expansion

Caspian Pipeline Consortium partners signed a Memorandum of Understanding

Table 2: Awards from Australian 2007 Call for Bids

Block	Basin	Area Million Acres	Company	First Period Work Program US\$mm	Second Period Work Program US\$mm	Total Work Program \$/Acre
WA-413-P	Browse	1.46	Hunt Oil	\$1.6	\$28.7	\$20.7
WA-414-P	Browse	1.45	Hunt Oil	\$0.3	\$11.8	\$8.4
WA-415-P	Browse	1.78	Woodside	\$2.0	\$12.9	\$8.4
WA-416-P	Canning	1.81	Woodside	\$0.4	\$11.9	\$6.8
WA-417-P	Canning	1.70	Woodside	\$0.9	\$12.1	\$7.6
WA-418-P	Carnarvon	0.90	Finder Exploration	\$2.9	\$22.4	\$28.0
WA-420-P	Bonaparte	1.24	Goldsborough Energy	\$1.5	\$9.9	\$9.2
WA-422-P	Bonaparte	1.14	National Oil Corp.	\$2.7	\$9.9	\$11.0
WA-423-P	Browse	1.43	Murphy Oil	\$16.1	\$28.8	\$31.5
WA-424-P	Browse	1.53	Nexus Energy	\$9.6	\$22.9	\$21.3
NT/P77	Bonaparte	na	Essar Exploration	\$37.4	\$19.6	na
NT/P78	na	na	Essar Exploration	\$22.2	\$17.1	na
Total				\$97.5	\$208.0	

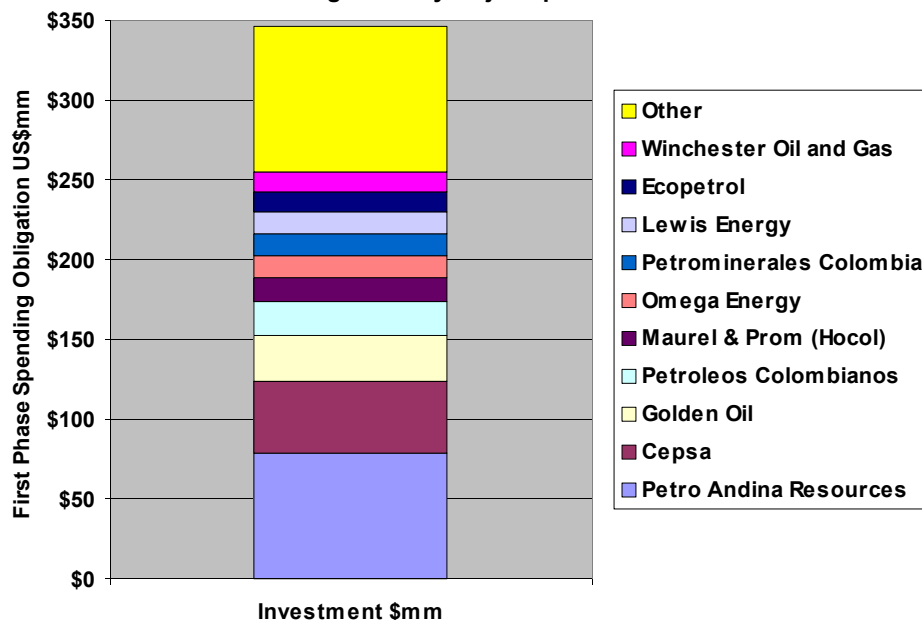
on commercial principles for a plan to double oil capacity to 1.4 million barrels per day. FEED will continue in 2009 with project sanction possible by late 2009.

The project will include ten new pump stations and expanded storage and loading facilities. The phased project is expected to be complete in 2013.

Natuna Development Plan Rejected

Indonesia has rejected ExxonMobil's development plan for the Natuna-D Alpha field. A dispute over ExxonMobil's rights to extend the license period is clearly likely.

