

Energy Lender Price Survey



Q1/07 Overview

We are pleased to present Tristone Capital's Quarterly Energy Lender Price Survey, a commodity pricing poll of energy reserve-based lenders. Our survey of energy lenders' price forecasts covers a broad spectrum of regional, U.S. national and international banks, and all of the Participating Banks engage in energy reserve-based lending. This quarter's survey includes 44 Participating Banks.

Base Case Results

The data provided for the Q1/07 Survey appears to show the Participating Banks may believe that prices have passed their peak. For front month oil prices, the average fell back below the \$50.00/Bbl threshold held in the Q4/06 survey. Indications show certain lenders may believe prices have hit their high point and are settling below all-time highs.

For 2007, the Q1/07 Survey indicates an average Base Case WTI oil price forecast of \$49.24/Bbl and an average Base Case Henry Hub gas price forecast of \$6.21/MMBtu. The five-year trend shows a backwardated forward price deck for both oil and gas, with average 2011 oil and gas price forecasts of \$42.60/Bbl and \$5.55/MMBtu, respectively. Modest escalation of both oil and gas prices after 2010 is common, but prices are capped at an average of \$43.02/Bbl and \$5.32/MMBtu, respectively. The average discount rate used by Participating Banks is 9%. Operating costs on average are escalated 1% per year.

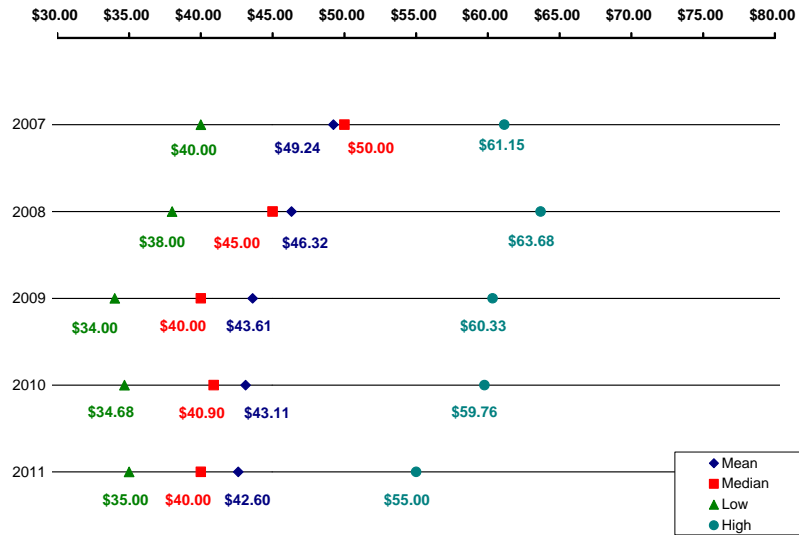
1st Quarter 2007 Price Survey: Mean of 44 Participating Banks – Base Case

	<u>Oil (\$/Bbl) - WTI</u>	<u>Gas (\$/MMBtu) - Henry Hub</u>
2007	49.24	6.21
2008	46.32	6.01
2009	43.61	5.74
2010	43.11	5.63
2011	42.60	5.55
2012+	0.4%	0.4%
Cap	43.02	5.32
LOE Esc	1%	1%
Discount Rate	9%	9%

