

South-Central U.S., West Texas Hot Spot In Market

Companies are buying and selling oil and gas asset packages based in part on long life reserves and potential.

By Bridie Isensee, Contributing Editor, *Oil and Gas Investor*

The 2007 year-end will see some enviable oil and gas asset packages brought to market by Midland-based **Riviera Energy Corp.**, according to company officials.

Jeffrey Longbotham, president and chief executive officer for the transaction advisory firm, says his firm has several interesting packages that should be available for purchase by September 1, 2007.

One of the packages is in Crockett County in West Texas. It's a new field discovery, Longbotham says, with multiple plays with a large acreage position in a very active area.

An additional package includes properties in Dawson, Howard and Martin counties, all in West Texas. This group is in an area of long life reserves. It has considerable drilling potential and enhanced recovery with the use of new frac techniques on older wells, says Longbotham.

Riviera also plans to put additional packages in Kansas, North Texas and southeast New Mexico on the market before the year's end.

With these packages imminently available within the next month, Riviera appears to be following a trend among other energy-based transaction advisory firms.

"We're seeing more packages on the market as we turn toward the second half of the year," says Longbotham.

A successful sale hinges on putting together strong packages and maintaining a current database of strong oil and gas companies interested in investments of oil and gas companies and drilling, he says. Once a package is ready to go, Riviera sends it to a large number of buyers, and it eventually filters down to the right one.

"The good news about buying and selling is that there's always a buyer and there's always a seller," says Longbotham.

Incorporated in 1997, Riviera makes its base in West Texas. As such, the advisory firm has created its niche for expertise in the region, although the firm does not limit itself to West Texas assets. It handles deals across the U.S., including Oklahoma, Louisiana, Kansas, Arkansas, South Texas and New Mexico.

Making its home in West Texas just means Riviera has an advantage being in the Permian Basin, where everyone wants to be, says Longbotham. Permian Basin assets have always been stable with a flat line production that



Jeffrey P. Longbotham



promises to remain that way for a long time. This long life means many of these assets have upside potential through drilling, workover or enhanced recovery, he says.

"Buyers will pay a premium price for these assets," says Longbotham. "Much of the Permian production has multiple formations, enhancing the attraction to buyers and producers."

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—Jeffrey P. Longbotham, Riviera Energy Corp.

Approaching the remainder of 2007 and 2008, Longbotham is optimistic commodity prices will stabilize, which would spur assets and divestitures to increase.

"As prices stabilize, sellers will become more confident that they are not going to sell just before prices spike," says Longbotham. "Buyers will be more comfortable with prices on acquisitions."

Quality assets have nevertheless continued to command top-dollar prices. Proved undeveloped reserves, for example, bring buyers out of the woodwork if those reserves are definable as low risk that can add significant reserves to their company's portfolio.

The fluctuation in prices has also meant a strong interest for large assets on the margin.

"Prices for marginalized assets are bringing top dollar," says Longbotham.

As long as oil prices continue to oscillate, Longbotham believes the market will remain one for sellers because of the limited number of deals.

"In a high oil price environment, sellers delay divestitures until they feel prices have peaked or are starting to come back down," he says. "Sellers are always quick to adjust price forecasts up, [and] buyers are more cautious about upward adjustment of price forecasts." ●

ASSET ACTIVITY

Chesapeake Offering

Food for the MLPs

Chesapeake Energy Corp., Oklahoma City, (NYSE: CHK) plans to sell a portion of its Appalachian assets in West Virginia and eastern Kentucky, including an approximate 35% non-operated working interest in some 4,300 wells. Net production is about 30 million cubic feet of gas equivalent per day, about 1.5% of the company's total production. Proved reserves are about 235 billion cubic feet equivalent.

"Sources say this Chesapeake package is targeted for bids from upstream MLPs. Reportedly, Chesapeake will consider "leasing" the assets. **EV Energy Partners LP** and **Linn Energy LLC** are expected to be leading bidders for the package. ●



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