



Strictly Private and Confidential

December 11, 2008

Current State of the Credit Markets And Oil and Gas Financings

U.S. Credit Markets

- **Capital constraints** are widespread among U.S. and European banks
 - **Bank capital eroding** from asset write-downs and increased loan loss reserves
 - **Bank failures and mergers** reduce bank lending capacity
 - **Funding costs** are up sharply for all lenders (and borrowers)
- **Bank credit demand** is very strong because of problems in other credit markets and with other banks
 - **Senior private placement** market is in a holding pattern
 - **High yield debt market** is essentially closed to new issue
 - **Investment grade bond market** has limited, high priced activity
 - **Commercial Paper** back-up line funding draws prevalent this fall
 - **Auction Rate Securities** market: L/Cs replacing insurance companies

Multi-bank Syndicated Loans

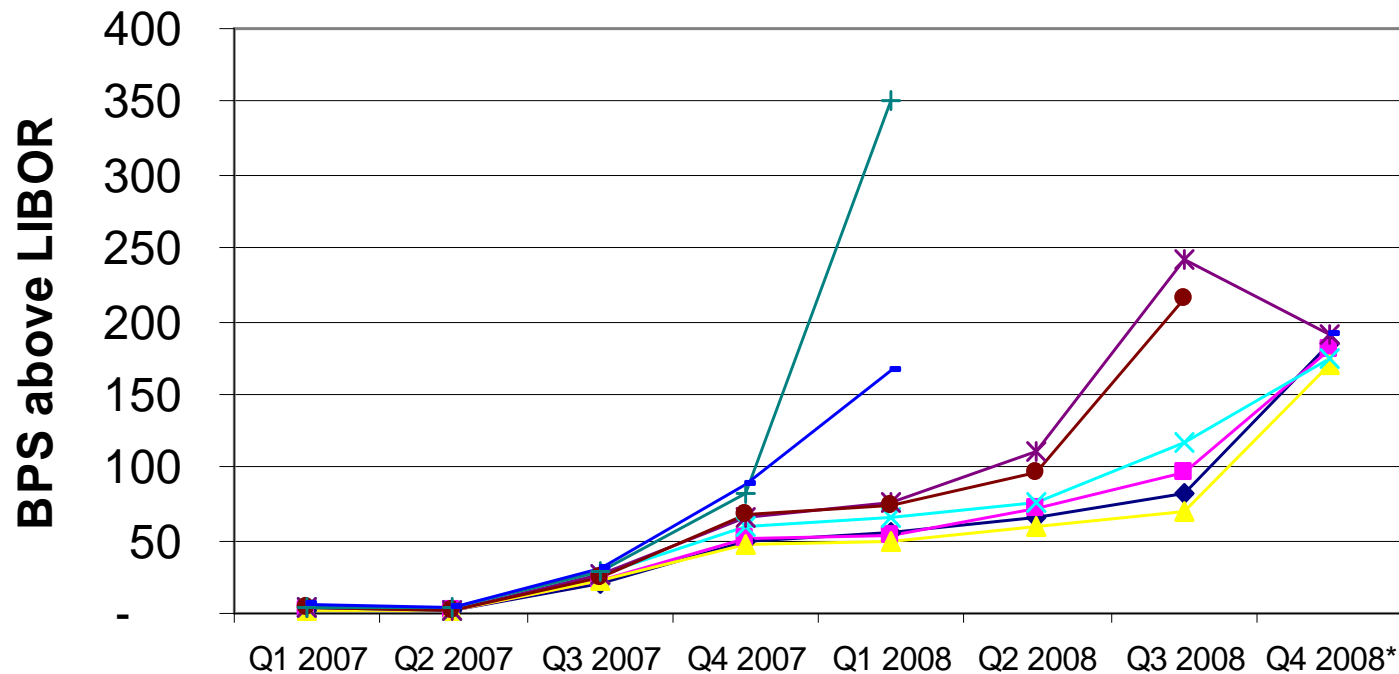
- Bank consensus on deals was prevalent until about a year ago
- Consensus is now tough to obtain or maintain as credit market conditions change rapidly
 - Universal need for higher loan pricing
 - Individual bank need for loan structure modifications
 - Individual bank need to reduce their loan commitment
 - Individual need to exit the loan facility entirely
 - Going forward, Borrowing Base consensus could be a problem
- **Result:**
 - New syndications frequently undersubscribed
 - Credit actions on existing loans have failed; been withdrawn
 - Syndicated loan volume has dropped sharply

