



Equity Research

January 12, 2009

Exploration And Production Weekly

- **Covered E&P Equities Rose Last Week.** For the week, Wachovia-covered E&P equities gained 4% on average. This outperformed the SPX, which was down 4%, the OSX which was down 1%, and the EPX, which was down 2%. For the past month (rolling), Wachovia-covered E&P names are up 13%, versus the SPX, which is up 0.2%, the OSX up 9%, and the EPX, which is up 11%.
- **Injection Below Street.** EIA reported a natural gas storage withdrawal of 47 Bcf, which compared to consensus of 78 Bcf. The withdrawal compared to the 5-yr average withdrawal of 84 Bcf and last year's 171 Bcf withdrawal. Year-on-year surplus at 80 Bcf (3%), as compared to a 44 Bcf (-2%) deficit last week. The surplus versus the 5-yr average is 94 Bcf or (3%), versus a 56 Bcf surplus last week or (2%).
- **Gas Futures Prices Down, Oil Prices Follow.** The front-month natural gas price was down 8% for the week (from the prior Friday's close), putting the YTD decline at 2%. Average U.S. spot market prices were up 2% from the prior Friday's close, putting the YTD gain at 5%. Regionally, basis differentials moved with the group as the basis differentials we track contracted 16% on average. Front-month crude oil prices were down 12% for the week (from the previous Friday's close), leaving the commodity down 9% YTD. The Cushing spot price continues to track the future.
- **Hold On – It's Gonna Get Ugly.** As we enter reporting season, the next few weeks are going to be interesting. While some of the negative news is already built in to prices, we believe that estimates still need to come down and the reporting season will likely be filled with negative news. Given current and year-end hub pricing, reserve revisions and impairment charges are inevitable. Lower reserves and lower forward pricing translate to lower revolvers, which leads to a credit squeeze. We think the E&P space could get ugly, particularly with respect to the mid and small cap space.

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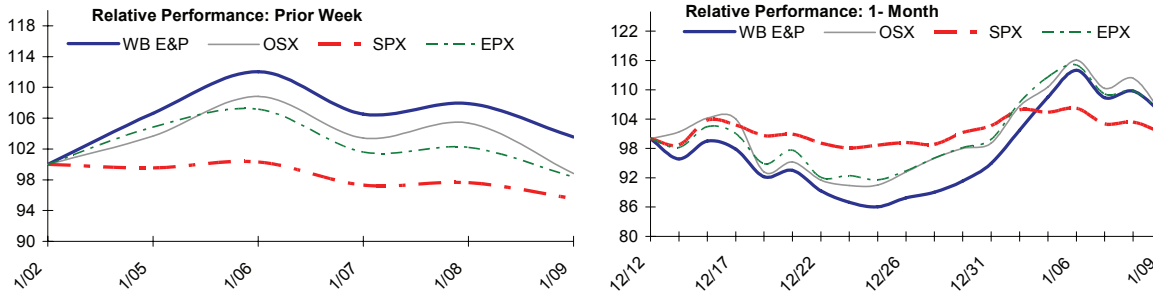
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Discussion

Stock Performance

As illustrated below, for the week, Wachovia-covered E&P equities gained 4% on average. This outperformed the SPX, which was down 4%, the OSX which was down 1%, and the EPX, which was down 2%. For the past month (rolling), Wachovia-covered E&P names are up 13%, versus the SPX, which is up 0.2%, the OSX up 9%, and the EPX, which is up 11%.

Exhibit 1: Relative Performance Statistics



Source: Bloomberg

From within our universe, the leader for the week was Gasco Energy, Inc. which rose 39%, while Petroleum Development Corp. fell 14%. Year to date, the group leader is Quicksilver Resources, Inc. with a 49% gain, while the group laggard is Petroleum Development Corp. with an 7% decline. The average YTD performance for our covered names has been a gain of 12%.

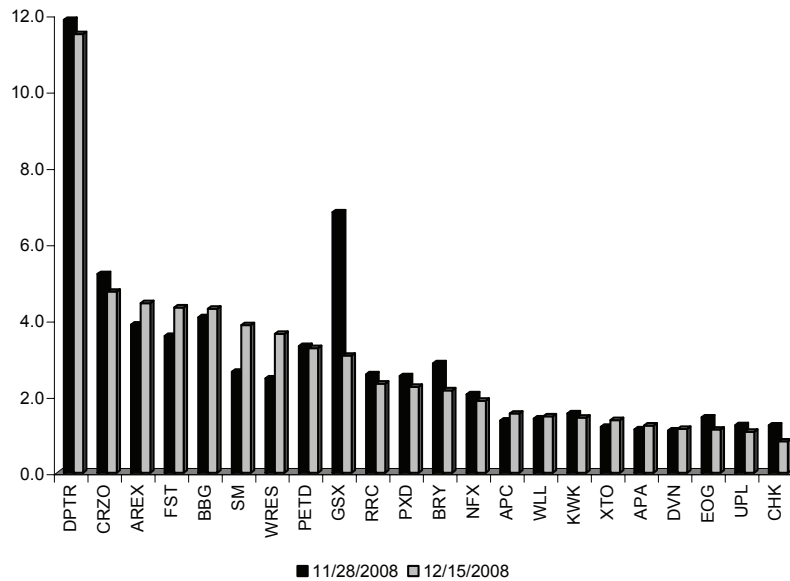
Exhibit 2: Universe Leaders and Laggards

