PETROHAWK ENERGY CORPORATION

# *Acquisitions in the Current Market: Navigating Through the Perfect Storm*

**Society of Petroleum Engineers**
**General Meeting**

**January 13, 2005**

# Forward-Looking Statements

This presentation includes certain statements that may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements in this presentation, other than statements of historical facts, that address the future direction, management and control of the Company, capital expenditures, and events or developments that the Company expects or believes are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include oil and gas prices, production volumes, exploitation and exploration successes, continued availability of capital and financing, and general economic, market or business conditions. The Company has no obligation to update the statements contained in this presentation or to take action that is described herein or otherwise presently planned.

# Today’s Discussion

PETROHAWK ENERGY CORPORATION

Introduction to Petrohawk

Current Acquisitions Market

Wynn-Crosby Transaction

# Who is Petrohawk Energy Corporation?

PETROHAWK ENERGY CORPORATION

- Houston-based E&P company formed in June 2003
  - Initial capitalization - $60 million
  - Significant management investment – 10%
  - Search for opportunities that are not price-driven
- Principals have a proven track record of creating shareholder value
  - Acquisitions and exploitation
  - Exploration
  - Property portfolio management
  - Capital markets
- Closed recap of Beta Oil & Gas, Inc. on May 25, 2004
  - $60 million investment - $3.30 per share buy in price
  - Public platform for future growth
  - Changed name to Petrohawk Energy Corporation (NASDAQ: HAWK)
  - Current market cap ~ $320 million ($8.00 per share today)
- Recent acquisition of Wynn-Crosby Energy, Inc.
  - $425 million, closed November 23, 2004

# Management Team

PETROHAWK ENERGY CORPORATION

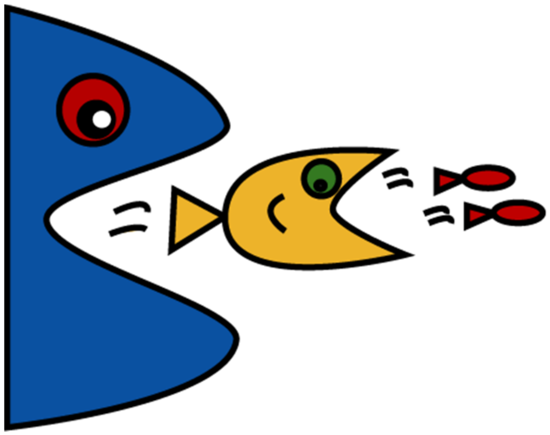
***Experienced management team with significant investment in the Company***

| | |
|---|---|
| **Floyd C. Wilson**<br>*Chairman, President and CEO* | ■ Former Chairman, CEO and founder of 3TEC Energy<br>■ Proven track record of building companies and shareholder value<br>■ Over 30 years of energy industry experience |
| **Shane M. Bayless**<br>*VP, CFO and Treasurer* | ■ Former VP – Controller and Treasurer of 3TEC Energy<br>■ Over 15 years of energy industry and public accounting experience<br>■ Controller with Encore Acquisition Co. and Hugoton Energy |
| **Larry L. Helm**<br>*Chief Administrative Officer* | ■ Former EVP – Middle Market Banking with Bank One<br>■ Over 30 years commercial banking experience, primarily in energy<br>■ Former director of 3TEC Energy |
| **Steve W. Herod**<br>*VP – Corporate Development* | ■ Former EVP – Corporate Development and director of 3TEC Energy<br>■ Over 20 years of energy industry experience<br>■ President of Shore Oil until its merger with predecessor to 3TEC Energy |
| **Richard H. Smith**<br>*VP - Land* | ■ Former land manager with Unocal<br>■ Previously with Basin Exploration and Norcen Explorer<br>■ Over 20 years of energy industry experience |
| **Richard K. Stoneburner**<br>*VP - Exploration* | ■ Former VP – Exploration of 3TEC Energy<br>■ Over 25 years of energy industry experience, including Hugoton Energy<br>■ Substantial exploration and exploitation track record |

- **Seasoned technical staff with extensive experience working together**
- **Significant experience in the public company environment**
- **Highly regarded financial sponsors EnCap Investments, LP and Liberty Energy Holdings, LLC**

# How This Team Builds Value

- **Establish a well-capitalized platform**
  - Oil and gas business is capital intensive
  - Start out with adequate funding
- **Grow reserves and production**
  - Additional corporate or asset acquisitions
  - Primarily operated properties with upside in core areas
  - Significant drilling program – development and exploration
- **Divest high-cost or non-core properties**
  - Ongoing process of upgrading the property base
  - Sell to someone who wants them more
- **Build to sell**
  - Provide superior returns to shareholders
  - FOCUS ON THE EXIT!!