Loan Pricing

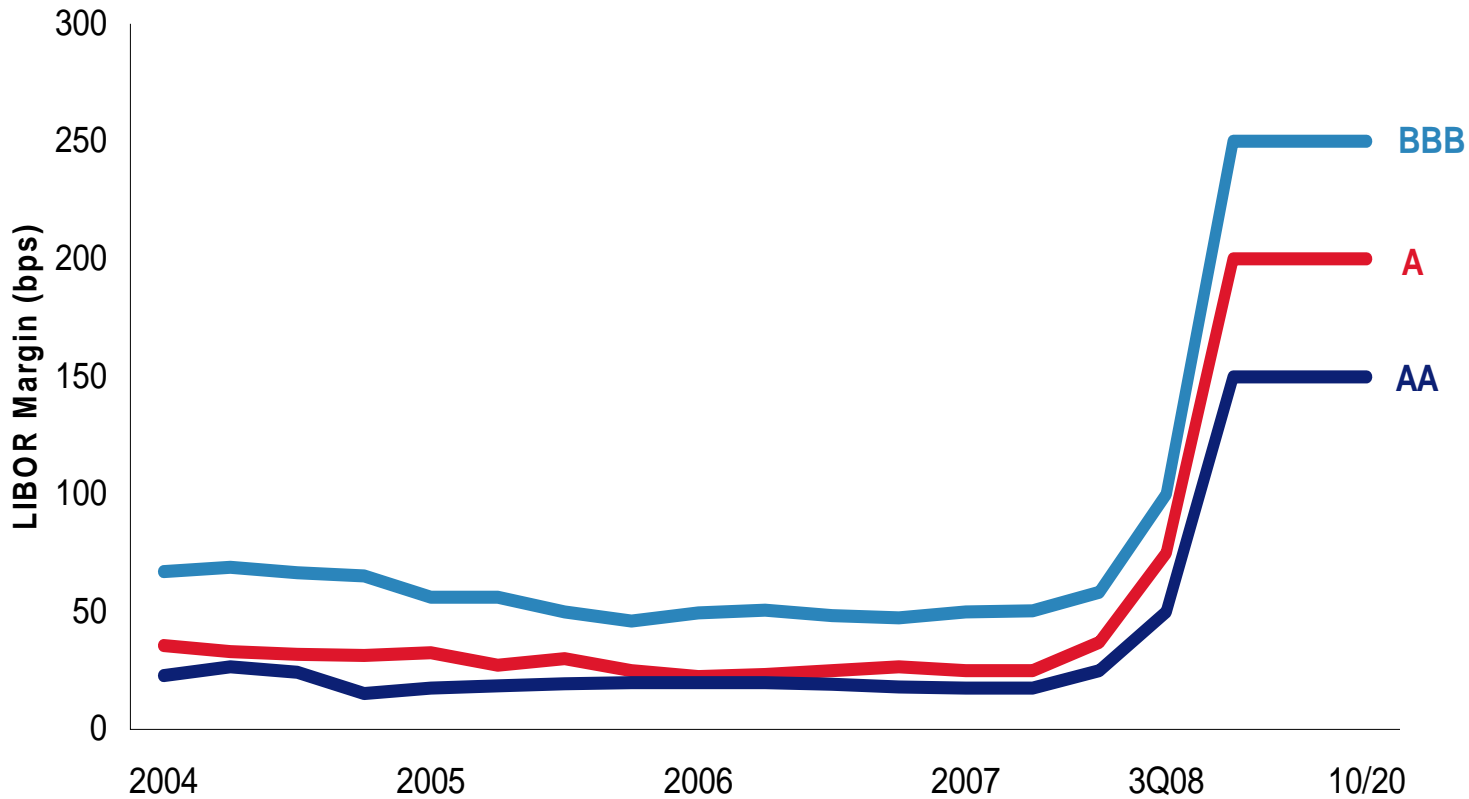
- The bank credit market is clearly in a “price discovery” mode, driven by three factors:
 - The increasing credit demand on banks in response to tightening credit elsewhere
 - Credit supply is impacted by bank capital erosion from past and potential future asset value deterioration and loan losses in an uncertain environment; so
 - Banks are focusing primarily on meeting existing client needs
 - Credit is still very much available for new loans if credit quality is relatively strong, and loan terms and pricing are adequate
 - Banks’ and borrowers’ cost of funds (debt and equity) has been increasing for the past 18 months

