The Woodford Shale

Presenter Name: Sam Langford
Woodford Agenda

- Background & History
- Development Plan Summary
- Pilots Results
  - Reserves
  - CAPEX
  - Type Well Economics
- NAV Model Results
- Looking Forward
Background & History

Key Points

- **Statistically Predictable – Low Uncertainty of Outcomes**
  - *1 horizontal well/every 2 square miles (excluding 100+ verticals)*
    - >650 horizontal wells to date
    - Wells drilled from N to S and shallowest to deepest

- **Industry Activity – Increasing not Decreasing**
  - *Drilling & Production rapidly increasing*

- **Benchmark Transaction – BP/CHK**
  - *Purchase Price >$20,000/acre or $35,000/flowing Mcfe/d*
  - *NFX acreage ~ $1,000 total sunk cost*
    - ~$800/acre land cost
    - ~$200/acre for seismic + G&G/Frac Mapping/testing

- **“Pilot” phase ending – Development phase Underway**
  - *Resource play efficiencies evident*
Woodford Shale Play

Location
Woodford Shale History

Milestones

- 1st Woodford Vertical Test
- 1st Horizontal Woodford Well
- "Unveiled" Woodford Potential
- Multi-Rig Horizontal Drilling
- Longer Laterals and Increased Frac Density
- Pad Drilling Begins
- Assessment and HBP phase
- Leasing Phase
- Pilot Phase

- BP buys CHK
- Leasing Phase
- Assessment and HBP phase
- Pilot Phase
- Jan-03 Jul-03 Jan-04 Jul-04 Jan-05 Jul-05 Jan-06 Jul-06 Jan-07 Jul-07 Jan-08 Jul-08
Woodford – NFX Gross Op Production
Projection through YE 2008

- NFX Op Production (Horizontal)
- NFX Op Production Est (Horizontal)
- NFX Op Production (Vertical)
- NFX Op Production Est (Vertical)

Blevins 3H-9:
First Horizontal Production 3/3/05

'08 Exit Rate > 250 MM/D
Current 220 MM/D

CAGR 110%

January 1, 2006 – January 1, 2009

Monthly Average

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Woodford History – Industry Production

August Estimate

- OBO Production
- NFX Operated Production
- NFX Op Production (Vertical)

Blevins 3H-9:
First Horizontal Production 3/3/05

~ 550 MM/d
Industry Horizontal Well Spuds
August 2008

NFX W. I. in 58% of All Wells

17 Operators

663 TOTAL

Well Spuds

NFX: 210
Antero: 103
DVN: 100
CLR: 57
CHK: 48
Pablo: 40
XTO: 36
SM: 26
PQ: 24
XEC: 6
Other: 13

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663 TOTAL
Industry Horizontal Rigs Operating
August 2008

- NFX: 12
- DVN: 6
- CLR: 5
- XTO: 5
- Antero: 4
- CHK: 4
- PQ: 3
- Pablo: 2
- SM: 2
- XEC: 1

44 TOTAL

10 Active Operators
Woodford Horizontal Spuds by Quarter
August 2008

NFX Operates 32% of All Wells
NFX Development Plan

**Summary**

- **40-acre spacing**
  - Wells approx. 660’ apart

- **8 wells per section**
  - Avg. Lateral Length > 4100’

- ~ 4.0 Bcf per well (average)

- $5.6 - $6.0MM per well (average)

- F&D Metric $1.75 - $2.00/mcf

- NFX Net Estimated Reserves:
  - Booked PDP at YE ’07 – 300 Bcf (excl. 300 Bcf PUD)
  - Estimated Future Reserves – 5.6 - 6.2 Tcf

- Total NFX Net Reserves 5.9 – 6.5 Tcf

- NFX Net Future CAPEX $9.6 - $10.3B
Pilot Results

Key Points

- **Spacing**
  - **Downspacing**  
    - **EUR Reduction Similar to Barnett**
  - **Recovery Efficiency**  
    - **Approx. 50% R.E. on 40 acre spacing**

- **Costs**
  - **Pad Drilling**  
    - **Significant Cost Reductions**

- **Optimal Development**
  - **40 acre**  
    - **Optimizes Reserves, NPV & Metrics**
Effect of Downspacing
80 to 40 acre

80 ACRES

5.3 BCF/WELL

25% REDUCTION

4.0 BCF/WELL

4 WELLS
5.3 BCF/WELL
~35% R.E.

21.2 Bcf
60+ BCF OGIP

32.0 Bcf
60+ BCF OGIP

40 ACRES

330'