Company	Ticker	Rating	Price 1/2/2009	Price 1/9/2009	% 7-Day Performance	Company	Ticker	Rating	Price 12/31/2008	Price 1/9/2009	% YTD Performance		
Gasco Energy, Inc.	GSX	MP	0.41	0.57	39.0%	Quicksilver Resources, Inc.	KWK	MP	5.57	8.27	48.5%		
Quicksilver Resources, Inc.	KWK	MP	6.21	8.27	33.2%	Gasco Energy, Inc.	GSX	MP	0.39	0.57	46.2%		
Warren Resources Inc.	WRES	MP	2.05	2.56	24.9%	Warren Resources Inc.	WRES	MP	1.99	2.56	28.6%		
Carrizo Oil and Gas	CRZO	OP	17.70	19.45	9.9%	Carrizo Oil and Gas	CRZO	OP	16.10	19.45	20.8%		
Whiting USA Trust I	WHX	MP	11.20	12.10	8.0%	Pioneer Natural Resources	PXD	MP	16.18	19.31	19.3%		
Pioneer Natural Resources	PXD	MP	18.05	19.31	7.0%	Whiting Petroleum, Inc.	WLL	MP	33.46	37.89	13.2%		
Approach Resources Inc.	AREX	MP	7.20	7.69	6.8%	Forest Oil	FST	OP	16.49	18.46	11.9%		
Berry Petroleum	BRY	MP	8.05	8.39	4.2%	Whiting USA Trust I	WHX	MP	10.88	12.10	11.2%		
Whiting Petroleum, Inc.	WLL	MP	37.01	37.89	2.4%	Berry Petroleum	BRY	MP	7.56	8.39	11.0%		
Apache Corporation	APA	MP	79.26	80.62	1.7%	Delta Petroleum	DPTR	UP	4.76	5.26	10.5%		
Forest Oil	FST	OP	18.21	18.46	1.4%	Apache Corporation	APA	MP	74.53	80.62	8.2%		
Newfield Exploration Company	NFX	MP	21.11	21.35	1.1%	Newfield Exploration Company	NFX	MP	19.75	21.35	8.1%		
Delta Petroleum	DPTR	UP	5.24	5.26	0.4%	Range Resources Corp.	RRC	OP	34.39	36.84	7.1%		
XTO Energy	XTO	OP	37.58	37.60	0.1%	Bill Barrett Corporation	BBG	MP	21.13	22.57	6.8%		
Anadarko Petroleum Corp.	APC	OP	40.62	40.54	-0.2%	XTO Energy	XTO	OP	35.27	37.60	6.6%		
Range Resources Corp.	RRC	OP	37.08	36.84	-0.6%	Approach Resources Inc.	AREX	MP	7.31	7.69	5.2%		
Ultra Petroleum Corp.	UPL	OP	36.92	36.19	-2.0%	Anadarko Petroleum Corp.	APC	OP	38.55	40.54	5.2%		
Chesapeake Energy Corp	CHK	MP	17.27	16.68	-3.4%	Ultra Petroleum Corp.	UPL	OP	34.51	36.19	4.9%		
Devon Energy Corp.	DVN	MP	68.49	65.56	-4.3%	Chesapeake Energy Corp	CHK	MP	16.17	16.68	3.2%		
EOG Resources, Inc.	EOG	MP	70.39	66.54	-5.5%	EOG Resources, Inc.	EOG	MP	66.58	66.54	-0.1%		
Bill Barrett Corporation	BBG	MP	23.91	22.57	-5.6%	St. Mary Land & Exploration	SM	MP	20.31	20.27	-0.2%		
St. Mary Land & Exploration	SM	MP	21.93	20.27	-7.6%	Devon Energy Corp.	DVN	MP	65.71	65.56	-0.2%		
Petroleum Development Corp.	PETD	MP	25.88	22.28	-13.9%	Petroleum Development Corp.	PETD	MP	24.07	22.28	-7.4%		
S&P 500	SPX	-	931.80	890.35	-4.4%	S&P 500	SPX	-	903.25	890.35	-1.4%		
Oil Service Index	OSX	-	130.66	129.11	-1.2%	Oil Service Index	OSX	-	121.39	129.11	6.4%		
E&P Index	EPX	-	254.29	250.11	-1.6%	E&P Index	EPX	-	236.34	250.11	5.8%		
Universe Average:						4.2%	Universe Average:						11.7%

Source: Bloomberg, Wachovia Capital Markets, LLC estimates

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Exhibit 3: Universe Short Interest Ratio



Source: Bloomberg

Universe Valuations

Exhibit 4: Relative Group Valuations

Large Cap Comps	P/NAV	EV/MCFE		P/DCF		EV/EBITDAX		
		2007	2008E	2008E	2009E	2007	2008E	2009E
Anadarko Petroleum Corp.	87%	\$2.14	\$2.10	3.0	4.5	4.6	3.7	6.0
Devon Energy Corp.	98%	\$2.17	\$1.91	3.2	5.5	4.6	2.7	5.6
Apache Corporation	115%	\$2.04	\$1.89	4.0	6.4	4.1	3.3	5.8
XTO Energy	75%	\$2.82	\$2.14	4.0	3.4	7.7	5.6	4.4
Chesapeake Energy Corp	53%	\$2.31	\$1.94	1.8	1.7	5.4	4.3	3.9
EOG Resources, Inc.	90%	\$2.31	\$1.98	3.0	5.7	6.3	3.6	5.1
Average	86%	\$2.30	\$1.99	3.1	4.5	5.5	3.9	5.1

