

Englehart proves small independents can successfully explore offshore

High-quality prospects with low-risk economics consistently work better across all price cycles

Some operators are scared of the water, others are scared of the deep but not Houston-based Englehart Energy, Inc., who has made a name for itself offshore generating prospect after prospect for some of the Gulf's best operators.



Tom Englehart
President

In fact, EEI believes that the Gulf's lease transparency, geology, well control, better 3-D seismic and extensive infrastructure makes the Gulf of Mexico the province of choice. EEI is also attracted by the number of safe, reliable and well capitalized operators who can take, drill and operate prospects generated by its team of experienced geologists, geophysicists and engineers.

EEI is now in its 10th year as an independent, non-operating prospect generation shop and, according to corporate materials has already sold 84 prospects to 34 different companies with 64 successful lease acquisitions. The company's clients and operators have drilled 38 wells with an 82% production completion success rate and an estimated ultimate recovery of over 600 BCFE.

"EEI brings unique experience, talent and methodology for exploring offshore."

EEI's founder, Thomas Englehart, recently shared some background about his company's unique formula and key strategies for generating success offshore. We found his company's niche and business model unique and an example of opportunities available in our industry.

It's been an interesting couple of years for the Gulf of Mexico with McMoran's deep well at Blackbeard, other exploration hits and misses on the shelf, record international company interests in deep water, and then the combination of hurricanes and fickle prices. You're swimming with big companies, big objectives, and dodging storms. Any overall comments or observations about the Gulf?

Well, the scale of it all still boggles my mind sometimes. The vast capital, technology, and superior personnel needed to work offshore is simply amazing. Add dealing with the Federal Government and Mother Nature, and it's easy to see why only one's best efforts will work here. The offshore Gulf of Mexico community continues to lead the world in successful oil and gas exploration and development and it's great to be a part of it all.

Tell me a little background about EEI.

We are a proven exploration shop with 20 and 30 plus year geologists, geophysicists, and engineers. We all started with majors like Exxon, Sohio, and Arco, and then moved on to large independents like Kerr-McGee, Newfield, and Pogo, plus others. In addition we've all been consultants before and we all like the Gulf. And we like to generate low-risk, high potential opportunities for our clients. We can also work and update older undrilled prospects for companies or other shops on a partner or JV basis. We really like to work a company's dormant 3-D seismic and provide new revenues from an otherwise discounted sunk-cost asset.

How would you describe your business strategy and what prospects are left in this mature basin?

We know there are valuable reserves remaining in the Gulf of Mexico shelf and Flex Trend. We are not trying to compete at ultra deep depths or ultra deep waters at this time. We are looking to find the best prospects within a reasonable range of commodity price/economics variation and without regard to current lease status. Sometimes they'll be

Wildcats: sometimes they'll be within a 50-year-old field. With so much acreage to cover, a relatively small staff, and a careful seismic budget, we need to high-grade our time and effort toward only those blocks that have the most positive oil and gas indicators.

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EEI uses a data base sifting technique we call the "Focus Area Strategy." Since our start-up in 2000 we've tracked key land, geologic, geophysical, and engineering indicators and continuously update multiple internal databases. Individually, these are all industry-standard techniques. But by methodically recording these and others into ever-more valuable databases, then using a commercial Geographic Information System (GIS) program and EEI-proprietary software, we're able to very quickly "focus" our valuable mapping time on acreage with the most potential. Then over time, as leases come open or are made available via acquisition or farm-in, we're already prepared with fully mapped prospects to show or a fresh crop of leads to evaluate.

What are the primary offshore blocks and water depths EEI explores in? What are some of the highest flowing wells drilled from EEI-identified prospects?

EEI works the Federal Minerals Management Service leases Gulf-wide out to about 1500' water depth. The provided display shows the 64 blocks that we've earned an interest in and our clients' drilling results to date.

Our best oil field is West Cameron block 661. That prospect came from a 70-on-water orphan logged pay sand, probably drilled based on 2D seismic data, and abandoned by Unocal in 1989. In 2001, EEI brought it to newly formed Tarpon and partner MCX which farmed-in from then leaseholder, Burlington Resources, and drilled its very first well ever in the Gulf of Mexico to 4300' TVD. We gained 85' structure easily filling the sand. The "A" platform was installed in 2002 in 485' of water and an acceleration well was drilled in 2003. Their combined peak flow rate has been over 2,500 bbls/day. Cumulative production is 3.7 MMBO and 2.9 BCF.

Our best field redevelopment work has come via a field acquisition from McMoran on West Cameron block 616. The original leaseholder, Exxon, had produced over 315 BCF from 1977 through 1990 and dropped the block. McMoran leased it in 1991 and produced 15 BCF from 1999 through 2001. Tarpon and MCX acquired it in 2002 and brought in EEI for G & G mapping work. Results were two

sidetracks and two new wells tied back to the existing "A" platform. Peak flow rate for all four wells totaled over 32 MMcfD with cumulative production of over 34 BCF. Three of the four wells continue to produce.

Another significant EEI-generated prospect started as a Direct Hydrocarbon Indicator Wildcat prospect with three stacked levels on Garden Banks block 205. LLOG placed the high bid, out of six total competitors, on the 1,350' water depth block in an Outer Continental Shelf Lease Sale in 2001. LLOG performed all government permitting work, drilled the well, and had it online only 14 months later using a subsea tree and an 11 mile flowline back to existing facilities on Garden Banks block 72. I believe the well peaked at over 35 MMcfD. Cumulative block production is over 12 BCF. To me, these successes show how dynamic and prospective the Gulf of Mexico still is.

How do you see your company's market?

