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MARKETALERT

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EnCana buys Indigo's North Louisiana acreage for \$457 MM*Continues to bet big on Texana's Haynesville and Deep Bossier plays*

In the land rush that has all the ear markings of a California gold rush **EnCana** has stepped up and grabbed 89,500 acres of fee minerals (currently leased to EnCana or others), unleased minerals and interests in 242 wells in North Louisiana from Houston-based **Indigo Minerals LLC** for \$457 million in cash.

QuickLook

1. Indigo sells 89,500 acres to EnCana for \$457 MM
2. EnCana establishes leading edge position
3. EnCana's first Horizontal Haynesville posts IP of 8.0 MMCFeD
4. EnCana dreams of 1.0 BCFeD from Haynesville
5. Don't forget EnCana's Deep Bossier (250 MMCFeD) position
6. Indigo founder mints money, leverages Martin's mineral rights in cash

The stake seems to provide EnCana a leading position in the Haynesville play, where it has already drilled "a series of promising exploration wells" including last February's 8.0 MMCFeD find in Red River Parish. Wells like that get the Canadians' attention when balanced against their leading positions in the Deep Bossier



EnCana believes the Haynesville is past the tipping point and will emerge as a play rivaling the quality and scope of the Barnett Shale play.

(250 MMCFeD) and the Barnett Shale (130 MMCFeD)

In total, EnCana has 325,000 net acres in the Haynesville fairway and

says it "has the potential to ultimately achieve production levels approaching 1.0 BCFeD." Now we don't know if that's just in Louisiana or if it rolls over into East Texas, but that's a billion (or even a half) from the Haynesville, a half a billion from the Deep Bossier (see sidebar, recap on Leor) and another billion from the Barnett. That's 2.0-2.5 B's coming out of North Texas and Louisiana and is probably one reason EnCana feels so strongly about "gas resource plays" that it can spin off its oil sands and refining business – but that's another story (See PLS *MarketAlert* dated May 15, 2008, "Shareholders cheer EnCana's split).

As for background, EnCana acquired its original Haynesville leases in 2005, drilled its first three vertical wells in 2006, and has been continually acquiring land under the radar, or at least in **Chesapeake**, **Devon** and **PetroHawk's** shadow. Back in 2007 EnCana even signed a quiet 50/50 joint exploration agreement with **Shell** to work the play. The two companies have now drilled three vertical and two horizontal wells and are currently operating two rigs in the area. EnCana says it will operate five rigs in the JV by year-end.

Jefferies analyst Subash Chandra thinks Shell and EnCana "are likely to push north" and that either company could have something up their sleeve, possibly with **EXCO**, which is

rumored to be looking for a partner for its acreage and pipe in the area. Besides private Indigo, EXCO is one of the largest players in North Louisiana and East Texas, with its hand out looking to leverage its 329,000 net acres, 1,500 operated wells, 250 MMCFeD and >1.0 TCFe of proved reserves (two thirds PDP), with 9-12 rigs running.

Besides EXCO rumors, the Shreveport airport is also negotiating a land sale and PetroHawk is walking around with a land map of good and gooder acreage (Oh quit correcting our English, this is Ark-La-Tex) it'd like to buy.

Another rumor this week is that Piceance-based **PXP** is snooping around North Louisiana and cares little if good acreage goes for \$2,000 per acre;

**Excerpted from:
MarketAlert****June 30, 2008**

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\$5,000 per gooder acre, and prime acreage north of twenty. Can higher metrics be far behind? That's all this play needs is a land-locked company with offshore management willing to "throw deep water acreage bids" at lower risk repeatable opportunities.

All this frenzy makes you wonder when the music's going to stop.

EnCana buys Indigo's North Louisiana

As for this seller, Indigo, the company was founded in 2006 by ex **Randall & Dewey** Executive Bill Pritchard, who seemingly has the Midas touch. Fresh off double sales in Colorado and the Texas Panhandle (See Sidebar on pg. 1) Pritchard has taken his success to the mineral and royalty game by approaching the **Martin Lumber Timber** family. Through its relationship with the Martin Companies, Indigo got hold of 425,000 acres – 90,000 of which it just sold to EnCana – owned by two of the largest private landowners in the state of Louisiana — **Roy O. Martin Lumber** and **Martin Timber Company** – and set about to work its magic touch. It's not a novel idea to bring aggressive capital and e&p focus to timber folks.

In North Louisiana and even into East Texas — it's all about acreage. Land, Land, Land. They ain't makin' any more of it.

Pritchard and Martin's timing couldn't have been better – walking into higher price cycles, a technology boom and an industry thirst for resource and unconventional plays. Ironically, even after pocketing almost half a billion, Indigo will remain one of the largest "private mineral owners" in the game, especially when you back in its (Upper Gulf Coast) Alabama and Mississippi positions. The company still holds ~635,000 net acres, including ~22,000 remaining acres in North Louisiana and East Texas.

Rumor has it Indigo has a large contiguous 7,700 net acre Haynesville position in the Logansport Field area, Northwest DeSoto Parish. Will it drill that itself or is it awaiting additional courtiers to come calling? Who knows?

Indigo has drilled seven wells this year (7 for 7) and has a remaining 2008 capital budget of \$60 million. One release noted the firm expects to exit the year with five rigs active in the Ark-La-Tex region targeting not just the Haynesville but also the Hosston/Travis Peak and Cotton Valley.

Not bad for old lumber.

Footnotes:

1. The all cash sale is subject to customary purchase price adjustments and is due to close July 31.
2. Indigo Minerals was formed in October 2006 and is backed by Yorktown Partners, the Martin Companies, Bank of America Capital Investors and Indigo management.
3. Indigo also controls ~300,000 net mineral and royalty acres acquired from Callon Petroleum in December 2007. Through its minerals, Indigo has an interest in over 900 producing wells.

Indigo's founder has history as serial seller

Indigo's founder and chairman is Bill Pritchard, who began his career as a petroleum geologist with **Marathon**. In 2003, he co-founded **Peak Energy Resources**. He built up the company's portfolio in the Buffalo Wallow Field, where it averaged 25 to 30 MMCFeD and

had 120 BCFe in proved reserves. He then sold the field, along with 33,000 acres, to **Forest Oil** in 2005 for \$230 Million.

Then in 2006, Pritchard sold the company's remaining assets, located in the Barnett, to **XTO** for \$105 million. XTO estimated the properties held proved reserves of 64 BCF, 14% proved developed. Additional potential was more than 200 BCF. The deal also included 37,000 acres. Production was expected to reach 25 MMCFD at year-end 2007.

Pritchard is also chairman of **M2 Midstream LLC**, a gas gathering and processing company whose predecessor, **Momentum Energy Group, Inc.**, was sold to **DCP Midstream** in 2007.

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June 30, 2008
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