Figure 1: First Phase Work Obligations by Major Operator in Mini Ronda 2008



OUR PERSPECTIVE



A Bellwether Case to Watch: Central Sale 208 in the Gulf of Mexico

The Minerals Management Service will hold its next Central region sale on 19 March 2009.

Bidding for deep and ultra-deepwater blocks offered in this sale will be an important test of company responses to the current economic environment for at least two reasons.

- First, these leases have very long primary terms (8 to 10 years). The economics of deep and ultra-deepwater licensing strategy hinges on long-term business conditions. As such, the bids will be an indicator of the extent to which company long-term expectations have been reduced.
- Second, companies in the lease sales are diverse with widely varying degrees of financial capability. A number of previously active bidders will cut their bid budgets in the coming sale for financial reasons.

Figure 2: Capital Exposed in Winning Deepwater Gulf of Mexico Bids

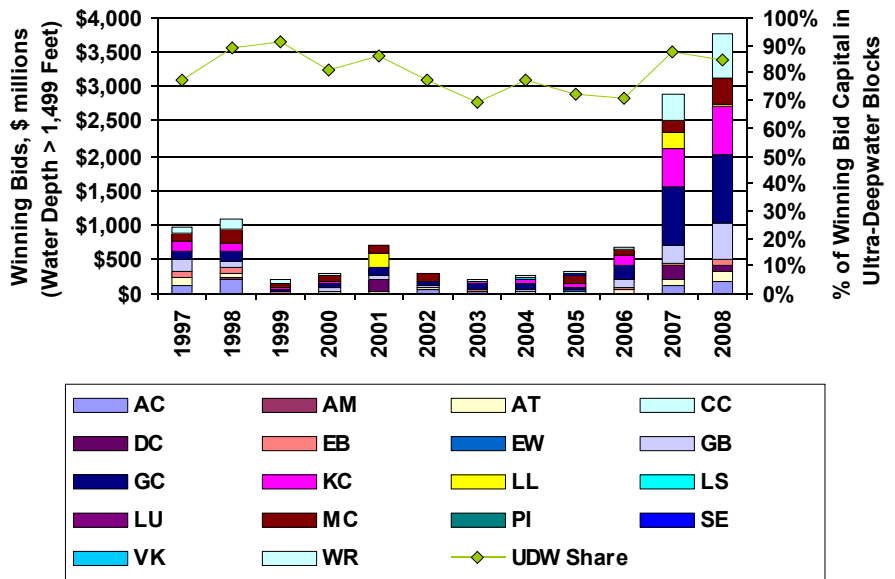


Figure 2 shows that competition for deep and ultra-deepwater acreage in the past three years has been greatly intensified. Capital committed in winning bids rose from US\$312 million in 2005 to US\$3.8 billion in 2008. Multiple factors have driven this competition.

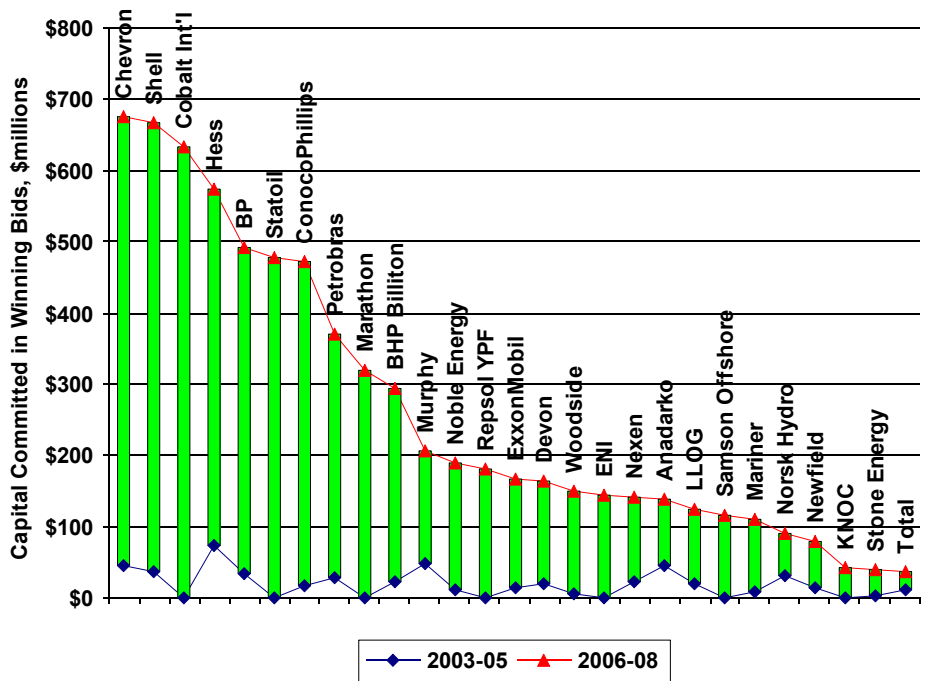
The first driver is institutional: a large number of expiring blocks has been re-entering the pool of available acreage. These blocks were generally acquired in the last half of the 1990's.

