

Oil and Gas Industry Update

Spring 2009

Activity in Appalachia

Oil and Gas Industry Overview

For the global oil and gas industry, the second half of 2008 brought a sudden end to a five-year period of record-setting profits and mergers and acquisitions (M&A) activity. The five-year bull market in the oil and gas industry was driven by a five-fold increase in oil prices, significant growth, and favorable capital markets. Global oil and gas M&A transaction value increased from US\$67 billion in 2004 to US\$160 billion in 2005 and continued to stay at that level in 2007.¹ The recent global economic crisis triggered a severe downturn in the industry resulting in hardship and great uncertainty in the marketplace.

In the second half of 2008, the industry witnessed a global decline that reduced oil and gas demand and capacity. Oil prices fell 75 percent in five months and natural gas prices declined by 50 percent.

Oil and gas executives' response to the current economic environment has been dependent on their company's balance sheet

strength, portfolio asset diversification, and their outlook on commodity prices.

Strategically, several oil and gas companies have focused on maintenance or growth through opportunistic, small-scale acquisitions. Other companies are focused on reducing drilling rigs and workovers, while others are simply focused on continuing as a going concern. Furthermore, given that access to capital markets has been difficult in this commodity price environment, companies have closely scrutinized their capital outlays for 2009. Today's spending cuts will unquestionably impact future production and reserves; however, the silver lining is that cut backs in capital expenditure are expected to reduce service costs, which should improve finding and development performance for those companies that continue to drill.

U.S. Natural Gas Market

For the month of March, the Henry Hub spot price averaged US\$4.08/Mcf, a reduction of US\$0.57/Mcf from the average spot price in

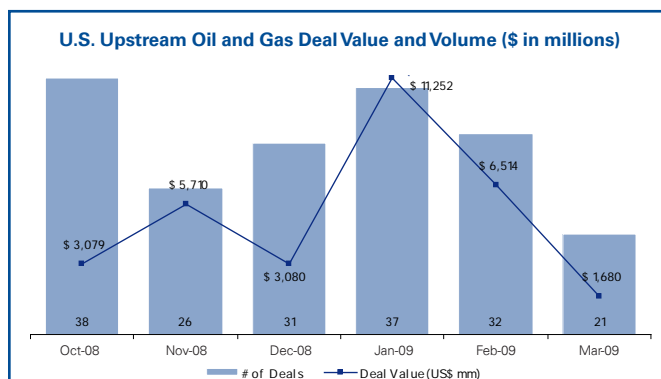
February.² The decline in natural gas prices is attributed to lower consumption and higher production levels. According to the Energy Information Administration (EIA), total consumption of natural gas is expected to decrease by nearly 2 percent in 2009, which will lead to lower natural gas prices. In addition, EIA anticipates that, absent from signs of dramatic economic recovery, natural gas prices are expected to remain below US\$4/Mcf until seasonal space heating demand picks up this fall.

Oil and Gas Acquisition and Divestiture Market

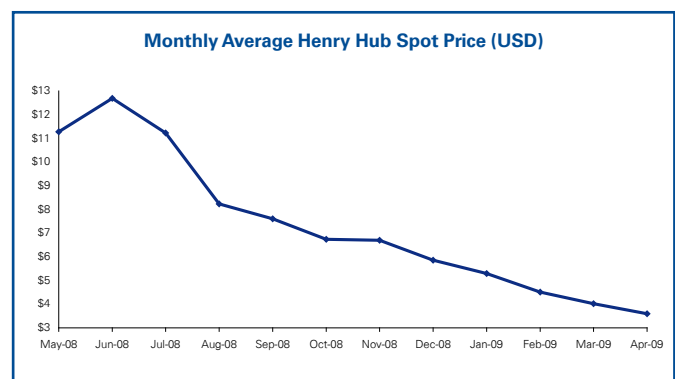
In the United States and Canada, the acquisition market had grown very expensive from 2003 to mid-year 2008. Throughout this period, Appalachia transactions grew to an all-time high. In 2008, the region executed more than US\$4 billion in Marcellus shale transactions, which accounted for 12 percent

¹ John S. Herold, Inc. 2009 Global Upstream Review, Q1 2009.

² EIA, April 14, 2009.



Source: Energy e-Track, April 2009
Note: Figures include corporate and asset transactions



Source: Energy e-Track, April 14, 2009

of the total U.S. energy deal value for that year.² Notably, the largest Marcellus shale transaction in the United States in 2008 was StatoilHydro's acquisition of a 32.5 percent interest in Chesapeake Energy's undeveloped leasehold for approximately US\$4 billion.