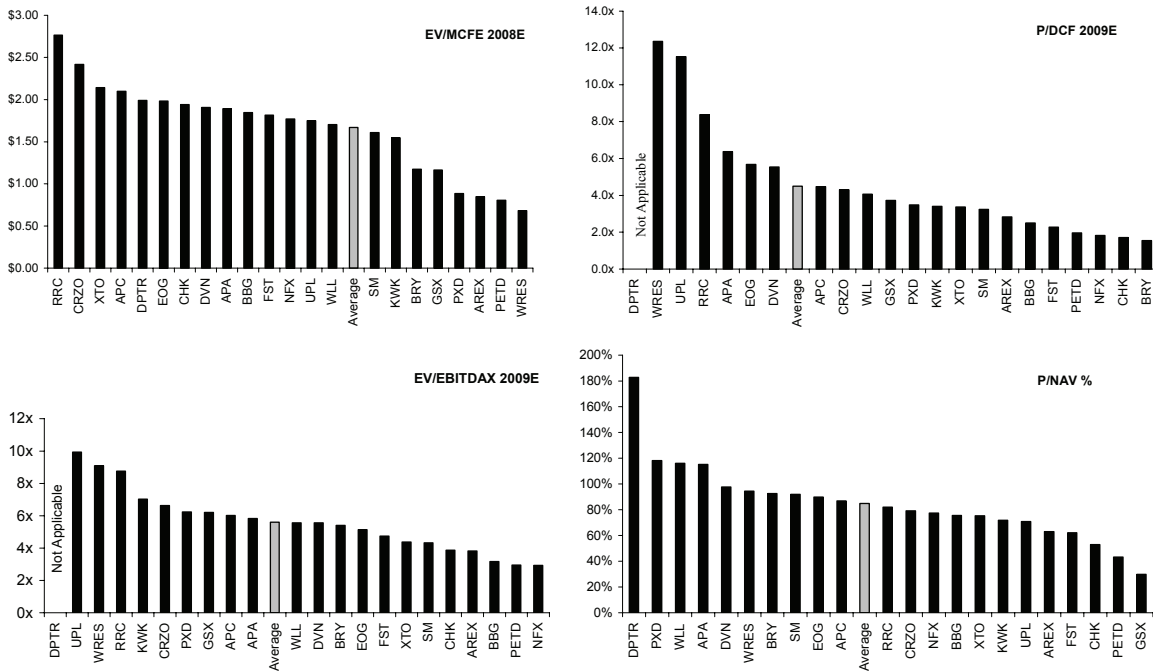
Mid Cap Comps	P/NAV	EV/MCFE		P/DCF		EV/EBITDAX		
		2007	2008E	2008E	2009E	2007	2008E	2009E
Ultra Petroleum Corp.	71%	\$2.09	\$1.75	7.8	11.5	13.1	7.1	9.9
Newfield Exploration Company	78%	\$1.99	\$1.77	2.0	1.8	4.3	2.8	2.9
Pioneer Natural Resources	118%	\$0.91	\$0.89	2.0	3.5	5.3	4.3	6.2
Range Resources Corp.	82%	\$3.39	\$2.77	6.8	8.4	12.4	7.7	8.8
Quicksilver Resources, Inc.	72%	\$2.59	\$1.55	2.9	3.4	11.2	6.8	7.0
Forest Oil	62%	\$2.14	\$1.82	1.5	2.3	5.6	3.3	4.7
Whiting Petroleum, Inc.	116%	\$1.88	\$1.70	2.2	4.1	5.9	3.4	5.6
St. Mary Land & Exploration	92%	\$1.76	\$1.61	1.7	3.2	2.9	2.4	4.3
Bill Barrett Corporation	76%	\$2.39	\$1.85	2.4	2.5	5.5	3.2	3.2
Berry Petroleum	93%	\$1.61	\$1.17	1.0	1.5	5.9	3.9	5.4
Average	86%	\$2.07	\$1.69	3.0	4.2	7.2	4.5	5.8

Small Cap Comps	P/NAV	EV/MCFE		P/DCF		EV/EBITDAX		
		2007	2008E	2008E	2009E	2007	2008E	2009E
Delta Petroleum	183%	\$3.33	\$1.99	5.1	-	18.2	12.9	26.8
Warren Resources Inc.	94%	\$0.70	\$0.68	2.2	12.4	11.3	3.6	9.1
Petroleum Development Corp.	43%	\$0.95	\$0.81	1.6	2.0	5.4	2.1	2.9
Carrizo Oil and Gas	79%	\$3.21	\$2.42	5.5	4.3	13.6	6.8	6.6
Approach Resources Inc.	63%	\$1.03	\$0.85	2.8	2.8	8.8	2.9	3.8
Gasco Energy, Inc.	30%	\$1.32	\$1.16	3.3	3.7	21.8	4.9	6.2
Whiting USA Trust I	128%	\$3.41	n/a	n/a	n/a	n/a	n/a	n/a
Average	89%	\$1.99	\$1.32	3.4	5.0	13.2	5.5	9.2

Source: Wachovia Capital Markets, LLC estimates, company filings, and Bloomberg

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Exhibit 5: Ranked Universe Valuation Metrics



Source: Wachovia Capital Markets, LLC estimates and Bloomberg

Weekly Commodity Review

Natural Gas

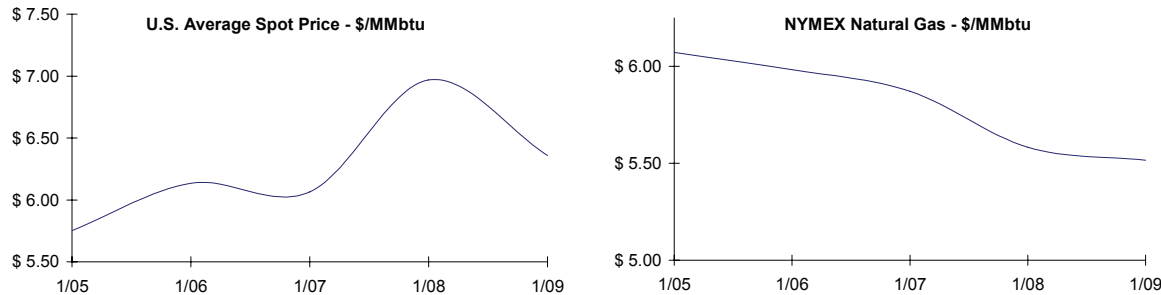
The front-month natural gas price was down 8% for the week (from the prior Friday's close), putting the YTD decline at 2%. Average U.S. spot market prices were up 2% from the prior Friday's close, putting the YTD gain at 5%. Regionally, basis differentials moved with the group as the basis differentials we track contracted 16% on average. Our current natural gas price forecasts are detailed in the table below.

