

PRIVATE CAPITAL

The COSCO Private Capital Energy Index, a nine-year-old index created and managed by COSCO Capital Management LLC, is currently comprised of 25 capital providers, representing a fair cross-section of the private capital community in the U.S. and Canada. The index participants provide data on a semi-annual basis regarding the capital they originally raised and currently have available in their funds for investment in the energy industry or had dedicated to them through their most recent annual budgets, as well as their risk and sector preferences and transaction activities during the relevant period. The following compilations reflect the responses provided by index participants for the full year of 2007.

Capital availability. The \$20.7 billion of initial capital associated with funds or budgets considered active (defined as

COSCO Index Participants*

Equity Focus	Tier	Mandate
Altira Group LLC	1	Energy
ARC Financial Corp. (CDN)	1	Energy
Avista Capital Partners LP	1	Energy
EnCap Investments LP	1	Energy
Energy Spectrum Capital LP	1	Energy
Energy Trust Partners LP	1	Energy
First Reserve Corp.	1	Energy
HM Capital Partners LLC	1	General
Kayne Anderson Capital Advisors LP	1	Energy
Kern Partners Ltd. (CDN)	1	Energy
Lime Rock Management LP	1	Energy
Metalmark Capital LLC	1	General
Quantum Energy Partners	1	Energy
Quintana Minerals Corp.	1	Energy
Riverstone Holdings LLC	1	Energy
Touradjji Capital Management LP	3	General
Subtotal		16
Mezzanine Focus	Tier	Mandate
Macquarie Energy Capital	2	Energy
NGP Investment Advisor LP	2	Energy
Petrobridge Investment Management LLC	3	Energy
Prospect Energy Corp.	2	Energy
TCW Asset Management Co.	1	Energy
Subtotal		5
Equity & Mezzanine	Tier	Mandate
Constellation Energy Commodities Group	2	Energy
GasRock Capital LLC	3	Energy
Goldman Sachs & Co.	2	Energy
Post Oak Energy Capital LP	3	Energy
Subtotal		4
Total COSCO Index members:		25

* Tier 1, institutional aggregators; Tier 2, institutional investors; Tier 3, individual aggregators; Tier 4, high-net-worth individual investors. Source: COSCO Capital Management LLC

having capital remaining to be invested) at year-end 2007 was the second highest in the past four years, only beaten by the extraordinary level of 2006.

Following the same trend, at \$16 billion, the uncommitted capital available for investment in energy settled just under the previous high of \$17.3 billion that was set the previous year. 2006 may represent a short-term crest, with the energy-investing community now undergoing a brief reprieve.

Investment activity. Spurred on by very healthy capital available at year-end 2006, The COSCO Index participants reported record investment activity in 2007. The \$12.7 billion reported invested in 2007 rose 93% from the 2006 level, while the average investment in 2007, at \$38 million, was up 50% from 2006 and more than double the average investment in 2005.

Obviously, industry was the big winner in 2007, but despite these investment records, unless the capital available to The COSCO Index participants is replenished through new fund-raising activities in the first half of 2008, this is probably the pinnacle for investment activity for the next couple of years.

Monetization, profitability. The index participants' monetization activity rose slightly in 2007. However, this positive news is tempered by the fact that some two-thirds of the selling took place in the first half of 2007. Also, even though monetization numbers rose somewhat, the aggregate total capital realized and the average deal size declined significantly. This suggests that private capital took inventory of the economic landscape and decided to prune investments considered to be lower stature, while holding off on harvesting the larger prizes in expectation of more auspicious times ahead.

Given the very strong investment numbers put forth by funds in 2007, however, when the monetization stars once more align, the inventory of positions maturing in the participants' portfolios suggests there will be ample product available to satisfy the appetites of the exit-mongers in the years ahead.

International investment. Private capital is becoming increasingly attracted to global opportunities, with commitments by index portfolio companies that have international operations. Investment in globally opportunistic companies has increased more than seven times since 2005. In 2007, it represented nearly 20% of index participants' total investment in energy.

The COSCO Index: YE2004-YE2007

	YE2004	YE2005	YE2006	YE2007
Capital				
Initial (\$B)	20.0	15.4	26.5	20.7
Available (\$B)	6.0	7.0	17.3	16.0
Investment				
# of Deals	125	155	257	331
Total (\$B)	3.1	2.7	6.6	12.7
Average (\$MM)	25	17	26	38
Monetization				
# of Deals	56	60	83	88
Total (\$B)	2.3	2.7	7.5	6.0
Average (\$MM)	42	45	90	68
New Funds Raised				
Total (\$B)	7.9	6.3	12.5	8.0
International Investment				
# of Deals	NA	18	28	45
Total (\$MM)	NA	273	925	2,276
Average (\$MM)	NA	15	33	50

Source: COSCO Capital Management LLC

Soaring acquisition and development costs in the domestic arena, the ever-increasing size of funds and pressure to get these funds invested no doubt are contributing to this newfound appetite for international opportunity.

The COSCO Index indicates continued growth in the emerging global marketplace, as financial investors are getting savvier and more comfortable with dealing with geopolitical risk. The risk-reward ratio will continue to increase, as commodity prices creep higher and exciting domestic opportunities of scale become harder to find.

Conclusion. COSCO's expectations for another strong year in 2007 have been realized. Despite market turmoil and sub-prime distractions, the energy industry proved to be both an attractive and relatively safe place to put private capital to work.

There is ample reason to be optimistic about 2008, as a result of solid investment numbers in 2007. The question remains whether, given the relatively low monetization figures in 2007, there will be adequate interest among pensions and endowments to replenish The COSCO Index in 2008. The answer should be positive, as the results of prior years' investments in energy have proven so strong and alternative sectors, including the public market at large, have lost their luster.

—Cameron O. Smith and James M. Masters, COSCO Capital Management LLC. The COSCO Private Capital Energy Index is a trademark of the firm. All dollar values are U.S.; Canadian dollars were converted at the rate at the end of the reporting period.