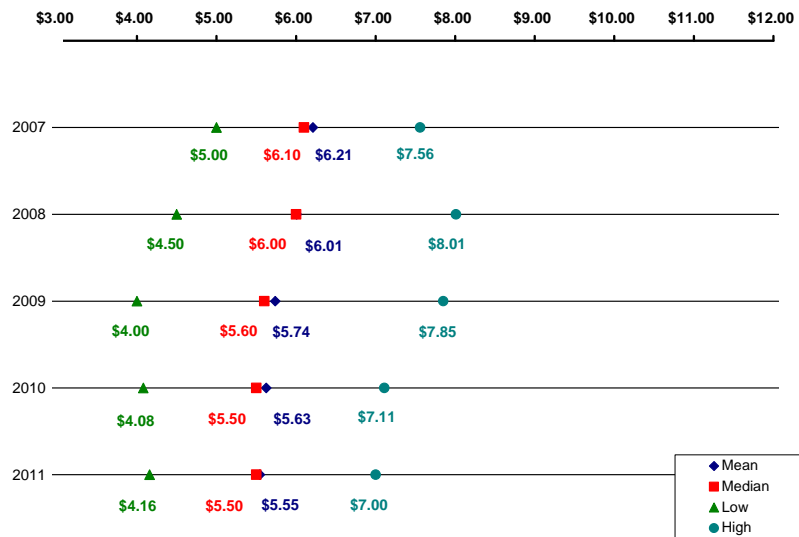
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for important disclosure
information

For front-month oil prices, the median exceeded the mean for the first time since the publication of our survey. Therefore, it could be argued the outlier points have started to move towards the averages, and banks have a flatter consensus of oil prices.

Current Oil Pricing – Base Case (\$/Bbl)

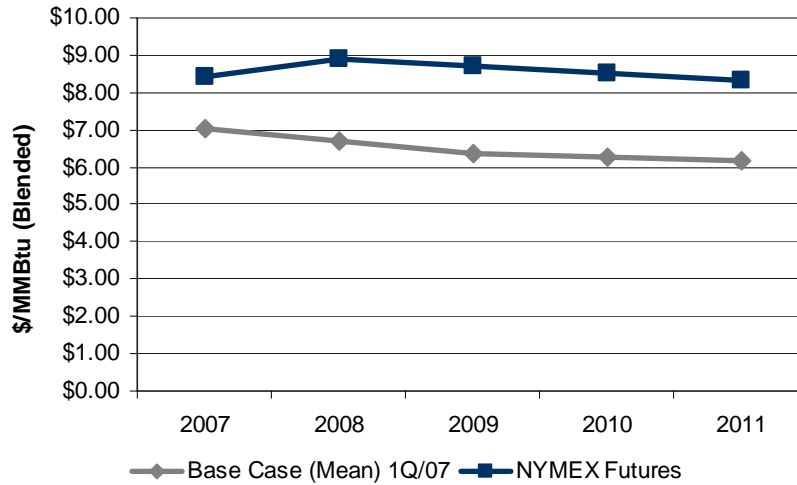


Current Gas Pricing – Base Case (\$/MMBtu)



Using a 60/40 blended gas/oil weighting, we compared the average Base Case against NYMEX futures pricing as of January 26, 2007, as shown on the following page. When compared with NYMEX futures pricing, the average Base Case results were 83% of NYMEX futures in 2007, gradually trending downward to 74% by 2011.

Base Case Q1/07 vs. NYMEX as of January 26, 2007 - Blended (Gas:Oil = 60:40)



Quarter-to-Quarter Trends

Compared to last quarter’s Survey, oil prices fell by 4% for front-year pricing and gas prices fell by 2% for the Base Case price decks being used by the Participating Banks. By 2011, oil prices increased by 3% while gas prices remained flat.