Exhibit 6: Wachovia And Consensus Natural Gas Price Deck

Natural Gas Price Assumptions	2007	Q108	Q208	Q308	Q408	2008	Q109E	Q209E	Q309E	Q409E	2009E
Natural Gas - Henry Hub (\$/MMBtu)	\$6.87	8.02	10.93	10.25	6.95	\$9.04	5.13	5.39	6.41	6.67	\$5.89
Old Estimate	-	-	-	-	-	\$9.41	8.72	8.21	7.70	8.21	\$8.21
First Call Consensus	-	-	-	-	-	\$8.85	\$7.17	\$7.05	\$7.20	\$7.52	\$7.22

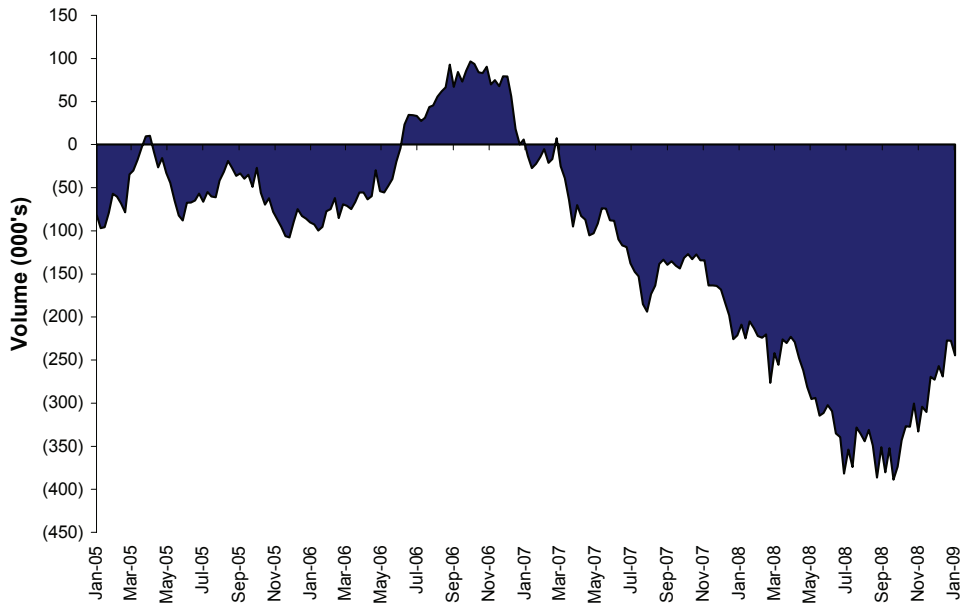
Source: Wachovia Capital Markets, LLC estimates and First Call

Exhibit 7: Natural Gas Price Behavior



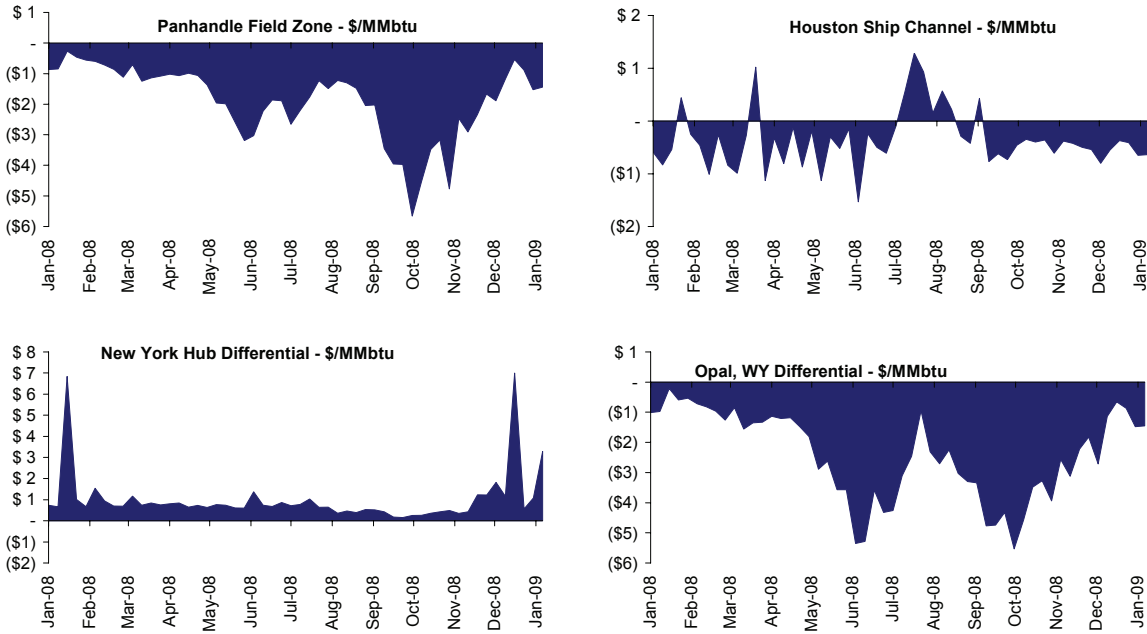
Source: Bloomberg

Exhibit 8: Natural Gas Net Non-Commercial Positions, Futures & Options



Source: Bloomberg

Exhibit 9: Regional Hubs--Basis Differential From Henry Hub



Source: Bloomberg

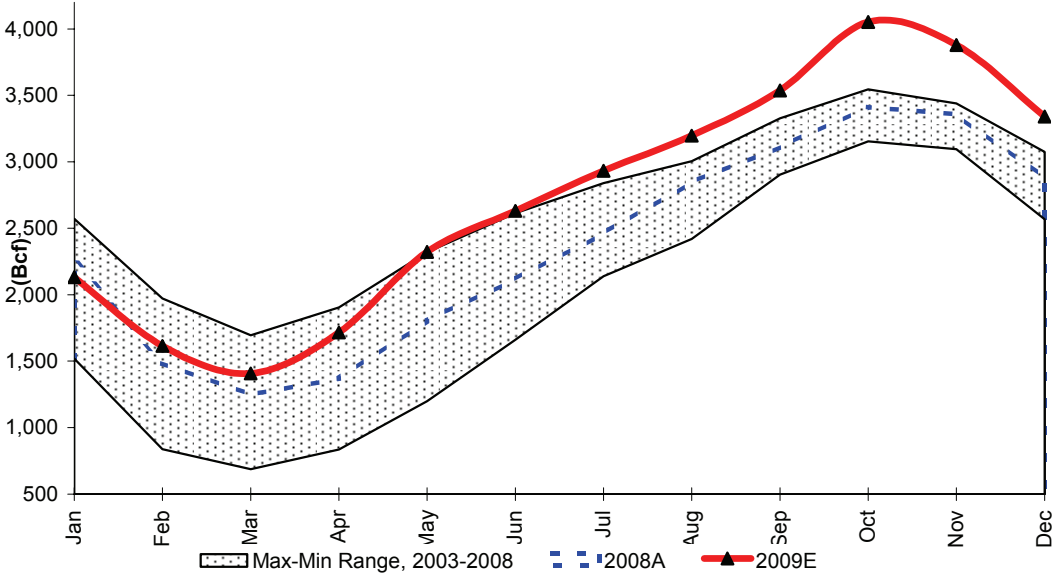
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Natural Gas Withdrawal Of 47 Bcf Below Street's 78 Bcf