Beyond this, financial and strategic factors have also been at work. Three of these other factors are:

- the entry of companies funded by private capital such as Cobalt. LLOG and Hunt Oil,
- new entrants by non-US competitors (primarily national oil companies) pursuing an international growth program and
- the cycle-driven re-emergent focus on the GoM by a wide range of companies that, until recently, participated in only a limited way or not at all (ConocoPhillips, Marathon, and ENI are examples).

Capital committed in winning bids in the three year period ending in 2005 versus the last three years is shown in Figure 3. The height

Figure 3: Top Company Drivers of Deep and Ultra-Deepwater Competition in Lease Sales



Note: Blue company labels identify private capital funded competitors; Red company labels identify national oil companies or quasi-NOC

of the green bar shows the increase in capital committed to winning bids in the last three years.

Which companies are likely to stay the course now? How should your company react?

Beyond the issue of how much capital to commit to the next Central sale it is also important to consider how current conditions will impact other bidding strategy choices: where to bid, type of bidding program, and whether to partner and with whom?

An in-depth analysis of issues to watch in the upcoming Central Sale is being prepared. We will notify you by email when this study is complete and available on our home page.

MERGERS, ACQUISITIONS, & DIVESTITURES



StatoilHydro Acquires Marcellus Shale Position

In a deal announced on 11 November, StatoilHydro acquired a 32.5% interest in Chesapeake Exploration's 1.8 million acre Marcellus shale gas play.

The acreage is in a wide swath ranging from West Virginia through Pennsylvania and into New York.

StatoilHydro will pay US\$1,250 million in cash. In addition, StatoilHydro will fund 75% of Chesapeake's share of drilling and completion costs up to a total of US\$2,125 million over the period from 2009 through 2012.

As part of this deal the two companies have agreed to form an alliance targeted at unconventional gas opportunities outside the United States.

Table 2 shows the metrics of this deal.

Projected all in costs associated with this deal are estimated at US\$24.30 per boe of proved and probable reserves.

Based on the US\$1.25 billion acquisition cost, StatoilHydro's cost of entering the Marcellus shale play was US\$2,137 per acre (US\$5,769 per acre including the carried costs of Chesapeake through

2012). Several other deals have been made in the Marcellus this year:

- Quest Resources acquired 78,000 acres (67,000 acres in the Marcellus fairway) at a cost of US\$1,795 per acre
- XTO acquired Linn Energy's Appalachian assets including the Marcellus shale (152,000 acres at a cost of US\$3,947 per acre)

At US\$24.30/boe, StatoilHydro's all in costs are considerably higher than in the two BP deals with Chesapeake in the Woodford and Fayetteville Shale plays. The projected future development costs associated with the acreage play a major role in the per boe cost. These estimates are based on the mid-range number of wells.