Banks' Rising Cost of Funds – The Liquidity Premium

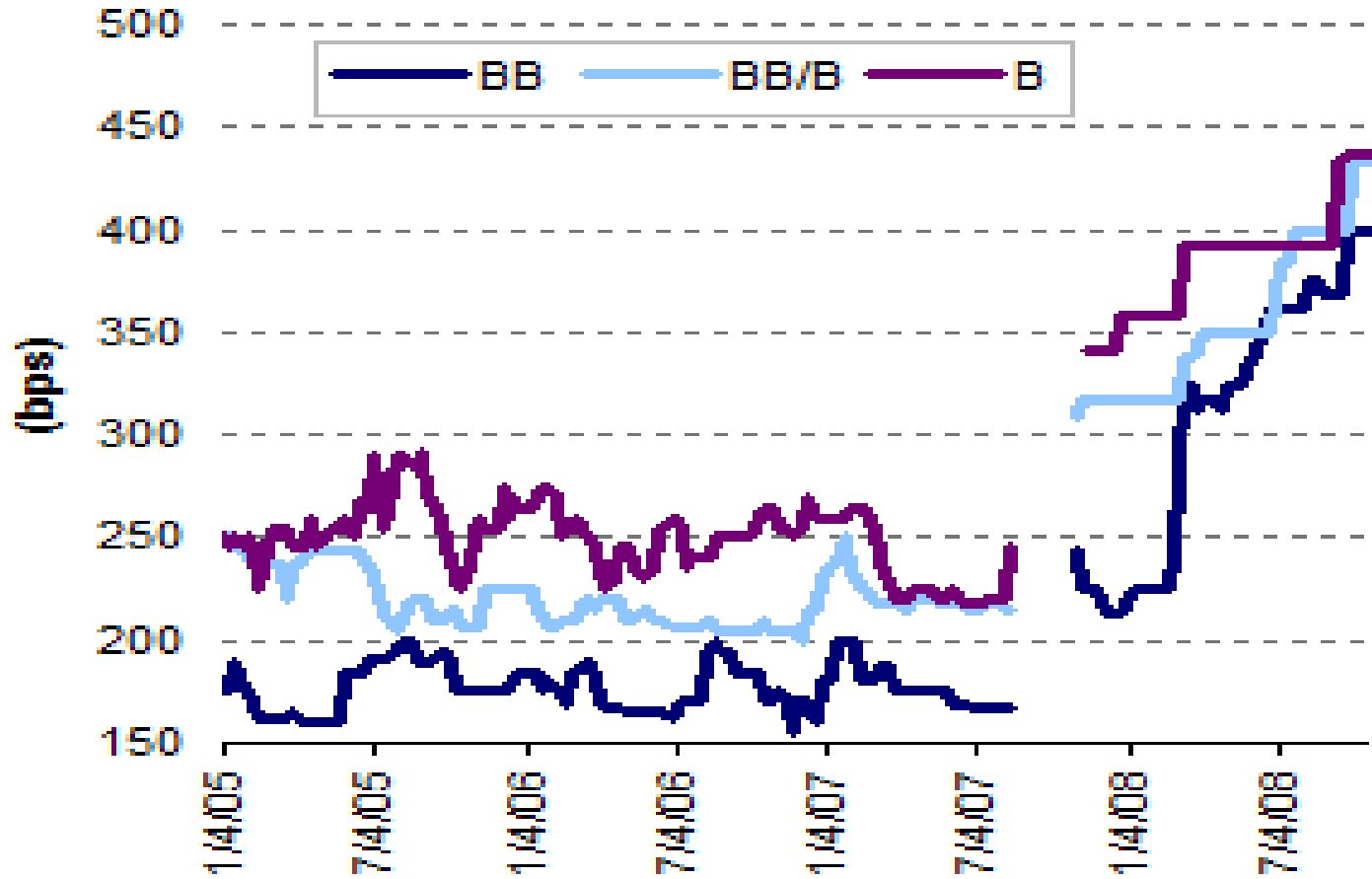
Top 8 Banks' 3 year Issuance Cost to LIBOR