# Case History – 3TEC Energy Corporation

PETROHAWK ENERGY CORPORATION

| *Strategy* | *Execution* |
|---|---|
| **Initial Investment** | **1999: Recapitalization of Middle Bay Oil Company**<br>■ EnCap/Wilson completed $21.4 million recapitalization in August 1999<br>■ No market liquidity or debt capacity<br>■ **$50 million EV, $6/share, 50 Bcfe, $0.85/Mcfe LOE, $0.82/Mcfe G&A** |
| **Strategic Growth** | **2000 to 2003: Significant Acquisition and Drilling Success**<br>■ Acquired 317 Bcfe @ $0.72/Mcfe<br>■ Portfolio management (sold 40 Bcfe @ $1.05/Mcfe, LOE $1.40/Mcfe)<br>■ $175 million drilling program (70% DEV / 30% EXP, over 90% success)<br>■ Significant use of 3-D seismic and directional drilling |
| **Exit** | **2003: Sale to Plains Exploration and Production Company**<br>■ Announced merger with PXP in February 2003 (50% cash/50% stock)<br>■ Over 20% pre-announcement premium to 3TEC shareholders<br>■ PXP up over 150% since closing in June 2003<br>■ **$443 million EV, $18/share, 296 Bcfe, $0.50/Mcfe LOE, $0.34/Mcfe G&A** |

# The Current Acquisitions Market

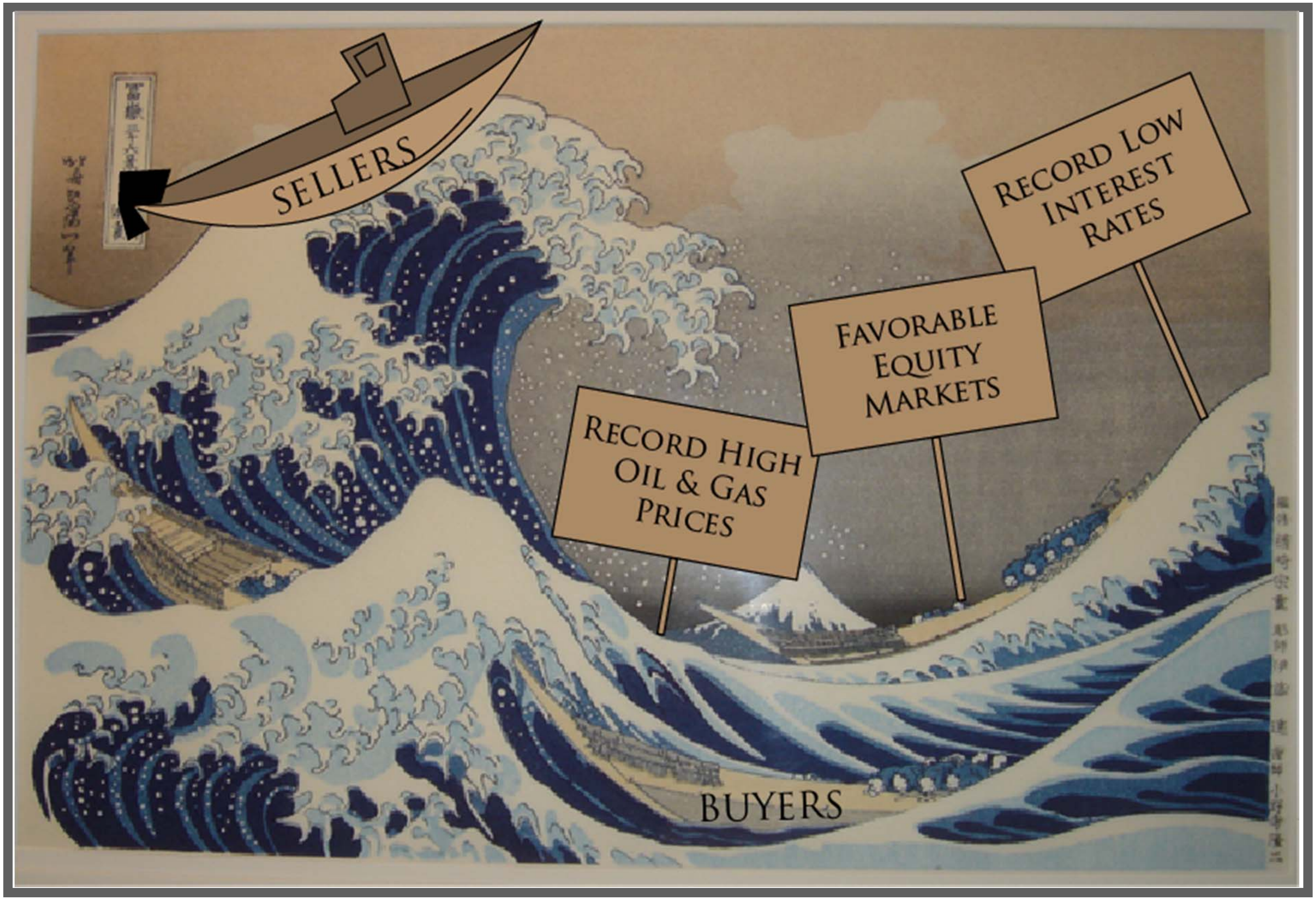
# Is This Boom Different?