Nevertheless, our economic models suggest that the deal adds value even in a mid-cycle Henry Hub case of US\$6.50 per Mcf or slightly less.

As in the BP deal, we believe that a central benefit from StatoilHydro's perspective is the suite of options that it provides for the long-term:

- Potential to increase its position either as a partner with Chesapeake in future acreage acquisition or by acquiring an increased interest from Chesapeake
- The flexibility to manage the drilling program over a very long planning

horizon and, in the process, take advantage of cyclical swings in costs and prices

- Increased international competitiveness for future unconventional gas business development opportunities

Carrizo JV to Fund Marcellus Program

Avista Capital Partners will acquire a 50% interest in Carrizo's Marcellus Shale acreage. At the time of the agreement landholdings totaled 155,000 net acres.

Avista will pay US\$71.5 million to fund 100% of expected costs over the next eight to twelve months. Afterwards the two companies will share equally in costs. Each company has agreed to contribute up to US\$150 million in cash or properties to acquire and develop acreage in the Marcellus.

St. Mary Marcellus Shale Farm-In

St. Mary Land & Exploration Company reached agreement to earn 43,000 net acres (50,000 gross acres) in north central Pennsylvania. The acreage is located in McKean and Potter counties. Details of the agreement are not known at this time.

Table 2: StatoilHydro's Marcellus Shale Acquisition Metrics

\$mm	Acquisition Price \$mm	Contingent Payment \$mm	Future Development Cost \$mm	All In Costs \$mm
Net Reserves mmmboe	\$1,250.0	\$2,125.0	\$17,346.9	\$20,721.9
Proved	0.0			
Proved & Probable	2624.0			
BP Share	32.5%			
Proved mmmboe	0.0			
Proved & Probable mmmboe	852.8			
\$/boe Proved	na	na	na	na
\$/boe Proved & Probable	\$1.47	\$2.49	\$20.34	\$24.30

Note: Reserves are estimated net of royalties. Reserves and future development costs are estimated based on StatoilHydro statements. Estimated wells are the average of the stated lower and upper range.

MERGERS, ACQUISITIONS, & DIVESTITURES



New Albany Shale

Atlas Energy Resources has farmed into Aurora Oil & Gas Wabash Project in the New Albany Shale. Atlas acquires the rights to Aurora's 64.43% interest in 121,702 acres (78,000 net acres).

Atlas will drill a minimum of 20 wells per year. It will pay Aurora an unspecified well site fee. Aurora will also hold an unspecified overriding royalty interest in each well and can, at its option, participate in each well on a 25% basis.

The acreage is located in Sullivan, Knox, Greene, Owen, Clay and Lawrence counties in southwestern Indiana.

In another transaction, Atlas acquired an additional 114,000 net acres. The company plans to drill 100 horizontal wells on its combined New Albany acreage by end of year 2009 using capital raised in syndicated oil and gas investment programs.

Mariner Increases Bass Lite Interest

Mariner has pre-empted a deal to sell Energy Resource Technology's (ERT) interest in Bass Lite. Bass Lite is a Mariner operated field that is located in the Gulf of Mexico on Atwater Valley Block 426.

ERT is owned by Helix Energy Solutions. As part of a strategic plan to divest oil and gas operations Helix had earlier reached an agreement to sell its 17.5% working interest for US\$49 million.

Mariner has acquired an 11.6% interest for US\$32.6 million. The deal increases Mariner's working interest to 53.8% and adds net reserves of 2.9 mmbbl at a cost of US\$11.11 per bbl. Bass Lite came online in February of this year.

In addition to this asset sale, Helix has indicated its intent to promote its exploration prospects and divest its interests in production facilities. These production facility interests include the Marco Polo TLP (50%) and the Independence Hub semi-submersible (20%).

Ecopetrol Continues International Expansion

Ecopetrol has signed two deepwater Gulf of Mexico farm in deals. There are also rumors that Ecopetrol and KNOG are in negotiations to acquire PetroTech, a Peruvian upstream company.