660'

8 WELLS
4.0 BCF/WELL
~50% R.E.

25% REDUCTION

60+ BCF OGIP
## Shale Characteristics – Comparison

*Silica = Brittleness*

<table>
<thead>
<tr>
<th>PARAMETER</th>
<th>TARGET RANGE</th>
<th>Western Arkoma WOODFORD</th>
<th>Fort Worth CANEY/ BARNETT</th>
<th>Eastern Arkoma CANEY/ FAYETTEVILLE</th>
<th>North Louisiana HAYNESVILLE/ BOSSIER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Organic Carbon</td>
<td>2 – 10%</td>
<td>3 – 10%</td>
<td>3 – 8%</td>
<td>3 – 8%</td>
<td>3 – 5%</td>
</tr>
<tr>
<td>Thermal Maturity Vitrinite % Ro</td>
<td>1.1 – 3.0%</td>
<td>1.1 – 3.0%</td>
<td>1.2 – 2.0%</td>
<td>1.2 – 4.0%</td>
<td>?</td>
</tr>
<tr>
<td>Mineralogy/ Silica Content</td>
<td>30 – 80%</td>
<td>60 – 80%</td>
<td>40 – 60%</td>
<td>40 – 60%</td>
<td>&lt;40%?</td>
</tr>
<tr>
<td>Gas Filled Porosity</td>
<td>2 – 8%</td>
<td>3 – 6.5%</td>
<td>3 – 5.5%</td>
<td>3 – 5.5%</td>
<td>6–10%</td>
</tr>
<tr>
<td>Depth (feet)</td>
<td>NA</td>
<td>6,000 – 14,000</td>
<td>6,000 – 9,000</td>
<td>1,500 – 6,500</td>
<td>10,500 – 13,500</td>
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<tr>
<td>Thickness (feet)</td>
<td>NA</td>
<td>100 – 220</td>
<td>300 – 500</td>
<td>50 – 325</td>
<td>200– 240</td>
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</table>
LOG COMPARISONS

• COMPACT (Hi Net/Gross) INTERVAL
• HIGH SILICA / LOW CLAY
• NATURAL FRAC BOUNDARIES

FAYETTEVILLE

WOODFORD

BARNETT

HAYNESVILLE

Correlation Depth Resistivity Perforation

Correlation Depth Resistivity Perforation

Correlation Depth Resistivity Perforation

Correlation Depth Resistivity Perforation
Cattle Pilot Frac Mapping
Pad Wells – Dramatic Improvements

Drilling Cost / Lateral Foot

Hashed well / HBP well

(54%) (72%)
YTD Increased Density Drilling Pilot Cost

2008 Avg. Drill $/lateral foot

59% decrease
Development Plan – Methodology

Key Points

- 10% Acreage – Assumed Non-commercial for development
- 150,000 Net Acres – Developed
- 90% of Development Acreage – 3-D Seismic in Hand
- Reserves - Based on 50 Pilot Wells
- Costs - Based on 17 Multi-Well Pads
- Breakeven (10% IRR) Gas Price – F&D @ $1.75 = $5.00/Mcf
  @ $2.00 = $5.50/Mcf
Development Plan - Methodology
Lateral Length Scenarios

5280'

4620'

175' FAULT

Lateral Length
Horizontal Well Cost per Lateral Foot
Total Drill & Complete

- 2006
  - 41 wells
  - $2,605 per lateral ft avg
  - 2,521’ lateral length avg

- 2007
  - 91 wells
  - $2,487 per lateral ft avg
  - 2,428’ lateral length avg

- 2008
  - 40 wells
  - $1,546 per lateral ft avg
  - 4,224’ lateral length avg

38% Reduction in Cost/Lateral Foot from 2007

10-well Moving Average
Horizontal Well Cost per Lateral Foot
Total Drill & Complete – Last 20 wells

20 Most Recent Wells Average $1,370 / lateral ft
Development Plan - Methodology
Drilling Performance Improvements

- 77% improvement
- 39% improvement

- Avg. Vertical Ft./Day
- Avg. Lateral Ft./Day
Development Plan - Methodology

Completion Cost Improvement

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Avg. Compl $/Lateral Foot</th>
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</thead>
<tbody>
<tr>
<td>1Q07</td>
<td>$900</td>
</tr>
<tr>
<td>2Q07</td>
<td>$800</td>
</tr>
<tr>
<td>3Q07</td>
<td>$700</td>
</tr>
<tr>
<td>4Q07</td>
<td>$600</td>
</tr>
<tr>
<td>1Q08</td>
<td>$500</td>
</tr>
<tr>
<td>2Q08</td>
<td>$400</td>
</tr>
<tr>
<td>3Q08</td>
<td>$300</td>
</tr>
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</table>