| | 1981 | 2004 |
|---|---|---|
| Oil Prices | $40 | $45 |
| Interest Rates | 18% | 3% |
| Rig Count | 4,500 | 1,200 |
| Hedging Markets | none | mature |
| A&D Market | infancy | deal every day |
| Astros | heartbreak | heartbreak |

***YES – Because…***

- Global oil demand keeps increasing – China, India, etc.
- North American gas supply can't keep up with demand
- Easier financing
- No car salesmen selling drilling deals (YET!)

# Acquisition Market: The Perfect Storm



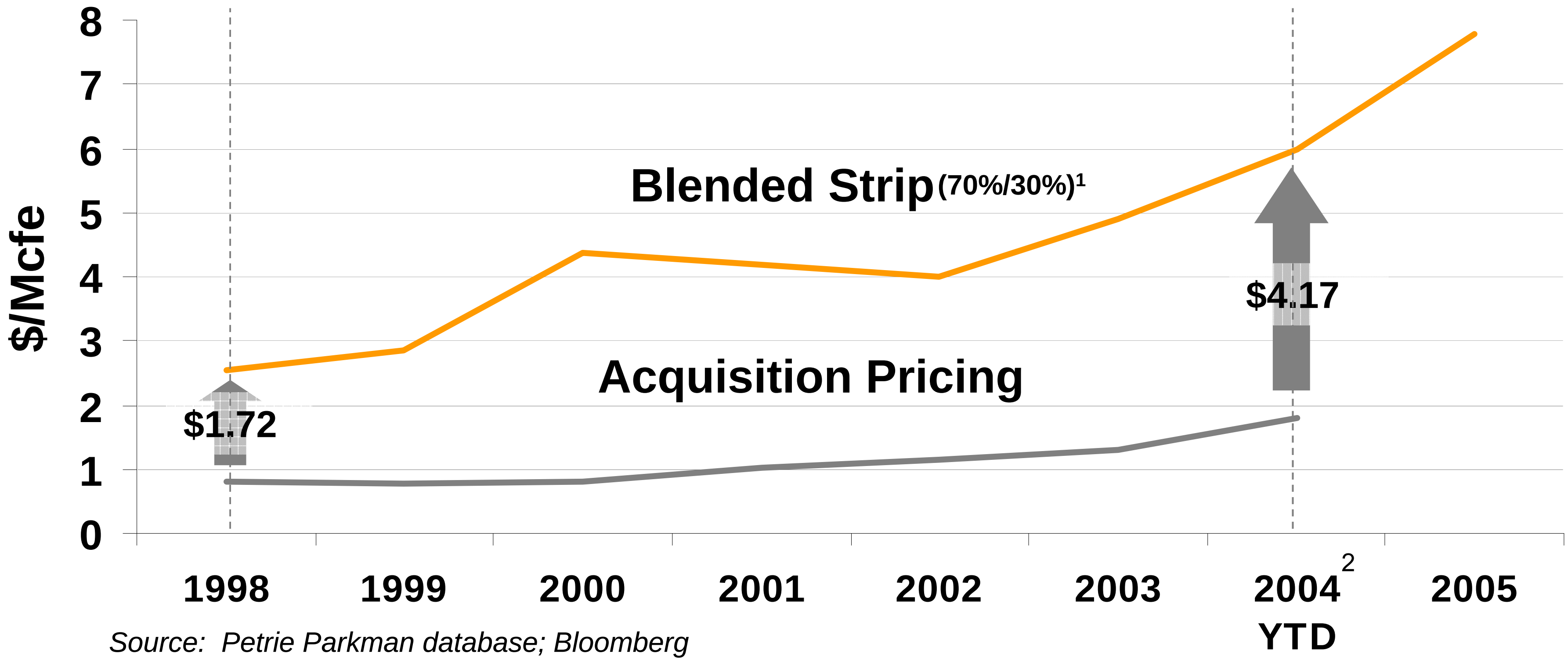
# Current Acquisition Market: Why Buy Now?