Withdrawal Below Street. EIA reported a natural gas storage withdrawal of 47 Bcf, which compared to consensus of 78 Bcf. The withdrawal compared to the 5-yr average withdrawal of 84 Bcf and last year's 171 Bcf withdrawal.

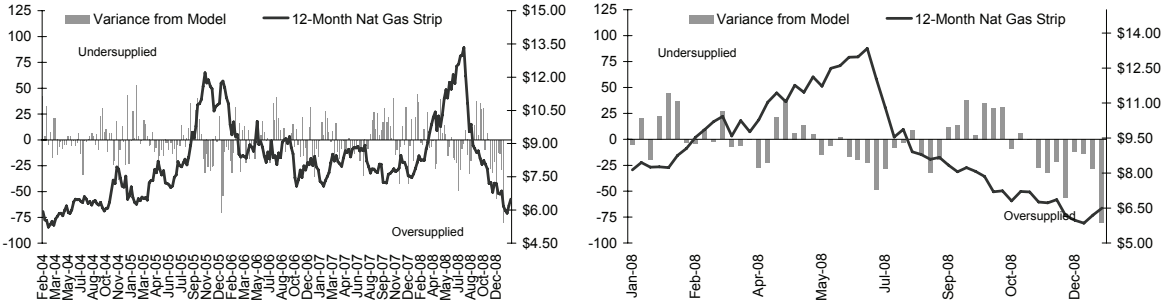
Storage At 2,830, Y/Y Deficit Expands. Year-on-year surplus at 80 Bcf (3%), as compared to a 44 Bcf (-2%) deficit last week. The surplus versus the 5-yr average is 94 Bcf or (3%), versus a 56 Bcf surplus last week or (2%).

Exhibit 10: Natural Gas Storage Inventories



Source: Wachovia Capital Markets, LLC estimates and American Gas Association

Exhibit 11: Theoretical Over / Undersupplied Status of Natural Gas Market



Source: Wachovia Capital Markets, LLC estimates and Bloomberg

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Crude Oil

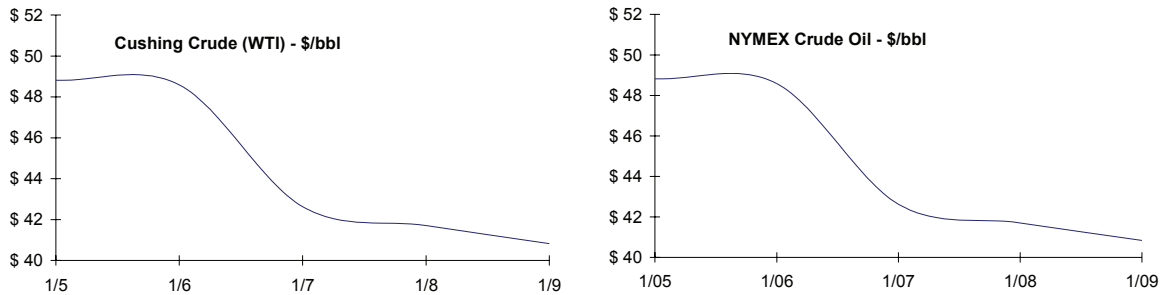
Front-month crude oil prices were down 12% for the week (from the previous Friday's close), leaving the commodity down 9% YTD. The Cushing spot price continues to track the future. Our crude oil price estimates/forecasts are detailed in the table below.

Exhibit 12: Wachovia And Consensus Crude Oil Price Deck

Crude Price Assumptions	2007	Q108	Q208	Q308	Q408	2008	Q109E	Q209E	Q309E	Q409E	2009E
Crude Oil (WTI)	\$72.17	97.82	123.80	118.22	59.08	\$99.73	51.00	55.00	55.00	59.00	\$55.00
<i>Old Estimate</i>	-	-	-	-	-	\$110.02	105.00	110.00	100.00	105.00	\$105.00
<i>First Call Consensus</i>	-	-	-	-	-	\$99.50	59.90	61.61	66.89	70.11	\$66.00

