

RODMAN PRIVATE CAPITAL ENERGY INDEX

The Rodman Energy Group periodically gathers information regarding the capital raised by certain professionally managed private-equity and mezzanine funds constituting the Rodman Private Capital Index and available for investment in the energy industry.

The Rodman Index is currently comprised of 20 such capital sources in the U.S. and Canada. While hardly comprehensive, the Index represents a reasonable cross-section of the private-capital universe and a fair proxy of its investment predilections.

Capital availability. At June 30, 2009, the Index reports having more than \$27 billion of dry powder available for investment in energy, only slightly less than the record \$30-billion-plus cited at year-end 2008. While this on its own would be considered prima facie evidence of the robust health of private capital, as the following metrics show, all is not well in private capital.

As indicated in the accompanying table, the fund-raising activities in 2006, 2007 and the first half of 2008 were outstanding. In the second half of 2008, however, fund-raising plummeted to \$2.5 billion, one-fifth of the amount raised in the prior six months. Continuing this trend, during the first half of 2009, only \$1 billion of new commitments were reported, representing the least amount for any half-year period during the previous seven years.

Monetization. While there were more transactions during first-half 2009 than during the second half of 2008, the aggregate dollar amount fell by 50% to \$700 million, leaving the average for the period a paltry \$25 million. That is half of 2008's

average and the lowest number in the past three years.

However, this should come as no surprise to those watching the A&D market, as very few transactions took place, unless the seller was experiencing serious distress.

Investment. The Index's investment record for the period, while down, was not as miserable as one might have expected. Of the very healthy aggregate of 235 investments reported over the period, however, 202 were, in fact, supplemental drawdowns with respect to existing commitments.

Only 33, therefore, represent investments in new portfolio companies or projects. This subset aggregated just under \$600 million out of a total \$2.9 billion reported invested by our Index in first-half 2009.

Preferred business plans. Progressively over the past 12 months, we have seen a concerted and dramatic shift away from the drillbit-oriented, largely resource-focused growth plans that constituted the preferred investment strategies as recently as a year ago.

Focus has shifted to acquire-and-exploit business plans that pick off distressed assets with heavy proved-developed-producing (PDP) components.

About the only new investments attracting attention these days start and end with oily-PDP acquisitions priced at or above PV15%, with virtually nothing given for additional upside. In fact, natural gas has fallen entirely out of favor in this period of relatively low prices. Very few investors are expressing any confidence that gas prices will rebound over the next several years.

International investment. Also out of

favor are international investments, which have taken a terrible hit in 2009. With such turmoil in the global finance and energy markets, those that ventured abroad over the past several years in search of better deals with less competition have fled back home, both to reduce risk, as well as to concentrate on opportunities in their own backyards.

Conclusion. The results of this survey are of little surprise to those with any exposure to private capital in the energy arena over the past year. Unfortunately, they confirm that private capital has been almost entirely preoccupied by problems within its own portfolios and loath to make new investments. Fortunately, the survey is a rear-view mirror and not necessarily a good indicator of the path ahead. There is a sense that private capital is reaffirming its interest in new investments. With record capital available, it still could make a sizeable impact on 2009 financings and almost certainly will in 2010.

Cameron O. Smith and James M. Masters, The Rodman Energy Group. The Rodman Private Capital Energy Index and The Rodman Index are trademarks of the firm. All dollar values are in U.S., or converted from Canadian, when relevant, at C\$1 to US\$0.9299 (as of August 4, 2009).

The Rodman Index Participants*

	Tier	Mandate
Equity Focus		
Altira Group LLC	1	Energy
ARC Financial Corp. (CDN)	1	Energy
Avista Capital Partners LP	1	Energy
EnCap Investments LP	1	Energy
Energy Spectrum Securities	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 Energy Partners Management Ltd. (CDN)	1	Energy
Lime Rock Management LP	1	Energy
Metalmark Capital LLC	1	General
Quantum Energy Partners	1	Energy
Riverstone Holdings LLC	1	Energy
SB Energy Management LP	1	Energy
Group Total	15	
Mezzanine Focus		
GasRock Capital LLC	3	Energy
NGP Investment Advisor LP	2	Energy
Post Oak Energy Capital LP	1	Energy
Prospect Energy Corp.	2	Energy
Group Total	4	
Equity & Mezzanine		
TCW Asset Management Co.	1	Energy
Group Total	1	
TOTAL Rodman Index Members:	20	

*Tier 1, institutional aggregators; Tier 2, institutional investors; Tier 3, individual aggregators; Tier 4, high-net-worth individual investors.
Source: The Rodman Energy Group.

Private Capital Energy Index: Year-End 2004 to First-Half 2009

Category	2004	2005	2006	2007	2008		2009	
	YE	YE	YE	YE	HI	H2	HI	
Capital								
Initial (\$B)	20.0	15.4	26.5	20.7	44.3	61.7	61.7	62.6
Available (\$B)	6.0	7.0	17.3	16.0	29.2	30.5	30.5	27.3
Investment								
Number	125	155	257	331	209	143	352	235
Total (\$B)	3.1	2.7	6.6	12.7	6.1	7.6	13.7	2.9
Average (\$MM)	25	17	26	38.3	29.1	53.2	38.9	12.1
Monetization								
Number	56	60	83	88	60	21	81	26
Total (\$B)	2.3	2.7	7.5	6.0	2.6	1.5	4.1	0.7
Average (\$MM)	42	45	90	68.4	44.1	71.0	51.1	25.6
Funding								
Total (\$B)	7.9	6.3	12.5	8.0	11.1	2.5	13.6	1.0
International Investment								
Number	N/A	18	28	45	32	23	55	19
Total (\$B)	N/A	0.2	0.9	2.3	3.0	1.6	4.6	0.3
Average (\$MM)	N/A	15	33	51.1	93.8	71.2	84.3	15.8

Source: The Rodman Energy Group