Overall, in 2008, shale gas transactions accounted for over 35 percent of deal value in the United States.³ In spite of this significant transaction in the region, total corporate transaction value plunged to US\$34 billion in 2008 from US\$120 billion in 2005 due to plummeting energy stocks attributed to the global financial crisis.

Consequently, oil and gas assets that would have commanded attractive offers 12 to 24 months ago now receive bids that are considerably less than the value of comparable offers previously received. Furthermore, market trend indicates that full value is increasingly applied only to proved reserves, with lower valuations applied to probable and possible reserves. This disparity between buyer and seller valuation expectations has resulted in an increase in delayed or unsuccessful sale processes.

According to John S. Herold research, 2009 and beyond is expected to bring an increase

in the number of assets coming into the market. There will be an increase in asset swaps, farm-ins, and joint ventures to share financing and mitigate risk. To execute transactions in today's marketplace, sellers will have to be more realistic in their commodity price outlook; however, buyers will need to recognize when to make premium offers to obtain high-quality assets.

³ John S. Herold, Inc. Q1 2009.

Select Appalachia Transactions						
Date	Buyer	Seller	Transaction Value (\$million)	Total Bcfe	Implied Value (\$/mcf)	Transaction Detail
11/20/2008	StatoilHydro	Chesapeake Energy	3,375	--	--	Purchased 32.5 percent stake in Chesapeake Energy Marcellus shale gas assets through development venture.
6/10/2008	Quest Resource Corporation; Quest Energy Partners LP	PetroEdge Resources LLC	142	99.6	1.09	Quest Resource Corporation acquired privately held PetroEdge Resources (WV) LLC for approximately US\$142 million. PetroEdge owns approximately 78,000 net acres of producing properties in West Virginia, Pennsylvania, and New York. According to Quest Resource's press release, PetroEdge has estimated proved reserves of 99.6 Bcfe (95 percent gas; 33 percent PD; 16 percent PDP) as of May 1, 2008.
4/15/2008	XTO Energy Incorporated	Linn Energy LLC	600	145.2	2.41	XTO Energy Inc. acquired assets in western Pennsylvania and West Virginia from Linn Energy LLC for US\$600 million. The purchase includes 152,000 net acres of Marcellus shale leasehold.
2/20/2008	EXCO Resources Incorporated	EOG Resources Incorporated	388	160.2	2.03	EXCO Resources acquired shallow natural gas properties located primarily in its central Pennsylvania operating area from EOG Resources for a net purchase price of US\$388 million. The properties include approximately 2,500 producing wells with current net production of 16 MMcfe/d. According to EXCO, the properties contain approximately 160 Bcfe of proved and possible reserves; or a total of 340 Bcfe of 3P reserves.

Source: John S. Herold, Inc.

Market Snapshot										
Company	Share Price ¹	Market Cap ¹	EV ² (\$MM)	Dividend Yield %	PUD %	P/EPS 09E	P/CFPS 09E	EV/EBITDA 09E	EV/Mcfe	
Chesapeake Energy Corporation	21.63	13,507.5	26,451.5	1.4%	32.9%	10.6x	3.5x	6.2x	\$2.19	
Range Resources Corp.	42.58	6,663.1	8,453.0	0.4%	38.5%	44.6x	10.2x	10.7x	\$3.19	
EQT Corporation	34.68	4,537.7	6,111.1	2.5%	39.1%	20.8x	7.7x	11.7x	\$0.42	
EXCO Resources Inc.	12.66	2,671.2	5,633.8	NA	25.6%	17.2x	4.0x	6.9x	\$2.90	
Penn Virginia Corp.	14.41	603.4	2,022.4	1.6%	18.1%	28.8x	2.3x	7.1x	\$0.82	
NGAS Resources Inc.	1.65	44.6	152.2	NA	26.3%	NM	3.7x	6.6x	\$1.95	
Rex Energy Corporation	3.43	126.4	134.4	NA	35.1%	NM	9.9x	8.9x	\$2.04	
Median	14.41	2,671.2	5,633.8	1.5%	32.9%	20.8x	4.0x	7.1x	\$2.04	

¹ Market Capitalization amounts are in millions, based on closing Share Prices as of April 17, 2009.
² Enterprise Value (EV) equals Market Capitalization plus Debt, Preferred Equity, and Minority Interest, minus Cash and Cash Equivalents.

Source: Capital IQ. 09E data based on consensus estimates as of calendar year ended December 31, 2009

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