The first farm-in deal was with ENI. Under this agreement, Ecopetrol will acquire between 20% and 25% interests in five Gulf of Mexico prospects identified by ENI and agreed upon by both companies.

- Ecopetrol has agreed to invest US\$220 million in drilling costs associated with the prospects (including a partial carry of ENI's share of the well costs).
- The five well program will be undertaken over the period between 2008 and end of year 2012. The prospects are, as of yet, unspecified.

The second farm in is with StatoilHydro.

- In this deal Ecopetrol will participate in the drilling of at least three wells.
- The company will earn a working interest of 20% to 30% in the wells. Ecopetrol's investment in drilling costs is estimated at US\$160 million.

These latest deals follow a late October 2008 agreement with BP to farm into two deep gas exploration JV's. In this deal Ecopetrol's initial investment of US\$120 million will include one well and 3d seismic acquisition. Ecopetrol will earn a 15% working interest in one area and a 30% working interest in the other area.

Total in US Oil Shale Deal

Total has acquired a 50% interest in American Shale Oil LLC (AMSO), a subsidiary of IDT.

AMSO holds a partial interest in a ten-year 160 acre development and demonstration lease in western Colorado.

The lease was issued by the Bureau of Land Management to test the potential

for commercial oil shale production. AMSO and its partners have the right to acquire a 5,120 acre commercial lease if "viable production of commercial quantities of shale oil without unacceptable environmental consequences" can be demonstrated.

Total will provide the majority of funding during the R&D phase and will become operator in any subsequent commercial phase.

AMSO paid US\$5.5 million to acquire an 89.9% interest in the venture in two transactions in 2008.

MERGERS ACQUISITIONS & DIVESTITURES



US Asset Sale Value Indicators Trailing 12-Month Period, June 2007-June 2008

Non-Operated Working Interests 6:1

	Average (Mean) \$/BOE/D	Average (Weighted) \$/BOE/D	Average Multiple (Average Income)	Average Multiple (Last Income)
Appalachians	\$45,873	\$28,278	38.50	35.19
Ark-La-Tex	\$42,975	\$34,667	47.56	50.36
Gulf Coast	\$35,729	\$23,611	35.62	45.01
Michigan Basin	\$37,138	\$26,415	40.11	55.73
Mid Continent	\$47,948	\$41,969	51.24	55.85
Permian Basin	\$74,420	\$75,092	56.99	51.72
Rockies	\$48,652	\$56,898	44.52	42.26
South Texas	\$36,738	\$31,067	35.53	39.14
West Coast	\$42,260	\$27,675	44.73	44.48
Column Average	\$45,748	\$38,408	43.87	46.64

EnergyNet data on US deal metrics over the 12-month period from June 2007 through June 2008 are shown here.

EnergyNet provides a way to high-grade a portfolio of assets, maximizing value for each individual property or field, without expending significant time and effort. EnergyNet maximizes value by efficiently offering the elemental properties (single well, lease, or field) to the largest audience of qualified and accredited oil and gas investors. There are simply more Buyers in the marketplace capable of competing to win a \$1MM property than a \$100MM package of properties, and EnergyNet has established relationships with over 12,500 Buyers. Geographically diverse packages benefit by being broken down into their elemental parts. By marketing and selling properties in the most logical, elemental pieces, Sellers maximize value for each part of the package and do not exclude Buyers from the process.

Operated Working Interests 6:1

	Average (Mean) \$/BOE/D	Average (Weighted) \$/BOE/D	Average Multiple (Average Income)	Average Multiple (Last Income)
Appalachians	\$85,524	\$56,867	45.70	54.69
Ark-La-Tex	\$32,972	\$28,431	29.47	32.74
Gulf Coast	\$31,344	\$23,493	26.30	48.76
Michigan Basin	\$44,967	\$44,967	31.40	41.35
Mid Continent	\$56,945	\$28,516	53.39	51.61
Permian Basin	\$45,293	\$51,050	54.59	45.04
Rockies	\$39,791	\$46,338	38.03	44.97
South Texas	\$23,632	\$21,145	36.68	54.64
Column Average	\$45,058	\$37,601	39.44	46.73

EnergyNet can prepare, market, and close a set of property transactions much faster than any other divestment-focused company in the industry. The Continuous Model allows EnergyNet to handle as much for a company as requested, including gathering data, preparing properties, filing the conveyance documents, escrow and post-closing services.