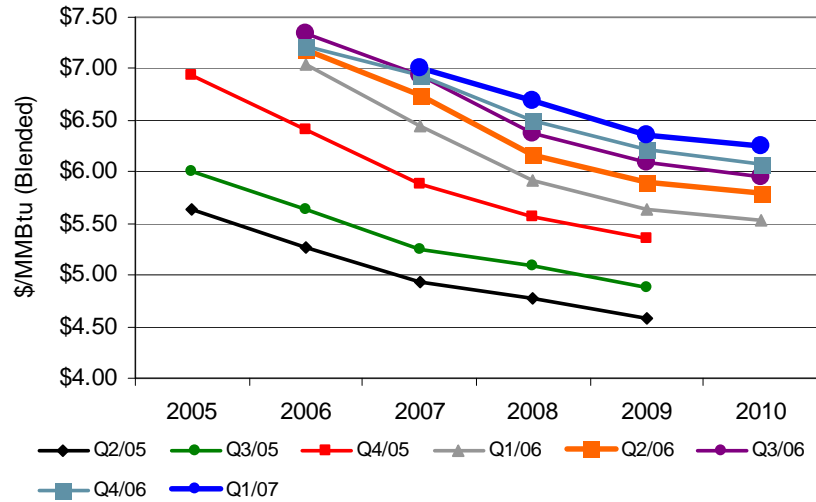
Quarter-over-Quarter Pricing Trends – Base Case

Calendar Year	Oil (\$/Bbl) - WTI			Gas (\$/MMBtu) - Henry Hub		
	Q4/06*	Q1/07**	% Increase/ (Decrease)	Q4/06*	Q1/07**	% Increase/ (Decrease)
	2007	51.42	49.24	-4%	6.33	6.21
2008	48.45	46.32	-4%	6.18	6.01	-3%
2009	44.72	43.61	-2%	5.87	5.74	-2%
2010	42.54	43.11	1%	5.65	5.63	0%
2011	41.54	42.60	3%	5.52	5.55	0%
2012+	0.4%	0.4%	10%	0.3%	0.4%	40%
Cap	42.90	43.02	0%	5.56	5.32	-4%

*41 Participating Banks
 **44 Participating Banks

Since starting the Tristone Capital Energy Lender Price Survey in Q2/05, the Participating Banks' oil and gas price decks have increased by 50% and 28%, respectively, based on 2007 pricing. Over the same period, NYMEX oil and gas prices have increased by 13% and 7% respectively.

Quarter-to-Quarter Base Case Pricing Trends - Blended (Gas:Oil = 60:40)



Sensitivity Case Results

The Q1/07 Survey also includes a Sensitivity Case, which represents the lenders' low or conservative price decks. Of the 44 Participating Banks, 35 banks provided a Sensitivity Case which averaged a 22% discount to Base Case lending policies for both oil and gas for 2006.

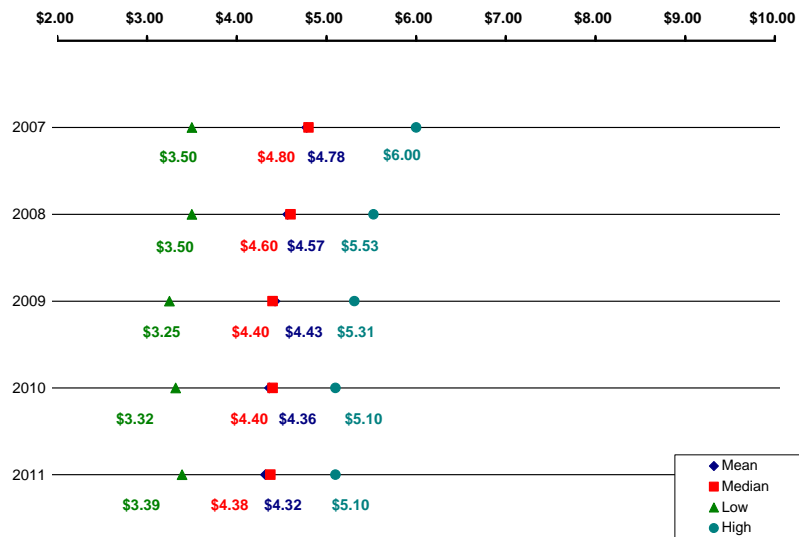
1st Quarter 2007 Price Survey: Mean of 35 Participating Banks – Sensitivity Case

