

**MERITAGE**  
ENERGY  
COMPANY  LLC

# Who/what Is Meritage?

## Summary Description

- Meritage Energy Company is a Denver based acquisition/development drilling Company which currently operates exclusively in the Spraberry/Wolfberry Trend of the Permian Basin, in and around Midland, Texas.
- Meritage is privately funded and is well capitalized to execute it's business plan.
- The principals, employees, and investors of Meritage are very experienced in the upstream oil and gas industry.
- Meritage utilizes it's expertise to acquire producing properties and/or new acreage positions and will add-value to them by identifying and exploiting upside potential. When critical mass is attained and industry conditions are right Meritage will harvest, capturing the market value of the assets while still preserving considerable development potential for the buyer.

# Meritage Principals

## Principal's Backgrounds

### ☐ Tom Corley

- Manager and Principal of Meritage Energy Companies (2001-present)
- Senior Executive with Basin Exploration (1996 -2001), St Mary Land (1993 -1996) & General Atlantic Resources (1983-1993)
- Colorado School of Mines 1983 BSc Petroleum Engineering
- Responsible for Acquisitions, Reservoir, Operations, Geotechnical

### ☐ Sam Winegrad

- Manager and Principal of Meritage Energy Companies (2001-present)
- Senior Executive with Basin Exploration (1995-2001), General Atlantic Resources (1985 -1995)
- Colorado University 1980 BSBA - Land Mgmt
- Deal Negotiation, Contracts, Finance, Administration

# Shared Track Record

## Meritage Energy Companies (10+ Years)

### ❑ Meritage Energy Partners (MEC I)

- Start-up w/ Quantum July 2001
- Sold for \$62 Million in Dec. 2005, built thru acquisitions
- Utilized \$1.6 million equity, returned 22.5:1 ROE

### ❑ Meritage Energy Company (MEC II)

- Formed July 2006
- Equity from Principals, Wells Fargo Capital, High Net Worth Individuals
- Equity Capitalization
  - ❑ Total Initial Commitment- \$17.2 Million
  - ❑ Secondary Raise- \$8.6 Million
- Sold for \$126 Million in Mar. 2010, returned 6.4:1 ROE

### ❑ Meritage Energy Company (MEC III)- Current entity

- Formed July 2010
- Equity from same Investor Group as MEC II
- Equity Capitalization
  - ❑ Total Equity Commitment- \$34 Million

# Shared Track Record

## Experience together with Prior Companies

- ❑ Basin Exploration (5 Years)
  - Restructuring of financially challenged public company 1995 - New management team & strategy
  - Increased Enterprise Value \$50 million (1995) to \$415 million (2000)
  - Share Price \$3.50 (1996) to \$24.00/share at exit
  - Merged w/ Stone Energy in 2001
- ❑ General Atlantic Resources (10 years)
  - Start-up (1981) - \$12 million seed capital
  - Growth Through Acquisitions & Exploration Programs
    - Institutional Investors
  - Several Cycles of Build/Sell, IPO & Merger
    - \$110 million sale ('88), IPO \$115 million ('93), UMC Merger ('94)

# MECO I- Meritage Energy Partners

- ❑ Formed July 2001
  - Tom Corley & Sam Winegrad
  - Quantum Energy Partners, LP
- ❑ Equity Capitalization
  - Total Equity Commitment \$16.0 Million
  - Total Draw on Equity= \$1.6 Million
- ❑ Banking Relationship – Wells Fargo
  - Revolving Credit Facility - \$25 Million

# MECO I- Business Plan

- ❑ Acquire/Exploit strategy (Target 80% of Budget)
  - Long lived, stable assets
  - Aggregate \$50 – 75 MM in assets
  - Rockies, Mid-continent regions
  - Oil or Gas, Strong preference for operations
  - Small deals (<\$10 Million/transaction)
    - Below “radar-screen”
  - Hedge/Leverage aggressively
  
- ❑ Early-stage exploration (20% budget)
  - Resource play focus (basin centered gas, CBM, shale gas, continuous oil plays)
  - Generate or acquire prospect, build lease position
  - Manage risk through sell/carry, retain significant equity, operations

# Meritage I- Asset Summary

- ❑ Mostly mature Oil Fields located in Wyoming and Colorado
- ❑ Acquired in seven transactions
- ❑ Value added with development drilling and well workovers
- ❑ 8.0 MMBOE “risked” reserves
- ❑ Operated approx. 2000 boepd (gross)
- ❑ Net Daily production = 1300 boepd
- ❑ Approximate 2005 NCF = \$1,000,000 per month

# MECO I- Sale & Proceeds

- Transaction
  - Properties sold to Citation Oil and Gas
  - Negotiated Transaction
  - \$61,500,000 Purchase Price
  - Closed sale- Jan 2006
- Net Proceeds= \$36,000,000
  - \$1,600,000 Equity Capital
  - ROE=22.5:1

# MECO II- Meritage Energy Company, LLC

- Formed July 2006- Equity from:
  - Principals
  - Wells Fargo Energy Capital
  - Group of High Net Worth Individuals
    - Many are successful O&G executives
- Equity Capitalization
  - Total Initial Commitment- \$17.2 Million
  - Secondary Raise- \$8.6 Million
- Credit Facilities- Wells Fargo

# MEC II- Business Plan

- Acquisitions/ Development
  - Long history/track record
- Early Acquisitions
  - Purchased Nevada Oil properties- “Starter kit”
  - Followed by Kaiser Francis Spraberry Trend
    - Small position in a Huge Oil Field
    - Intensive downspacing activity
    - New “Wolfberry” Type Wells
      - Application of multi-stage fracture stimulation technology

# Wolfberry Development

- Kaiser Acquisition (closed 12/2007)
  - Purchased primarily on PDP basis, some upside
  - 66 producing wells, 150 boepd
  - 100 unproven drilling locations
- MEC Drilling Program
  - Acquired Deep Rights
  - Drilled initial wells through Wolfcamp
  - Later included deeper Cline, Strawn
  - Acquired new leases to complement position

# Company Growth and Sale

- Drilling Program
  - Drilled 25 new wells
  - Established “type curve”
  - Peak Production reached over 1000 boepd
  - Inventory expanded to 140 “PUD” drilling locations
- Sold assets to Berry Petroleum
  - Sale Price \$126 Million
  - Negotiated transaction
  - Closed sale- Mar 2010

# Sale Metrics & Returns

- Metrics
  - Sale Price- \$126 Million
  - Risked Discount Rate= 16%
  - Reserve Cost= \$12.28/BOE
  - Rate Cost= \$147,000/BOEPD
- Returns
  - Net Proceeds= \$96 Million
  - ROE= 6.4:1
- Retained Modest Leasehold Inventory to start “Meritage III”

# Meritage III

- Investor Group
  - Same Investors, at higher commitment level
  - Total Capitalization= \$33,750,000
- Current Leasehold Inventory- 11,000+ net acres
- Drilling Program in full swing
  - Single-rig, continuous (est. 23 new wells in 2011)
  - Currently- 19 wells producing, 2 completed waiting on frac, 2 currently drilling (Aug 2011)
  - Recent Production Rate- 1400 boepd gross  
(1000+ boepd net)