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Global Oil and Gas Upstream M&A 2009 Review: New Assets and New Buyers bring Deal Value to \$153 billion

Study indicates E&P Transactions Markets are well supplied now with \$46 billion of Deals on the Market

HOUSTON — March 5, 2010 — PLS, Inc. with its international partner Derrick Petroleum Services and further analysis from Rystad Energy report, despite a difficult economic cycle, Global Upstream M&A activity for oil and gas deals in 2009 totaled \$153 billion and surpassed the pre-crash levels in 2007. According to Brian Lidsky, Managing Director of Houston-based research, transactions and advisory firm PLS, Inc., “Despite the recovery in the total dollar amount of Global oil and gas deals in 2009, the markets have not yet fully recovered as tracked by the number of actual transactions above the \$100 million mark, which came in at 124 in 2009 versus 160 in 2008 and 168 in 2007. Furthermore, the 2009 market is characterized by new buyers and new assets, a trend we believe will continue in 2010 and beyond.”

Oil and gas valuations globally, based on an evaluation of the \$100 million plus deal market and prices paid per 2P entitlement reserves, ended 2009 at the \$14.40 per BOE level, up 40% from a trough number of \$10.20 per BOE seen in Q1 2009 but down from the \$20.90 per BOE peak seen in Q1 2008. In the U.S., valuations for 1P oil reserves ended the year at about \$14.10 per barrel, down 25% from the 2008 peak. For 1P gas reserves, values ended 2009 at about \$1.80 per Mcf, down 40% from the 2008 peak.

The oil and gas deal markets have shifted to a new paradigm and new asset types – namely unconventional oil and gas production primarily sourced from gas shales, tight gas sands and oil sands. This asset class garnered 45% of the market in 2009, up dramatically from just 9% in 2007.

On the buyer side, foreign National Oil Companies (“NOC’s”) and Government-backed entities represented 50% of all deals greater than \$1 billion in 2009; also marking a

shift to a new buyer profile in the oil and gas markets. The traditional major international oil companies ("IOC's") had limited activity, but when active the IOC's focused on unconventional assets. A prime example was ExxonMobil's \$41 billion purchase of U.S. independent XTO Energy.

Interestingly, \$35 billion of the \$153 billion in 2009 is classified as cross-border transactions. According to Yashodeep Deodhar, President of Derrick Petroleum Services, "The Chinese NOCs clearly are on a global buying spree, having accounted for 45% of the deal value in cross-border deals. In 2009 alone, China spent \$16 billion gaining footprints in Canadian oil sands, the Gulf of Mexico, Nigeria, Gabon, Trinidad and Tobago, Ecuador, Syria, Iraq, Iran, Indonesia and Kazakhstan." Following China in cross-border deals are the European majors (primarily into the U.S. shales, \$5.6 billion) and Korea (3 deals, \$5.25 billion).

Dissecting the oil and gas markets even further reveals another market shift in 2009. Pure asset deals accounted for 28% of the volume in 2009, down markedly from 65% in 2007. Volatility in oil and gas prices and economic conditions early in 2009 drove this shift as companies found it more effective to buy entire companies rather than attempt to complete a deal where both buyer and seller could agree on the price of an asset.

In terms of emerging trends, Africa continues to be a growing area of interest for buyers with its share of the global market growing to 14% in 2009, up from 5% in 2007. According to Anders Wittemann, Consulting Manager with Rystad Energy, "Hess and Shell's cross-border swap of North Sea and Gabon assets, valued by Rystad Energy at \$2.9 billion, ranks the deal at the #9 spot for 2009. This is a unique example of portfolio management driving strategic and operational goals. Hess is a global leader in cross-border asset swaps and both companies demonstrated persistence and flexibility through this transaction."

According to Lidsky, "Looking forward, we currently have more than \$46 billion of deals on the market and have already transacted \$18 billion in the first two months of 2010. For perspective, in May 2009, we only had \$20 billion of deals on the market. The markets

are well supplied – particularly on the asset side. The difficult cycle the industry is coming out of requires managers to laser focus on execution and strategy.”

Drivers for oil and gas M&A deals in 2010 include, (1) North American companies focusing on resource plays and divesting conventional and/or cash flowing assets, (2) capital needs for world class development projects, and (3) normal portfolio balancing and risk management.

For more on the 2009 Study or the M&A Database, please contact PLS, Inc. at (713) 650-1212.

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PLS, Inc. and Derrick Petroleum Services are partners in providing U.S., Canadian and International clients with leading M&A and E&P databases and services.

PLS, Inc. is a leading industry research, transactions and advisory firm based in Houston, Texas.

Derrick Petroleum Services is an independent oil and gas research and consulting firm with special emphasis on emerging plays and transactions internationally.

Rystad Energy is an independent and integrated E&P advisory and business intelligence data firm offering global database applications, stand-alone research products and strategy consulting services.

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