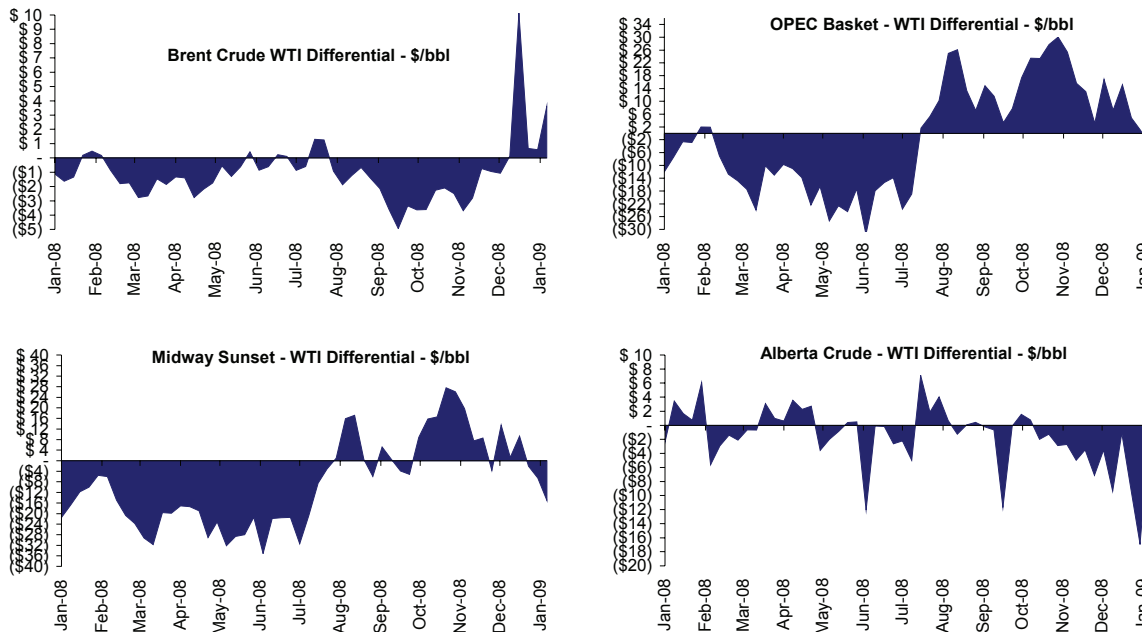
Source: Wachovia Capital Markets, LLC estimates and First Call

Exhibit 13: Crude Oil Price Behavior



Source: Bloomberg

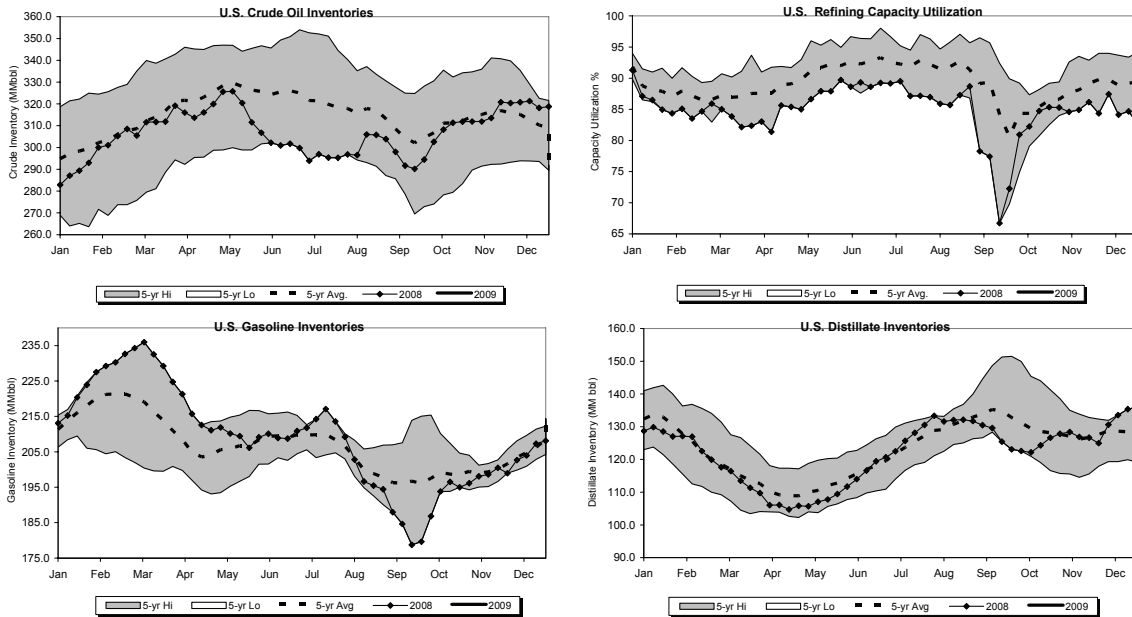
Exhibit 14: Basis Differentials Versus WTI



Source: Bloomberg

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Exhibit 15: Petroleum Storage Inventories And Refinery Utilization

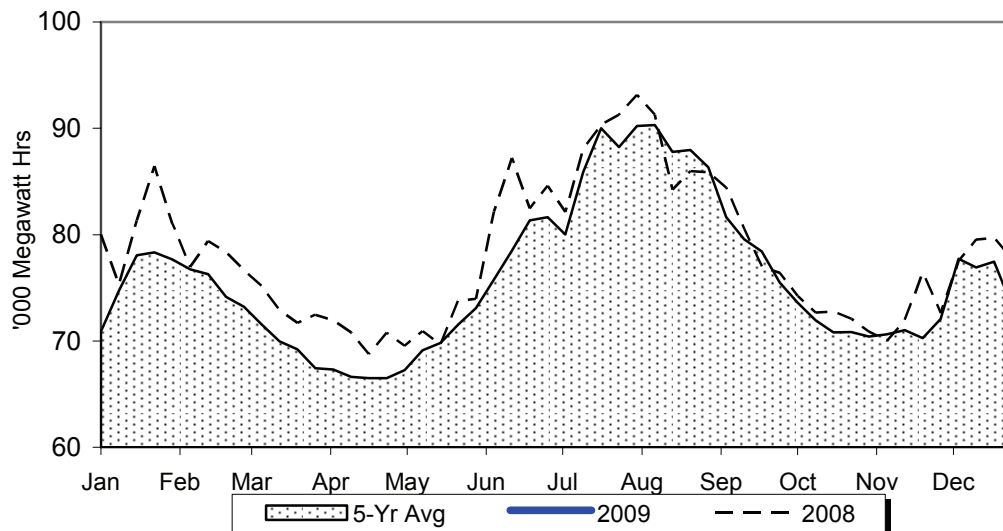


Source: Energy Information Administration (EIA)

