

The Rush is On ... Again

By Derek Simon

Out with the Old

In 1859, more than 11 years after a glimmer of gold at Sutter's Mill brought hordes of fortune seekers west to California, Georgia prospector John H. Gregory started the migration south by discovering a lode of the precious metal in what is now Central City, Colo.

As a result of Gregory's find, the population of Central City swelled to roughly 60,000 people by the summer of 1860. Yet, a mere decade later, only 4,000 remained and, today, fewer than 600 hardy souls call Central City home, despite the introduction of limited stakes gambling in 1991 that was supposed to revitalize the town.

It is a boom-bust cycle that many other Colorado municipalities are all too familiar with.

During the 1970s, when much of the nation was mired in an economic abyss, the Centennial State flourished, as major oil and gas companies began leasing land in the energy-rich region.

Colorado, along with Wyoming and Utah, has long been recognized for its vast quantities of unconventional oil and natural gas supplies. In fact, experts estimate that there is enough oil shale between the three states to produce up to 1.8 trillion barrels of oil — enough to satisfy U.S. energy needs for the next 200+ years.

Spurred on by the Arab Oil Embargo and President Nixon's "Project Independence," which called for an end to America's dependency on foreign oil by 1980, corporations like Exxon, Shell and Chevron began pumping billions of dollars into the Colorado economy in hopes of pumping billions of barrels of crude out.

"It was chaotic," remembers Don Jones, mayor of Craig, a city with just over 9,000 residents located in the heart of Moffat County on the prized Western Slope. "Lots of folks were coming to the area."

Along with the new faces, new businesses were also springing up, Jones said. A 1979 edition of *Time* magazine pointed out that more than 2,000 energy-related companies were operating in the city of Denver alone, adding that "no metropolis in the nation offers more opportunity in the 1980s."

But as the price of oil began to fall in the mid-80s, so too did interest in Colorado.

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Today, with the cost of crude gushing to historic highs, the eyes of the energy world have once again turned to the Rocky Mountain region.

“It's the epicenter,” Ted D. Brown, past chairman of the Colorado Oil and Gas Association, told the *Rocky Mountain News*.

Indeed. The *News* reports that there are 33,600 wells now pumping across the state and “tens of thousands more on the drawing board.”

And it's not just “black gold” that the energy companies are seeking. In 2006, Colorado produced 1.21 trillion cubic feet (Tcf) of natural gas — over five percent of the nation's total and up 591 percent from 1986.

Consequently, independent companies based in the state that are experienced in extracting oil and gas from unconventional sources have become prime takeover candidates. Of the six largest Colorado-based independent oil and gas corporations (based on market cap) in 2003, five no longer exist. Westport Resources (No. 1) and Western Gas Resources (3) were eventually absorbed by Anadarko Petroleum (NYSE: APC); Tom Brown (4) was purchased by EnCana Corporation (NYSE: ECA); Patina Oil & Gas (5) was bought by Noble Energy (NYSE: NBL), which has a Denver office but is headquartered in Houston; and Evergreen Resources merged with Pioneer Natural Resources (NYSE: PXD).

Still, there are several independents investors might want to keep tabs on in 2008:

Forest Oil (NYSE: FST)

2007 Stock Performance: +57.9%

www.forestoil.com

707 17th Street

Suite 3600

Denver, CO 80202

Phone: 303-812-1400

Although based in Denver, Forest Oil (FST) derives most of its revenue from its “Big Five” locations scattered throughout Texas and Arkansas. In the third quarter of 2007, the Buffalo Wallow, East Texas Cotton Valley, Arkoma Basin, South Texas Wilcox/Vicksburg and Deep Basin areas accounted for 62 percent of the company's record sales volume, which was, likewise, 62 percent higher than the comparable period in 2006.

During the quarter, Forest Oil sold its Alaska holdings to Pacific Energy Resources Ltd. and acquired Houston Exploration, a move designed to capitalize on the company's expertise in tight gas drilling, consolidate its holdings and reduce costs.

"This completes the transformation of Forest to a cost efficient development company focused primarily on production optimization and cost control in North American onshore plays," said FST President and CEO H. Craig Clark.

Forest recently signed an agreement to add to its Barnett Shale acreage in Erath County, Texas as well.

St. Mary Land & Exploration Corporation (NYSE: SM)

2007 Stock Performance: +10.6%

www.stmaryland.com

1776 Lincoln Street

Suite 700

Denver, CO 80203

Phone: 303-861-8140

Riding the crest of rising oil and gas prices, St. Mary Land & Exploration Corporation experienced a 589.5% increase in net income from fiscal year 2002 to 2006 — with FY 2007 on track to continue the positive trend.

Unlike many of its key competitors, however, SM has stuck primarily to safe, more traditional drilling sites, thus making it more susceptible to pricing pressures in the future.

Bill Barrett Corporation (NYSE: BBG)

2007 Stock Performance: +61.5%

www.billbarrettcorp.com

1099 18th Street

Suite 700

Denver, CO 80203

Phone: 303-861-8140

Investors looking for an independent Colorado oil and gas company that operates exclusively in the Rocky Mountain region need look no further than Bill Barrett, a company whose founder is so tied to the Rockies, he could have been the subject of a John Denver song.

After building Barrett Resources into one of Colorado's preeminent companies during the 80s and 90s, Bill Barrett (the man) came out of retirement (for a second time) to launch his newest company, the Bill Barrett Corporation, in 2001.

Since going public in late 2004, Bill Barrett stock has appreciated by an average of nearly 15 percent every year, while production has increased almost eight-fold since the company's inception. In 2006, all of BBG's drilling occurred in the Rockies and approximately 92% of it was for natural gas.

Bill Barrett's son Fred Barrett now runs the company.

Whiting Petroleum Corporation (NYSE: WLL)

2007 Stock Performance: +30.0%

www.whiting.com

1700 Broadway

Suite 2300

Denver, CO 80290

Phone: 303-837-1661

Since 2004, equity value in Whiting Petroleum Corp. has grown by 206 percent — an average of more than 50 percent per year, while net income increased by 123 percent over the same time period. In direct contrast to Barrett Resources, 65 percent of Whiting's current production is oil, with the remaining 35 percent natural gas.

Most of the company's oil (52.9 percent) comes from the Permian Basin in Texas, while the bulk of its natural gas (30.4 percent) comes from the Rockies, specifically Wyoming, Montana and North Dakota.