Two ways. First, EEI generates good, solid, complete prospects. We can only do that by attracting top-quality geologists, geophysicists, and engineers to EEI. We know that by employing our Focus Area Strategy, when anyone shows lead enthusiasm and asks for valuable 3-D data it's because they've already worked way into the available low-cost subsurface details and see good potential. We understand the necessity for meeting a high prospective threshold prior to licensing 3D and enjoy a very low lead "kill" level after it's been applied.

Secondly, we focus on our working-interest clients, our operators if you will. We see them as our customers and our partners. They have good internal teams already but their willingness to also screen and take prospects generated from outside of their organization allows for building the best possible oil and natural gas portfolio. Tarpon, MCX, ATP, LLOG, Newfield, and Peregrine have all drilled multiple wells for us. We know they are interested in more of our prospects and we are always looking for new offshore players.

Have you changed your operating strategy over time?

Yes. In the first half of the decade the industry had a very favorable commodity price versus drill-and-complete cost situation. That, plus operating clients with innovative subsea completion abilities, allowed us to get a number of relatively small but logged abandoned, unproduced pays sold, re-drilled, and online. The last several years of hurricanes have flipped the price/cost cycle and we've had to look for larger and larger reserve

cases, but still, with a low-risk profile to help operators amortize costs and efforts. So we've moved more toward the harder work involved with field redevelopment.

The old expression, "the best place to find gas is in a gas field" still holds true today. At EEI we've seen all kinds of reasons why operators left very sizeable reserves behind in old fields. Detailed mapping with modern



3D seismic data plus the density of subsurface and production analog information inherent with field studies greatly reduces an operator's investment risk. They like that a lot so we're happy to grind out as many as we can each year. That said, we still market economic orphan unproduced pays and DHL-controlled Wildcats when we find them.

Where does EEI see new opportunities?

We see the Gulf as still underdeveloped. We also know there are a lot of talented generators who have been waiting to get their kids out of college before they strike out on their own. We know that there is a world of opportunity for 20-30-year professionals who may now be in a better position to get back-

"EEI has shown the ability to match prospect size and risk with the right operator in good times and bad."

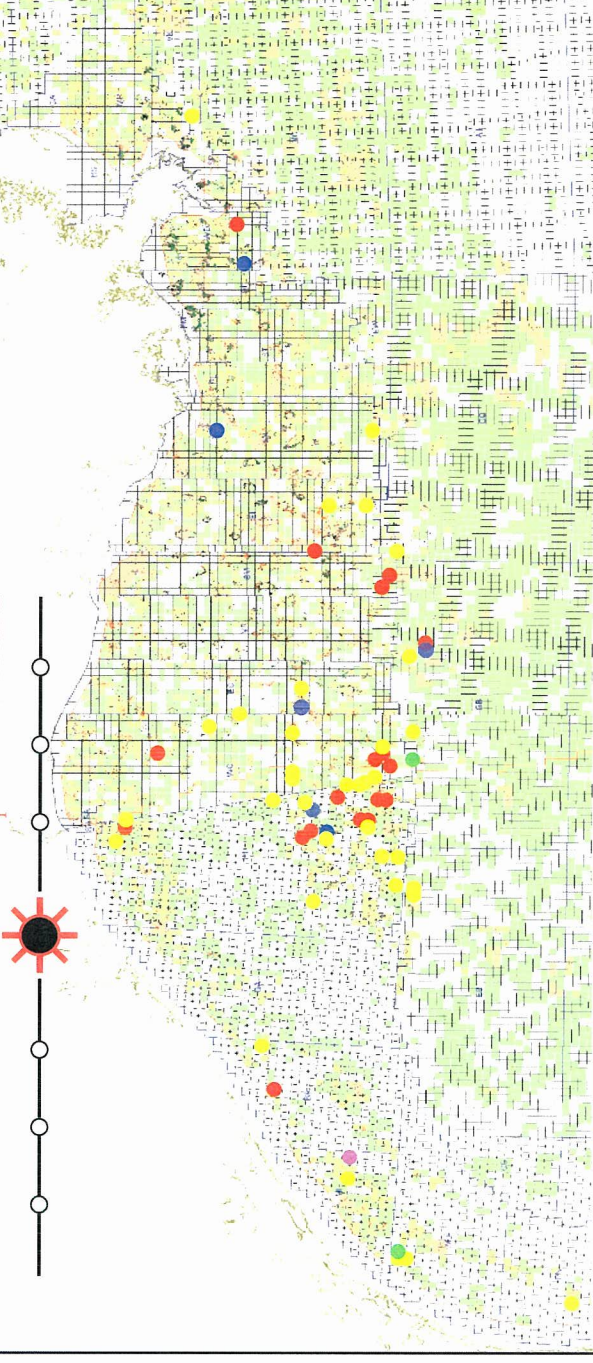
ing on those prospects they've always believed in but couldn't convince their existing management to pursue. If someone wants to strike out on their own we'd love to meet with them and show how we can help "jump-start" their own prospect-generation business by working together toward generating and selling deals.

For those oil companies who may lose prospect generators for competitive reasons, retirement or business reasons—we hope they look to us as a source of prospects. We always work toward mutually beneficial results with shared risks and rewards.

The good news is that the oil and natural gas industry will always need good drilling locations. Those of us who can deliver such prospects to the real horses of the industry, the working-interest operators, will enjoy an honorable and rewarding career. Commodity prices may be down right now but they'll be back with significant advantages and unbelievable opportunities for those who know where to drill next. We've never had so much excitement while at work and we're definitely in this for the long haul.

ENGLEHART ENERGY

Gulf of Mexico Oil and Gas Prospect Generation



GULF OF MEXICO LEASEHOLDS AND DRILLING RESULTS

- Oil Production
- Gas Production
- Temporarily Abandoned
- Non-Commercial or Dry
- Primary Term Lease (Undrilled)