47% decrease
Horizontal Woodford Type Curve
4 Bcfe Typical Well

Typical Well Economic Assumptions
- Net Revenue Interest: 81.0%
- Fixed LOE ($/MCF): $0.45
- Production Tax (% of Revenue):
  - Production Tax (first 48 months or PO): 1.09%
  - Production Tax (thereafter): 7.09%
- Wellhead Pricing vs. Henry Hub ($/MCF): -$0.75
- Gas Quality (BTU/CF): 1050
- Total Fuel Gas %(Wellhead to Perryville): 8.0%
# Type Well Economics

## Flat HH Gas Prices

<table>
<thead>
<tr>
<th>Henry Hub Price $/MMBTU (Flat)</th>
</tr>
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<tbody>
<tr>
<td>F&amp;D = $1.75</td>
</tr>
<tr>
<td>NPV @ 10% ($M)</td>
</tr>
<tr>
<td>ROR (%)</td>
</tr>
<tr>
<td>PAYOUT (Months)</td>
</tr>
<tr>
<td>F&amp;D = $2.00</td>
</tr>
<tr>
<td>NPV @ 10% ($M)</td>
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NAV Model Results

Key Points

- **Model assumes 4 Bcf EUR & $5.8 MM type well**
  - 2250 Operated wells drilled beginning MY 2008
  - Projected results smoother than actual

- **Rig Fleet – Increasing from 12 to 30 over 4 years**

- **Production Growth**
  - *NFX Gross Operated Production Projected to reach 1.5 Bcf/d*
  - 10 Year CAGR 20%

- **Gathering infrastructure in place, expanding**
  - *No production delays or curtailments*

- **Firm Transportation Secured – Differentials to HH Fixed**
NAV Model Results

NFX W.I. D&C Capex Projection

Rig Fleet Assumption
12 Rigs Currently Increasing to 30 MY 2012

Operated Drilling Capital
Non-operated Drilling Capital
Operated Year-end Rig Count

Year-end Rig Count

$ Millions


2008 2009 2010 2011 2012

Operated

Non-operated

13

17

22

27

30

0

500

1,000

6 months

$ Millions

NAV Model Results

Gross Operated Production Projection - 10-Year Horizon

CAGR 20%
Woodford Shale Production Area

Arkoma Connector Pipeline

Midcontinent Express and Gulf Crossing Pipelines

Perryville Hub

Henry Hub

**NFX FIRM TRANSPORTATION**
- Mid-Cont Express (MEP): 300 MMcf/d
- Boardwalk: Up to 300 MMcf/d
- LaClede: 50 MMcf/d
NFX GROSS OPERATED PRODUCTION

Firm Transportation Capacity

- NFX Gross Op. Prod
- LaClede
- MEP
- Boardwalk Expansion

MMCFD

Jan-08 | Jul-08 | Jan-09 | Jul-09 | Jan-10 | Jul-10 | Jan-11 | Jul-11 | Jan-12 | Jul-12
NAV Model Results

NFX NPV @ 10%

<table>
<thead>
<tr>
<th>Flat Gas Price ($/MMBtu)</th>
<th>Existing</th>
<th>New</th>
<th>OBO</th>
<th>$ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7.00</td>
<td>$24/sh</td>
<td>$36/sh</td>
<td>$48/sh</td>
<td>$3,220</td>
</tr>
<tr>
<td>$8.00</td>
<td>$24/sh</td>
<td>$36/sh</td>
<td>$48/sh</td>
<td>$4,777</td>
</tr>
<tr>
<td>$9.00</td>
<td>$24/sh</td>
<td>$36/sh</td>
<td>$48/sh</td>
<td>$6,333</td>
</tr>
<tr>
<td>$10.00</td>
<td>$24/sh</td>
<td>$36/sh</td>
<td>$48/sh</td>
<td>$7,889</td>
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</tbody>
</table>

132 mm shares
Future Well Designs
Goal: Lower Cost per Foot

- STANDARD EXTENDED LATERAL: 1 MILE
- DUAL LATERAL: 1 MILE
- STACKED LATERAL: 1 MILE
- SUPER EXTENDED LATERAL: 1 MILE

WOODFORD

In Progress

4th Qtr 08
NFX Development Plan

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