For More Information Contact EnergyNet, Inc.: Toll Free: 877.351.4488
E-mail: energy@energynet.com Or visit their website: www.energynet.com

November Cost Inflation Results

Preliminary full year 2008 cost inflation results are now available. Drilling costs and oil and gas support activity costs in 2008 averaged only marginally higher than in 2007. The impact of industry cutbacks in drilling operations are now being reflected in the cost data with December drilling costs down more than 4% compared to December 2007 levels.

Inflationary pressures continue to be considerably stronger in the oil field machinery sector. Preliminary 2008 estimates show oil field machinery costs are up 7.8% compared to 2007. Rotary drilling machinery costs are up 5.0% in 2008.

In the production machinery sub-sector double digit percentage inflation rates have persisted in each month beginning in March and averaged 12.4% for the full year in 2008.

UPSTREAM

Annualized Cost Inflation Rates: 2006, 2007 and 2008 YTD

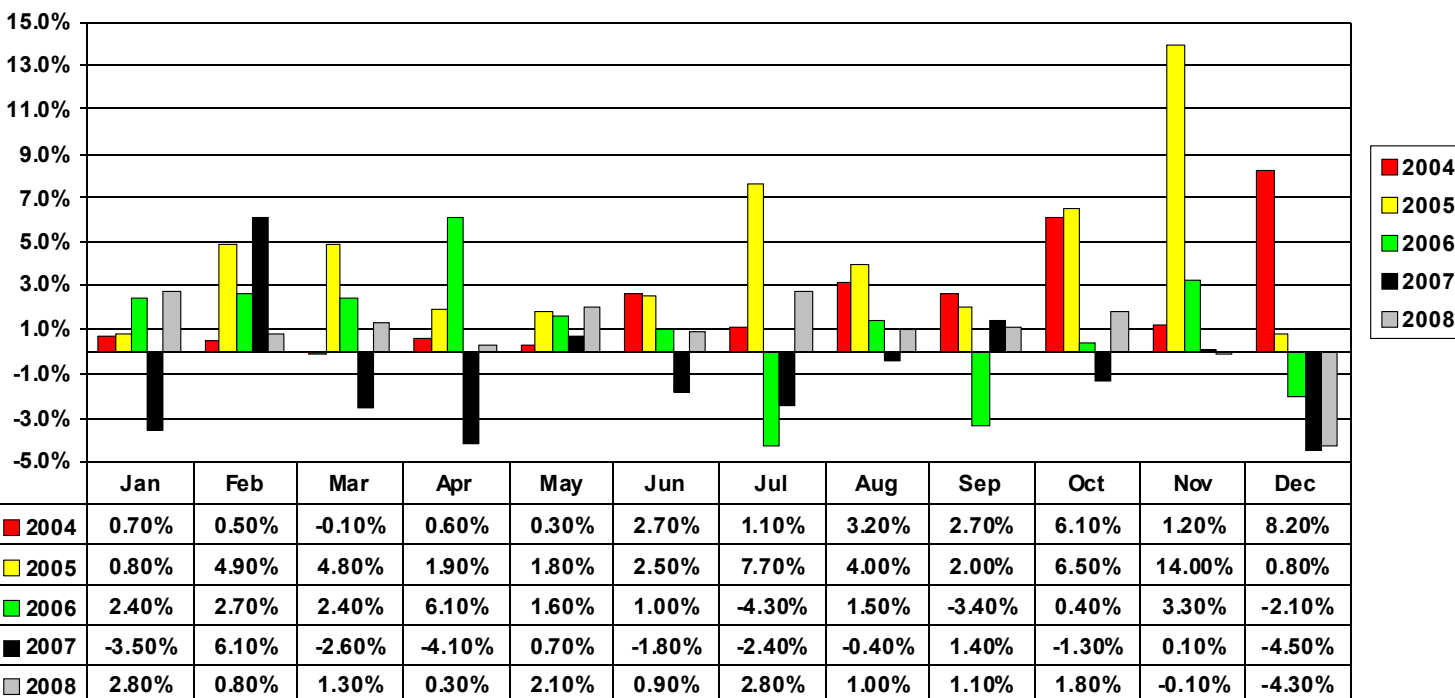
Cost Component	2006/2005	2007/2006	2008/2007
Drilling Cost	37.8%	-4.6%	2.0%
O&G Support Activities	13.1%	3.6%	1.3%
Oil Field Machinery	8.7%	7.0%	7.8%
Rotary Drilling Machinery	11.5%	8.9%	5.0%