	<u>Oil (\$/Bbl) - WTI</u>	<u>Gas (\$/MMBtu) - Henry Hub</u>
Calendar Year		
2007	38.15	4.78
2008	35.56	4.57
2009	33.62	4.43
2010	33.50	4.36
2011	33.38	4.32
2012+	0.4%	0.8%
Cap	34.44	4.46
LOE Esc	1%	1%
Discount Rate	9%	9%

Current Oil Pricing – Sensitivity Case (\$/Bbl)

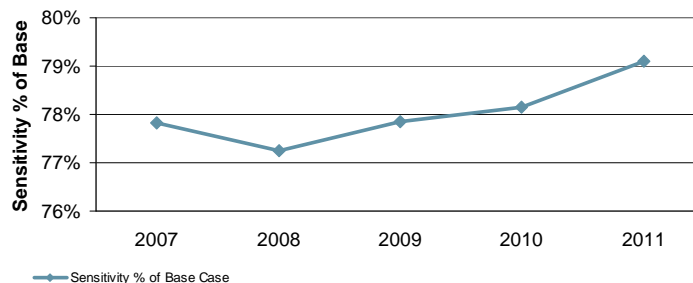


Current Gas Pricing – Sensitivity Case (\$/MMBtu)



Using a 60/40 blended gas/oil weighting, we charted the average Sensitivity Case as a percentage of the average Base Case, as shown below.

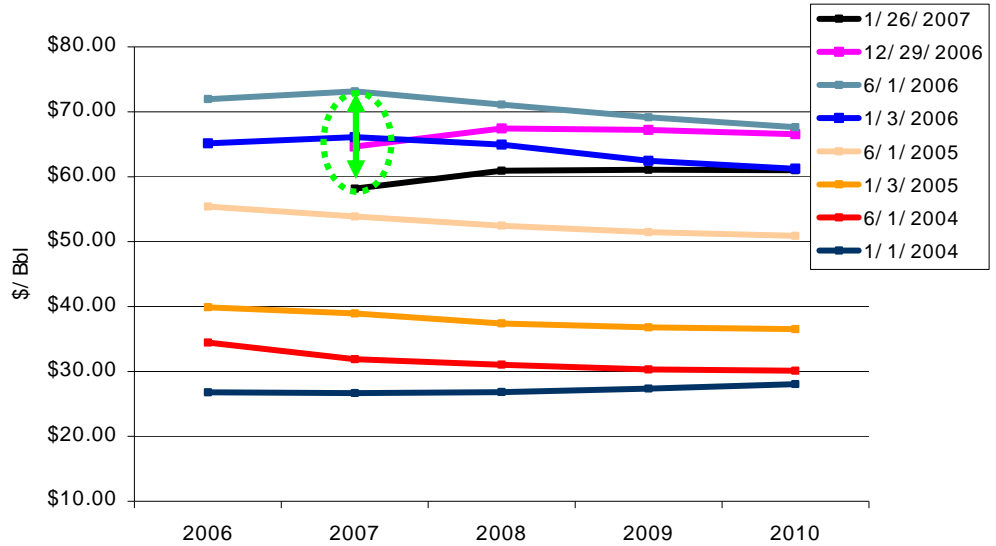
Sensitivity Case as a Percentage of Base Case - Blended (Gas:Oil = 60:40)