- **Property prices at all-time highs**
  - *Who would have thought we'd see $2.00+ / Mcfe in the ground?*
- **More competition than ever before**
  - *Everyone is chasing the "next hot deal"*
- **Every seller hires a broker and runs a data room**
  - *It seems like, anyway*
- **If you buy now at these prices, where is your upside?**
  - *Prices always fall*

# Why Now is a Great Time to Buy

- **Better margins than ever before**
  - ***Isn't it better to buy at $2.00/Mcfe and sell for $6.00/Mcfe than to buy at $1.00/Mcfe and sell for $2.50/Mcfe?***
- **Borrow money cheaply**
  - ***Rates are low and banks are hungry for business***
- **Great hedging market**
  - ***What's wrong with a $6.00 x $9.00 costless collar?***

# Historical Acquisition Pricing vs. Blended Strip




*Source: Petrie Parkman database; Bloomberg*

- Acquisitions trade at a significant discount to strip price
- Hedging markets provide opportunities to secure high operating margins
- Favorable environment for asset sales

[1] 70% gas / 30% oil

[2] Acquisition pricing as of September 22, 2004. 2005 strip as of October 22, 2004.

# The Wynn-Crosby Transaction

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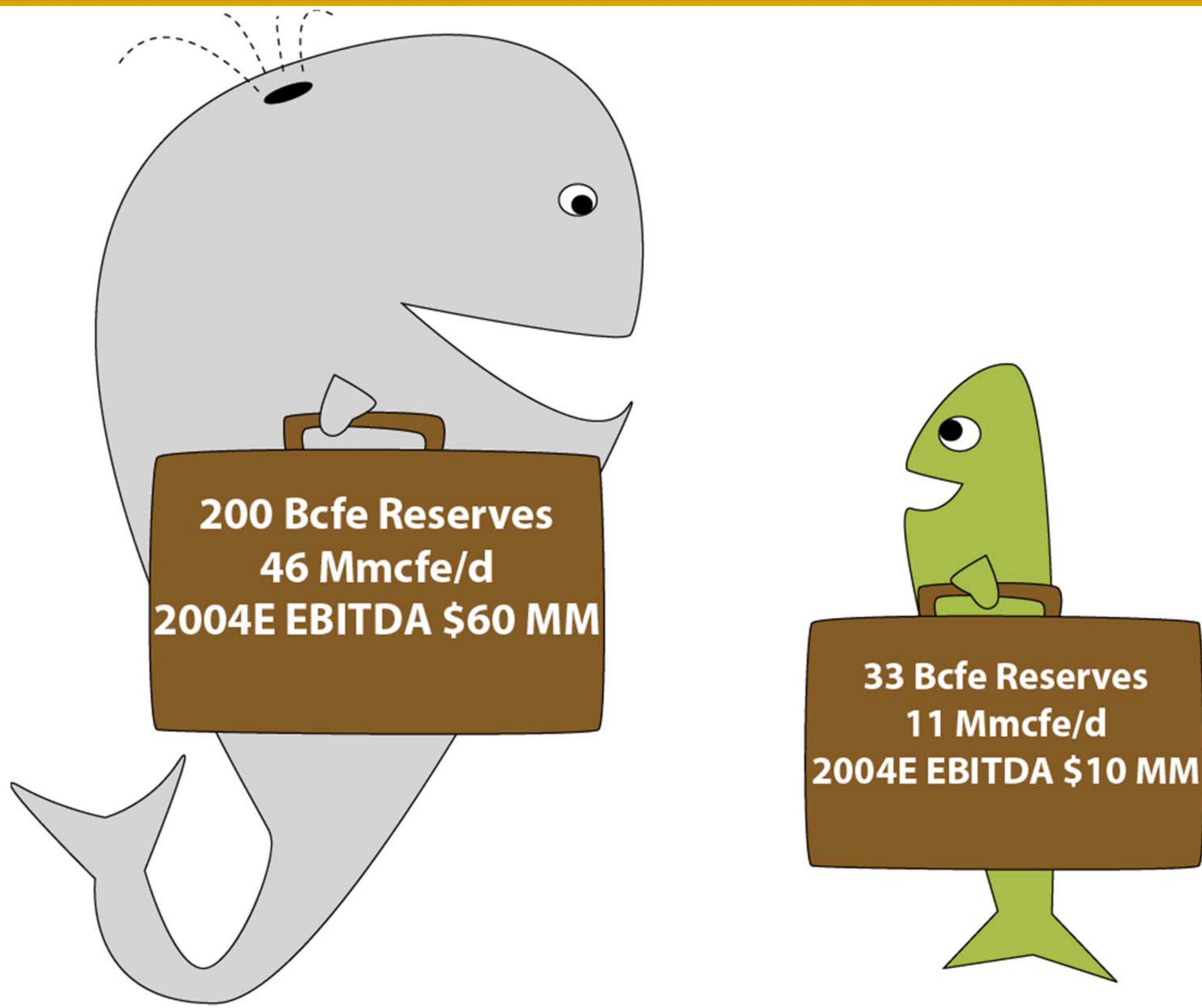
# This Time – The Food Chain in Reverse