Other Industry Statistics

Electricity Generation

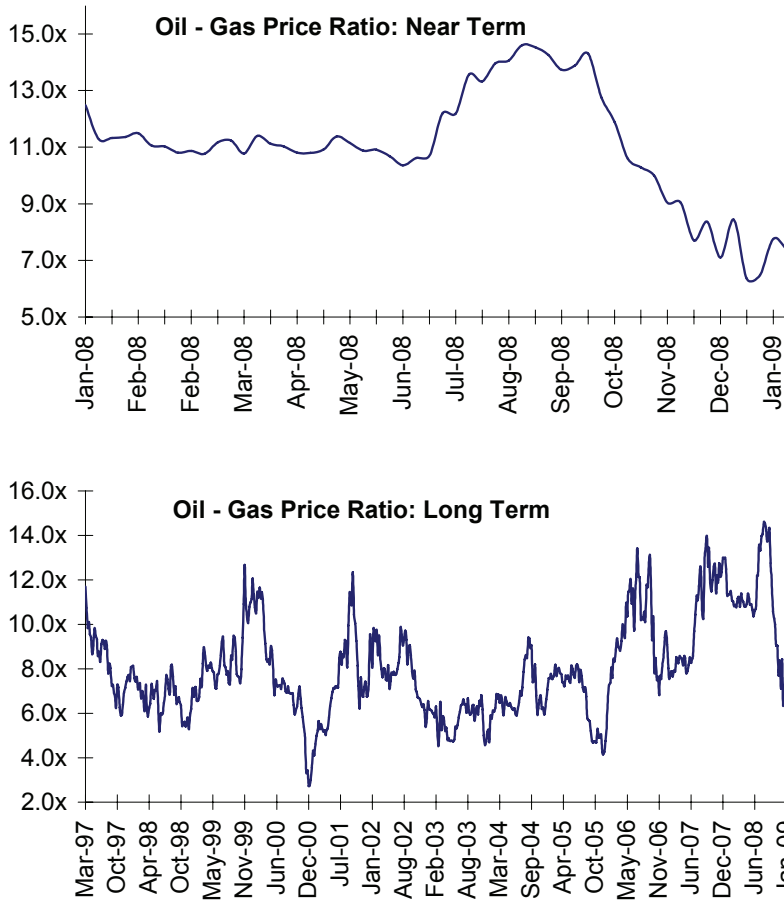
Exhibit 16: Total Weekly Electricity Generation



Source: Bloomberg and Edison Electricity Institute

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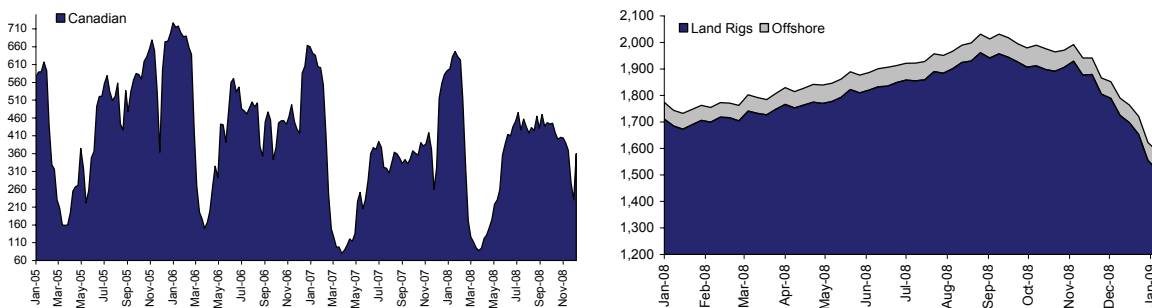
Exhibit 17: Oil - Gas Price Ratio