LIBOR Spread Trend – Investment Grade



LIBOR Spread Trend – Non-Investment Grade

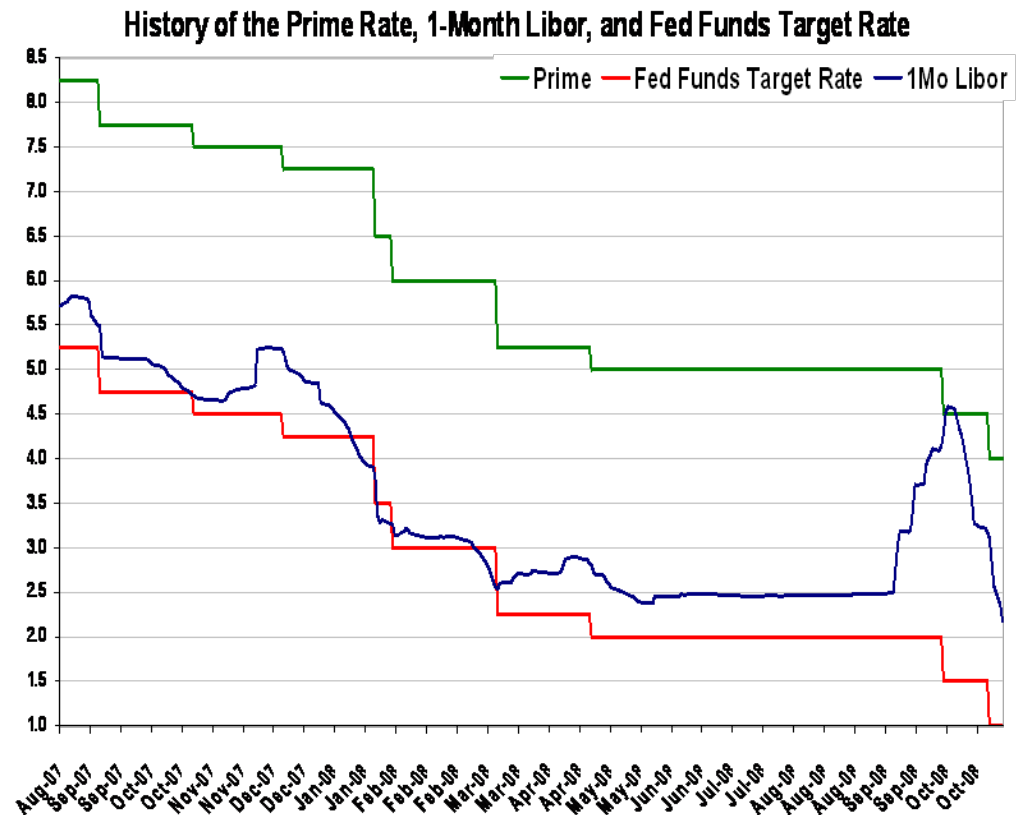


Loan Pricing (continued)