***WYNN-CROSBY*** ***PETROHAWK***

# Petrohawk – Why Buy Wynn-Crosby?

- Significant reserves and production — achieve critical mass quickly
  - 200 Bcfe proved reserves, 46 Mmcfe per day production
  - 75% proved developed, 74% natural gas
- Underdeveloped property base — numerous upside opportunities
  - Properties previously managed for cash distributions
  - Accelerate development in proven areas
  - Over 100 Bcfe in probable and possible reserves and 80,000 net undeveloped acres
- Establish multiple core operating areas
  - Basins where our technical group has expertise
  - Complementary to existing properties
- Excellent divestment opportunities
  - Potential royalty interest divestment at attractive pricing
  - Achieve improved cost structure
- Non-competitive transaction
  - Deal struck when commodity prices were lower than today
  - Efficient use of staff time – no wasted time in data rooms

# Wynn-Crosby – Why Sell to Petrohawk?

- One buyer for all properties — Operated, Non-operated, Royalty
  - Eliminate long, multiple data room process
  - Preparation for data rooms would add months to sale process
- Willing to pay good price for good property
  - Agreed to deal framework early in process
- Ability to do grass roots evaluation
  - Not dependent on third-party report
- Past track record of financing large acquisitions
  - Public and private transaction experience
- Certainty of quick closing
  - Critical to Wynn-Crosby to close by end of year