Source: Bloomberg

Drilling Activity Data

Exhibit 18: U.S. And Canadian Rig Counts



Source: Baker Hughes

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Exhibit 19: Comps

Ticker	Price 01/09/09	Mkt Cap (\$ MM)	EV (\$ MM)	Net Debt-to- Cap (%)	Consensus 2009E			Consensus 2010E			
					P/E	P/CF	EV/EBITDA	P/E	P/CF	EV/EBITDA	
Devon Energy Corp	DVN	65.56	28,053	31,696	21%	13.7x	4.7x	4.3x	7.7x	3.3x	3.0x
Apache Corp	APA	80.62	25,227	27,739	21%	13.6x	5.1x	3.6x	7.5x	4.2x	2.8x
Anadarko Petroleum	APC	40.54	17,728	26,935	43%	24.3x	3.8x	4.1x	10.7x	2.8x	3.4x
XTO Energy Inc.	XTO	37.60	20,812	31,915	44%	8.8x	3.6x	4.5x	9.2x	3.5x	4.3x
EOG Resources	EOG	66.54	15,816	16,827	14%	12.1x	4.4x	3.9x	9.1x	3.5x	3.4x
Chesapeake Energy	CHK	16.68	9,681	22,567	47%	6.4x	2.2x	4.2x	4.7x	1.8x	3.5x
Murphy Oil Corp	MUR	47.63	8,667	8,297	13%	12.4x	4.5x	3.1x	8.7x	3.7x	2.6x
Noble Energy	NBL	50.09	8,096	9,155	18%	10.3x	4.2x	3.6x	8.4x	3.7x	3.5x
Ultra Petroleum	UPL	36.19	5,227	5,644	24%	16.5x	7.5x	6.7x	11.7x	5.2x	5.2x
Average:					27%	13.1x	4.5x	4.2x	8.6x	3.5x	3.5x
Southwestern Energy	SWN	30.23	9,775	10,095	37%	17.9x	7.0x	6.3x	13.7x	5.4x	4.8x
Pioneer Natural Resources	PXD	19.31	2,117	4,932	47%	10.4x	2.3x	3.8x	5.1x	1.7x	3.5x
Newfield Exploration	NFX	21.35	2,689	4,590	15%	5.7x	1.9x	2.7x	4.9x	1.7x	2.4x
Range Resources	RRC	36.84	5,420	7,067	40%	26.1x	7.1x	7.1x	17.0x	5.2x	5.3x
Denbury Resources	DNR	11.58	2,663	3,269	30%	12.8x	5.0x	4.2x	9.6x	4.2x	4.1x
Cabot Oil & Gas	COG	26.42	2,638	3,410	23%	14.3x	4.3x	4.8x	14.1x	4.3x	5.2x
Plains Exploration	PXP	23.41	2,356	5,888	49%	5.5x	2.1x	3.9x	5.7x	1.7x	3.8x
Quicksilver Resources	KWK	8.27	1,302	3,799	39%	9.4x	2.9x	5.7x	6.6x	2.2x	4.8x
Cimarex Energy	XEC	27.31	2,163	2,443	9%	8.9x	2.7x	2.4x	4.6x	1.7x	1.8x
Unit Corp.	UNT	29.06	1,308	1,466	8%	7.0x	2.5x	2.5x	6.4x	2.2x	2.2x
W&T Offshore Inc.	WTI	15.39	1,107	1,075	19%	34.3x	2.1x	1.8x	6.0x	1.5x	1.4x
Forest Oil Corp.	FST	18.46	1,623	4,295	42%	8.2x	1.9x	3.9x	5.7x	1.5x	3.3x
St. Mary Land & Exploration	SM	20.27	1,194	1,645	37%	13.3x	2.5x	2.7x	8.9x	2.1x	2.2x
Petrohawk Energy	HK	17.58	4,163	5,743	44%	39.0x	6.5x	6.6x	21.1x	4.4x	4.5x
Mariner Energy	ME	11.02	911	1,810	35%	10.2x	1.3x	2.1x	5.7x	1.0x	1.9x
Bill Barrett Corp.	BBG	22.57	969	1,228	20%	10.1x	2.5x	2.9x	10.2x	2.3x	2.7x
Whiting Petroleum	WLL	37.89	1,464	2,562	36%	17.2x	3.2x	3.5x	6.4x	2.0x	2.4x
Penn Virginia	PVA	27.03	1,069	2,374	42%	14.8x	3.1x	5.7x	9.8x	2.3x	4.5x
Berry Petroleum	BRY	8.39	356	1,485	50%	6.2x	1.6x	4.8x	3.3x	1.2x	3.8x
Encore Acquisitions	EAC	28.77	1,429	2,768	51%	8.5x	2.8x	4.2x	28.5x	4.3x	5.7x
Delta Petroleum	DPTR	5.26	518	1,083	42%	-	20.1x	15.5x	-	8.2x	10.2x
ATP Oil & Gas	ATPG	6.53	222	1,652	70%	4.4x	0.6x	3.6x	1.5x	0.3x	3.0x
Comstock Resources Inc.	CRK	44.23	1,934	1,808	41%	33.4x	6.3x	5.0x	15.0x	4.4x	3.4x
Continental Resources	CLR	23.21	3,620	3,846	26%	-	-	8.1x	6.1x	1.7x	7.4x
Venoco Inc	VQ	2.86	140	891	73%	1.8x	0.6x	2.6x	-	-	-
Swift Energy Co.	SFY	18.46	554	1,061	41%	16.4x	2.1x	3.5x	-	7.7x	1.9x
Stone Energy	SGY	11.57	455	1,107	-6%	16.5x	0.8x	2.2x	-	-	-
SandRidge Energy, Inc.	SD	7.85	1,179	3,150	31%	-	-	-	-	-	-
Average:					35%	14.1x	3.7x	4.5x	9.4x	3.0x	3.8x
Goodrich Petroleum	GDP	30.17	1,082	1,110	42%	-	6.9x	5.8x	34.9x	4.5x	4.1x
Carrizo Oil & Gas	CRZO	19.45	541	994	44%	13.1x	3.5x	4.5x	6.6x	2.2x	3.3x
Parallel Petroleum	PLLL	2.54	102	400	45%	8.8x	1.6x	3.6x	-	-	-
Petroleum Development Corp	PETD	22.28	327	603	24%	8.8x	1.9x	2.8x	8.6x	1.4x	2.0x
Warren Resources	WRES	2.56	143	209	9%	29.7x	3.5x	4.3x	7.3x	2.7x	2.4x
Energy Partners	EPL	1.86	53	492	81%	-	0.5x	-	-	-	-
Gulfport Energy	GPOR	4.79	191	282	17%	5.8x	2.5x	3.5x	-	-	-
GMX Resources	GMXR	26.24	487	638	36%	13.2x	3.8x	4.7x	6.2x	2.2x	2.5x
Edge Petroleum	EPEX	0.28	8	231	36%	-	0.3x	4.1x	-	-	-
McMoran Exploration	MMR	11.26	751	965	68%	10.9x	1.9x	1.4x	8.8x	1.3x	0.9x
Clayton Williams	CWEI	44.87	517	881	72%	6.2x	-	-	-	-	-
Callon Petroleum	CPE	2.85	57	228	50%	13.4x	0.9x	3.0x	0.6x	0.2x	0.8x
Brigham Exploration	BEXP	3.65	159	392	36%	-	2.9x	4.4x	14.6x	1.9x	3.1x
Toreador Resources	TRGL	3.56	75	161	37%	17.8x	4.8x	9.2x	-	-	-
Endeavour International	END	0.54	69	394	54%	8.3x	0.9x	2.2x	18.0x	1.1x	-
Meridian Resources	TMR	0.55	50	139	16%	-	0.9x	2.0x	-	-	-
Gasco Energy	G SX	0.57	62	136	73%	9.8x	3.6x	5.4x	3.4x	2.3x	3.8x
Approach Resources, Inc.	AREX	7.69	159	181	-2%	10.4x	3.3x	3.4x	6.8x	2.5x	-
Concho Resources, Inc.	CXO	21.85	1,686	2,271	27%	14.5x	4.9x	4.7x	9.1x	3.5x	3.4x
Quest Resources	QRCP	0.66	21	584	35%	0.5x	0.2x	3.3x	0.3x	0.1x	1.9x
Arena Resources, Inc.	ARD	27.18	987	907	10%	19.6x	7.7x	5.2x	10.4x	4.3x	2.9x
Average:					34%	11.7x	2.9x	3.9x	9.7x	2.2x	2.6x

Source: Wachovia Capital Markets, LLC estimates and Bloomberg.

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Exploration & Production

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