Historical Forward Strip Pricing

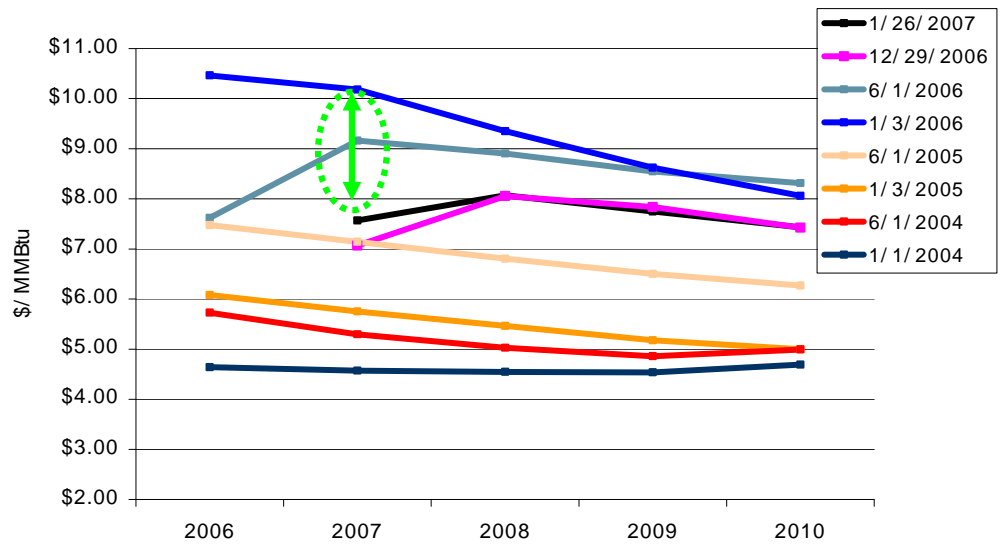
Over the last 24 months, fluctuations in oil and gas prices and NYMEX futures contracts have led to an increasing difficulty for Energy Lenders' to establish their pricing guidelines. The following graphs represent yearly averages for both oil and gas NYMEX futures prices. As shown below, prices for both oil and gas have varied drastically since the beginning of 2005.

Historical Forward Strip - Oil



Source: www.nymex.com

Historical Forward Strip - Gas



Source: www.nymex.com

Reserve Based Lending Scenario

In order to show the impact of year-to-year changes in the Base Case price decks on Advance Rate amounts, we analyzed a discounted cash flow model for a U.S. onshore property acquisition using general assumptions. The objective is to calculate the change in the Advance Rate amounts (i.e. lending funds) using a typical acquisition project. The following assumptions were utilized in the model:

Purchase Price:	\$100 MM
Proved Reserves:	7 MMBoe (75% PDP, 2% PDNP, 13%PUD, 10%PROB)
Percent Oil:	60%
R/P:	13 years
Acquisition IRR:	11%
Percent Hedged:	80% of PDP through 2010 @ 1/26/2007 NYMEX Pricing

Using the assumptions above, the Base Case price decks from the Q1/07 survey were used to calculate a discounted cash flow (using PV9 from bank average). With a 60% Advance Rate and 20% upside limitation, the amount loaned to a possible acquirer would be ~\$42 MM.

Lending Scenario – Q1/2007 Price Deck

	Lending Amount (\$MM)	
PDP	\$63,458	Advance Rate
PDNP	860	Amount (60%)
PUD	<u>5,335</u>	
Total	\$69,653	\$41,792

Using the same assumptions, but using the Base Case price decks from Q1/06, the amount loaned to a possible acquirer would be ~\$37 MM. The increase in Base Case pricing from Q1/06 to Q1/07 results in a 14% increase in Advance Rate amounts.