Note: 2008 inflation estimates subject to revision

Our composite index of onshore US drilling and completion costs has been increasing since March of this year. This has been driven by both rising drilling costs and rising equipment costs. However, the rate of

inflation has stabilized in the last quarter of 2008 and likely signals the beginning of the impact of drilling cutbacks. Budget cutbacks are becoming widespread with the likely result that

US Producer Price Index: Monthly Percentage Change in the Cost of Drilling Oil & Gas Wells



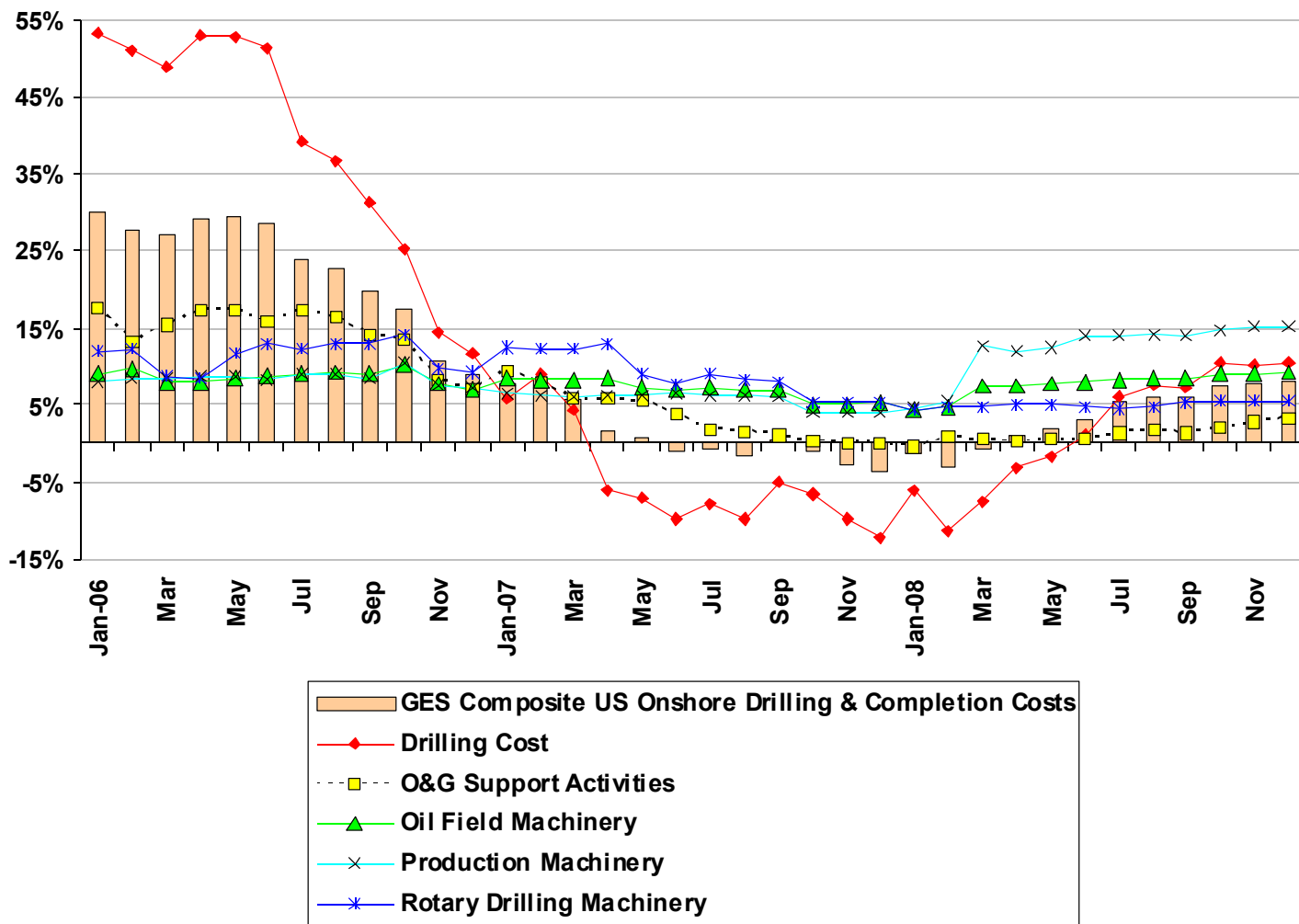
Year over Year Percentage Change

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2006	53.3%	51.1%	48.7%	53.0%	52.7%	51.3%	39.2%	36.7%	31.3%	25.2%	14.5%	11.6%	37.8%
2007	5.7%	9.1%	4.2%	-6.1%	-7.0%	-9.8%	-7.9%	-9.8%	-5.0%	-6.7%	-9.9%	-12.4%	-4.6%