# $425 Million – From Where?

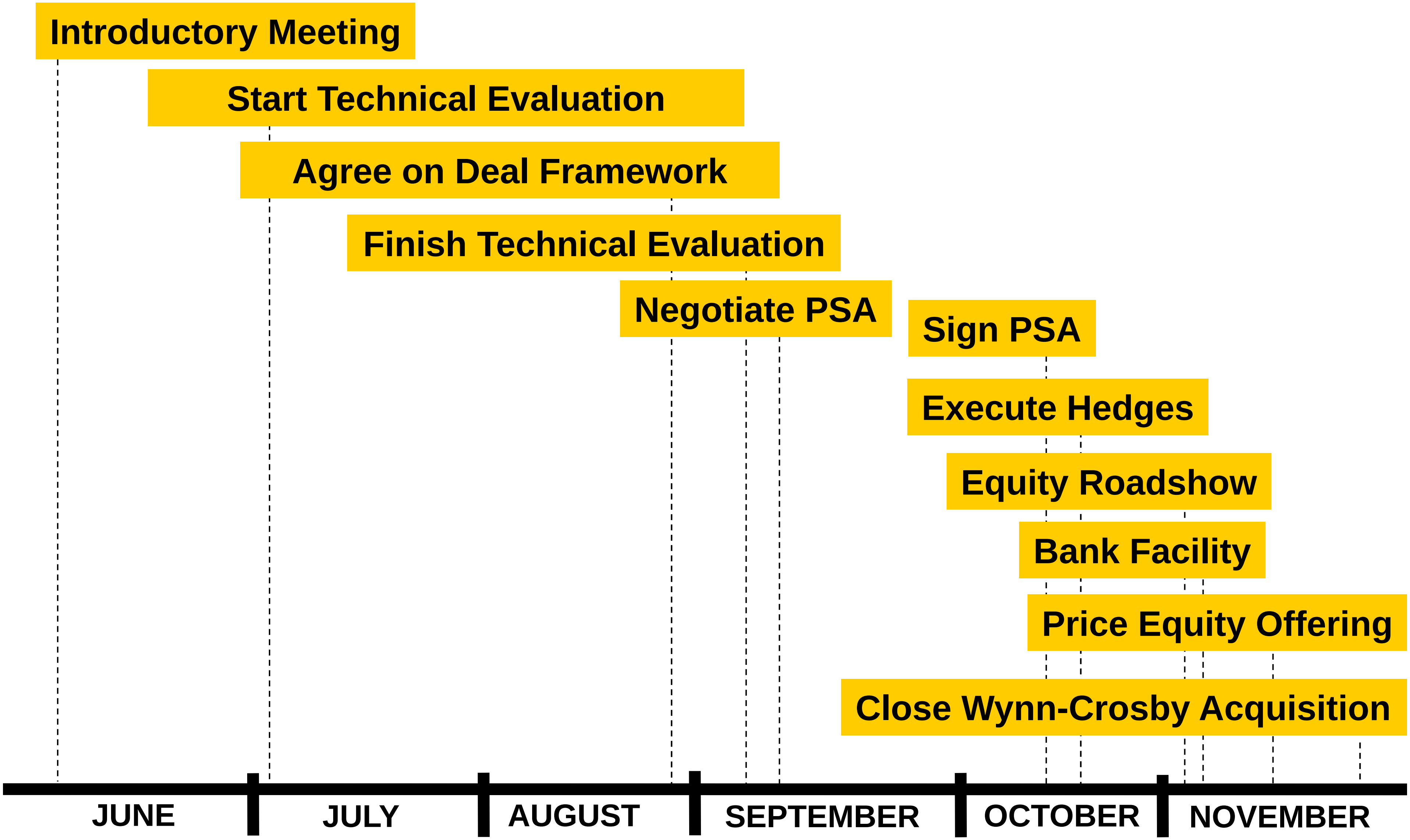
- **Conventional Bank Debt — $160 million**
  - ***$200 million borrowing base***
  - ***Bank group led by BNP Paribas***

- **2nd Lien Bank Debt — $50 million**
  - ***Five-year term, no prepayment penalty***
  - ***Placed within bank group***

- **Public Equity — $200 million**
  - ***Structured as automatically convertible preferred***
  - ***Placed with 73 institutions***
  - ***Converted to common December 31, 2004***