- Loan pricing is rising for all borrowers in all industries
- Oil and gas loan pricing continues to lag the general commercial market by 50-75 bps
- Less pricing pressure on existing deals than on new ones (blended COF approach vs. marginal COF)
- Key Pricing Factors:
 - Credit Quality is still a primary driver
 - Facility size relative to existing bank group capacity
 - Incremental cost of expanding the bank group is high in terms of pricing and structure
 - Banks are focusing on relationship return
 - Non-Credit Business is key to maintaining or expanding credit relationships
 - Some banks are exiting credit-only relationships

The LIBOR / Prime Rate Relationship

- LIBOR historically ~275 bps below Prime Rate
- Credit markets recently pushed LIBOR above Prime briefly, so banks are now requiring
 - A floor on the Prime - based interest rate option
 - Other yield protection language

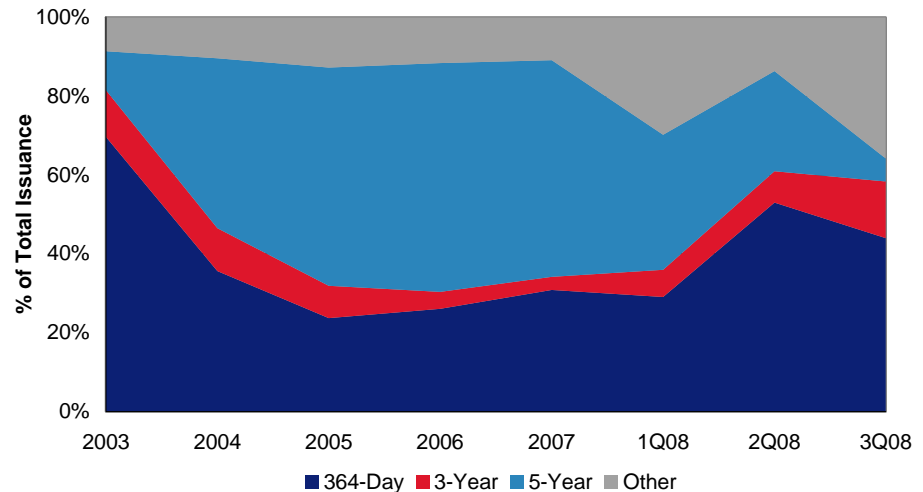


Source: Bloomberg LP

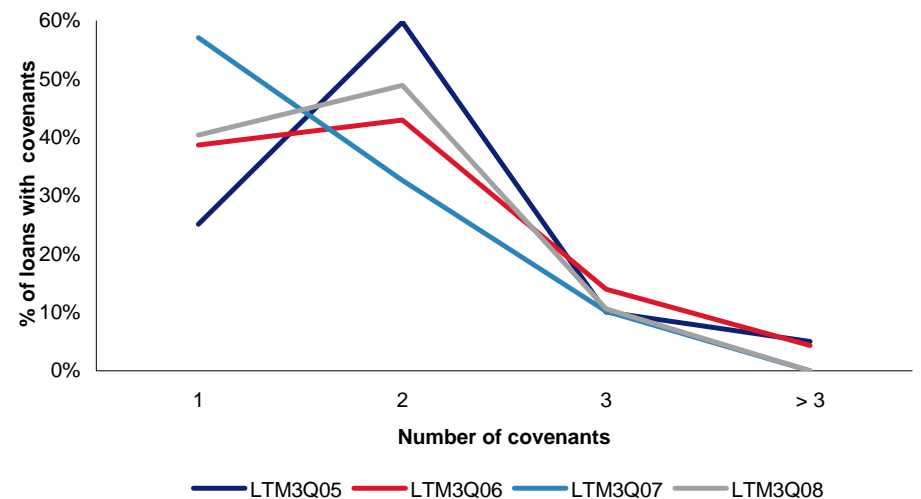
Loan Structure

- Tenors getting shorter:
 - Bank ROC models are tenor sensitive
 - From 5 years to 3 years
 - More 364-day facilities on very large facilities
- Covenants:
 - New loans require more covenants
 - Renewals face some covenant adjustment
- Amendments or waivers of covenant defaults requiring 100% vote can be difficult and costly