2008	-6.1%	-11.3%	-7.5%	-3.1%	-1.6%	1.0%	6.1%	7.6%	7.3%	10.4%	10.2%	10.5%	2.0%

COST WATCH



Monthly Year over Year Inflation of Selected Industry Costs

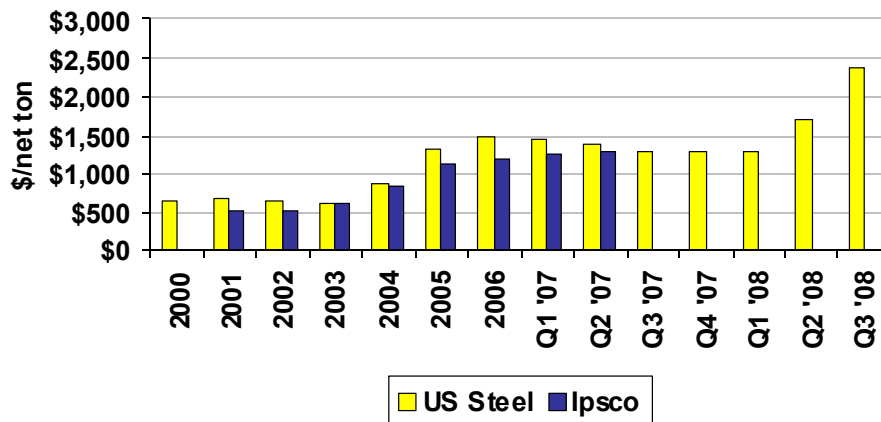


industry costs will fall substantially in the early months of 2009.

Tubular steel costs for the 4th quarter of 2008 are not available yet. However, it should be noted that the producer price index for primary metals manufacturing has fallen in each of the last four months. Preliminary December estimates are that primary metal costs are down nearly 21% from their peak in August of this year.

The global economic recession is resulting in strong deflationary pressures on key steel sector input costs and can be expected to be reflected in tubular steel costs in the next few months.

Tubular Steel Products Price



Ipsco was acquired by SSAB and its Tubular Division was sold to Evraz