***All capital raised in less than six weeks***

# Getting it Done – All Hands on Deck



# Pro Forma Highlights

PETROHAWK ENERGY CORPORATION

***At July 1, 2004 pro forma for acquisition***

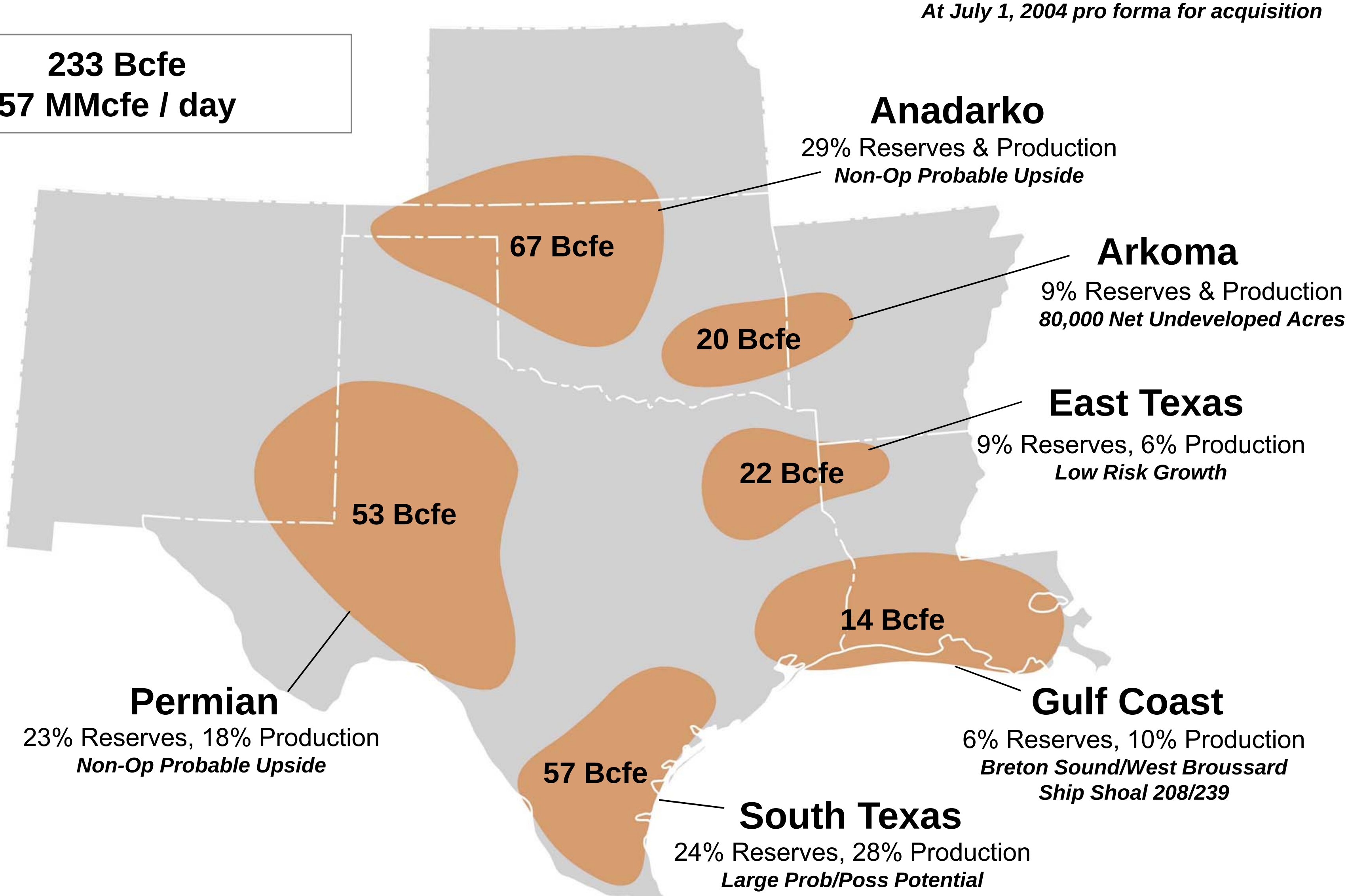
- **233 Bcfe Estimated Total Proved Reserves**
  - **68% PDP, 8% PDNP, 24% PUD**
- **74% Natural Gas, 60% Operated, R/P Ratio of 11 years**
- **57 MMcfe/day – growing to 65 MMcfe/day average in 2005**
- **Over 130 Bcfe of probable and possible reserves**
- **$60 million CAPEX budget for 2005 — 70% development, 30% exploration**
  - **Funded out of free cash flow**
- **Attractive hedges for 2005 — $6.15 x $9.43 on gas, $43.00 x $55.83 on oil**
- **Debt / Total Cap ~ 50%**

# Petrohawk Today

PETROHAWK ENERGY CORPORATION

*At July 1, 2004 pro forma for acquisition*

**233 Bcfe**
**57 MMcfe / day**



# Conclusion

- **Strong industry fundamentals**
  - ***High product prices in at least the medium term***
  - ***Capital available to proven companies***
- **Best seller's market of all time**
  - ***Very efficient, competitive marketplace***
  - ***Food chain at work every day***
- **Buyers can still be successful**
  - ***Find the right deal and be ready to pull the trigger***
  - ***Keep pushing — the acquisition business is never easy***
- **Wynn-Crosby was the perfect deal for Petrohawk**
  - ***Solid property with upside***
  - ***Moves us to the next level***
  - ***Ready for another significant deal!!***

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NASDAQ: HAWK