Lending Scenario – Q1/2006 Price Deck

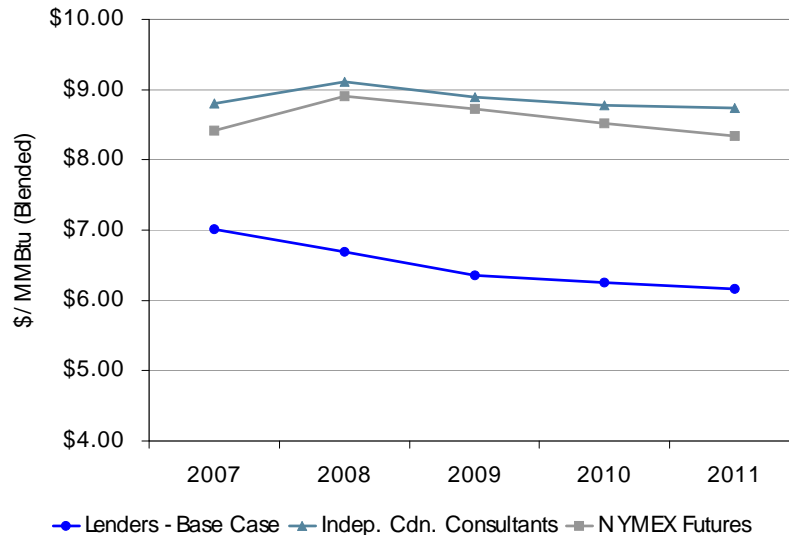
	Lending Amount (\$MM)	
PDP	\$57,157	Advance Rate
PDNP	739	Amount (60%)
PUD	<u>2,992</u>	
Total	\$60,889	\$36,533

Interesting to note that strip pricing on 1/03/06 has higher yearly averages for both oil and gas than the current strip (see previous page), but lending amounts remain higher due to the Energy Lender's belief in a higher price environment.

Comparative Canadian Independent Consultant Forecasts

Over the past year, commodity prices have undergone a sizeable downturn as natural gas futures prices have experienced a steady decline and the forward crude strip fell more sharply recently. However, the Independent Canadian Consultants (represented by publicly disclosed forecasts from several Canadian independent reserve evaluators¹), continue to remain optimistic in their long-term view of commodities. Although the Consultants' forecasts have eased in sympathy with falling commodities, the NYMEX strip (blended 60% to natural gas) has slipped below the Consultants' consensus price deck (which is typically set below strip prices) over the next five years. The Energy Lenders, on the other hand, remain well below strip prices although the consensus showed a modest increase over 2006; reflecting growing confidence in sustainably higher crude prices.

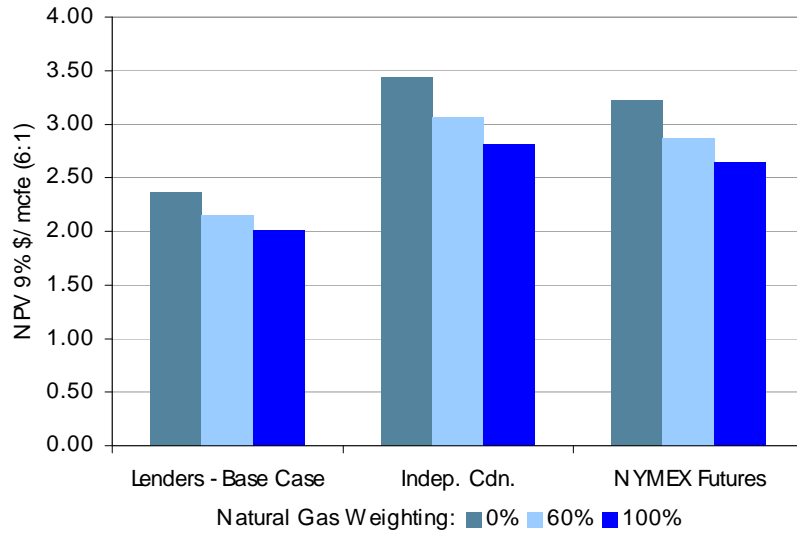
Relative Forecast Prices – Blended (Gas:Oil = 60:40)



Applying a typical reserve blowdown scenario using the different forecast price decks (Lenders Base Case, Independent Consultants, and NYMEX strip prices) to generate a Net Present Value per unit of resource, oil continues to generate higher values than gas on an mcf/e basis (assuming 6:1 economic equivalency). Given their current prices forecasts, the NPV based on the Consultants' forecast has moved above the NYMEX strip based NPV as the Consultants remain optimistic on commodity prices relative to the market, particularly in near-term crude prices. Bias towards crude (indicated by wider economic equivalencies between expected crude and natural gas prices) continues to increase in 2007 and 2008 as Energy Lenders and Consultants become more bullish on long-term crude prices over the next five years compared to the previous quarter. Looking at the NYMEX strip however, narrower economic equivalencies compared to the previous quarter begin to emerge in 2008 and beyond.