Investment Grade Loans Breakdown by Tenor

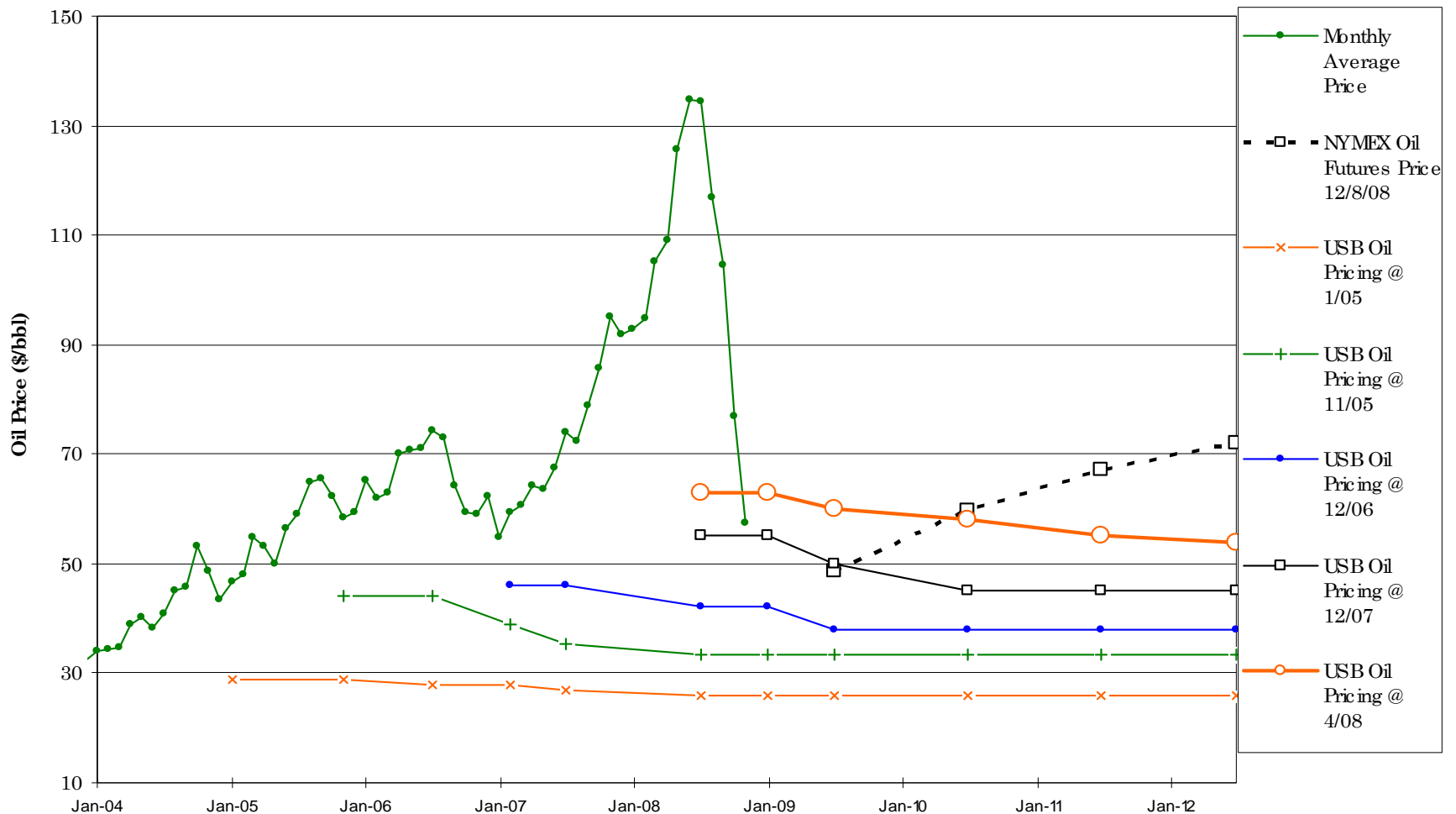


Investment-Grade Covenants for BBB-rated Borrowers by Market Share



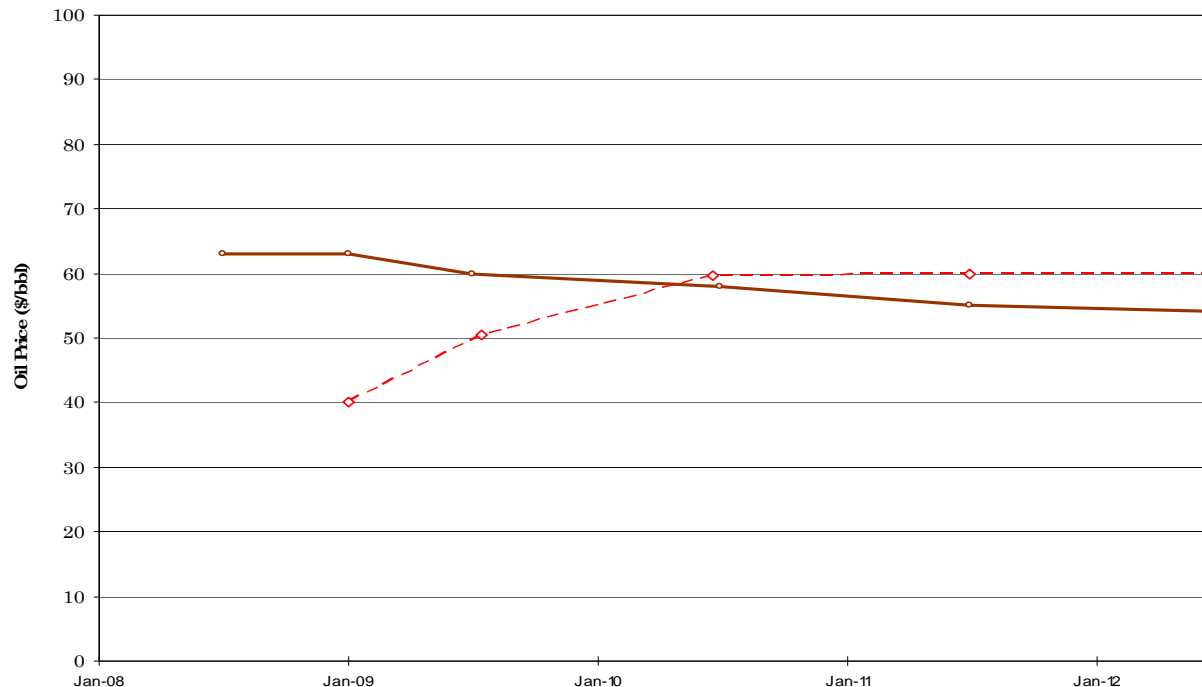
Energy Bank Oil and Gas Price Decks

NYMEX WTI Oil Prices and Bank Price Decks



Banks are Lowering Oil and Gas Price Decks

Old & New Oil Pricing Decks



- Impact minimized by contango-shaped price curves
- But, spring Borrowing Bases will very likely be lower

Major Take-aways

- Credit is in high demand and short supply, and funding costs are increasing. So:
 - New money is still available if credit quality is good, and the structure and pricing are acceptable
 - Credit will be more expensive than in recent years
 - Loan structures will be more conservative (amount, tenor, covenants)
 - Tough deals are going to be very difficult to get done
- Banks are not (yet) all on the same page. So:
 - Increases, extensions and other credit actions on large syndicated facilities will be tough to get done, and expensive
- Borrowing Bases will likely be lower next spring