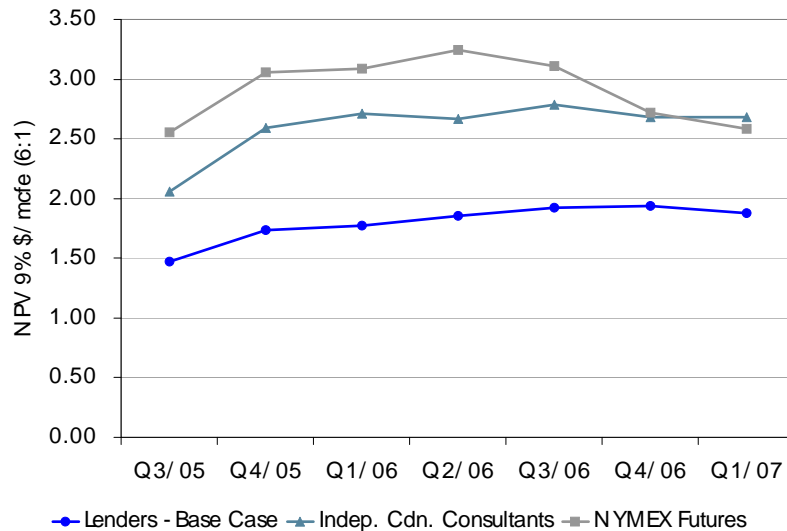
¹ Survey includes AJM Petroleum Consultants, GLJ Petroleum Consultants, McDaniel & Associates Consultants, Paddock Lindstrom & Associates, and Sproule Associates.

NPV Per Unit of Resource Under Typical Blowdown Scenario

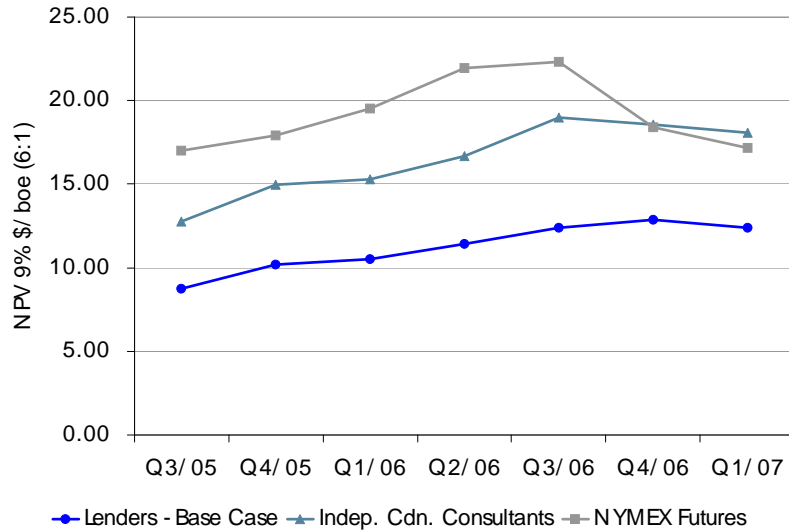


As we have rolled our blowdown assumptions one year forward into 2007, the various price decks generate lower per unit NPVs (60% gas weighting) versus the previous quarter across the board. The NPV generated under the Consultants’ deck declined by a relatively insignificant amount allowing the NYMEX strip NPV to fall below the Consultant forecast price generated NPV. The year-over-year change in the blended NYMEX strip NAV (60% gas) is slightly negative (down ~1%) as expectations for higher crude prices are offset by lower year-over-year natural gas price decks.

Quarter-over-Quarter Trend of Per Unit NPV – 60% Natural Gas Weighting

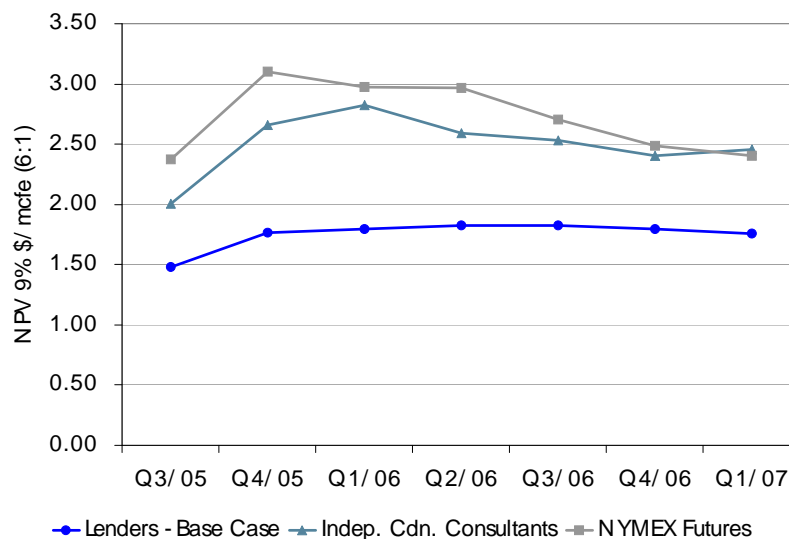


Quarter-over-Quarter Trend of Per Unit NPV – 100% Crude



Based on a pure commodity mix of 100% crude, reserve values on the Lender Base Case price deck have eased for the first time since we began conducting this survey. Year-over-year values have appreciated by 18% for Energy Lenders and Consultants whereas the NYMEX strip has fallen 13%. On the natural gas side, the Consultant generated per unit NPV contrasted Energy Lenders and the NYMEX strip by increasing from the previous quarter due to the roll over of expectations for an increase in average natural gas prices from 2006. Year-over-year, the per unit NPVs fell 2% on the Lenders’ Base Case deck, 13% on the Consultants’ deck and 22% on the recent NYMEX strip.

Quarter-over-Quarter Trend of Per Unit NPV – 100% Natural Gas



Participating Banks

<i>ABN AMRO</i>	<i>Guaranty Bank</i>
<i>Allied Irish Bank</i>	<i>HVB Group</i>
<i>Amegy Bank</i>	<i>Key Bank NA</i>
<i>American National Bank</i>	<i>Macquarie Bank Limited</i>
<i>AmSouth Bank</i>	<i>Mizuho Corporate Bank</i>
<i>BancFirst</i>	<i>Natexis Banques Populaires</i>
<i>Bank of Montreal</i>	<i>National Bank of Canada</i>
<i>Bank of Texas</i>	<i>RBC Capital Markets</i>
<i>Bank of Scotland</i>	<i>Regions Bank</i>
<i>Bank of the West</i>	<i>Royal Bank of Scotland</i>
<i>BNP Paribas</i>	<i>Standard Bank Plc</i>
<i>Calyon - Americas</i>	<i>Sterling Bank</i>
<i>Capital One Bank</i>	<i>TD Securities</i>
<i>Citizen's Bank</i>	<i>Texas Capital Bank</i>
<i>Comerica Bank</i>	<i>Texas State Bank</i>
<i>Community National Bank</i>	<i>Union Bank of California</i>
<i>Compass Bank</i>	<i>US Bank</i>
<i>Coppermark Bank</i>	<i>Wachovia Securities</i>
<i>Deutsche Bank Securities, Inc.</i>	<i>Wells Fargo</i>
<i>DNB NOR</i>	<i>Western National Bank</i>
<i>DZ Bank</i>	<i>West Texas National Bank</i>
<i>Frost Bank</i>	<i>Whitney National Bank</i>



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