GASCO ENERGY, INCORPORATED

Moderator: Mark Erickson
August 2, 2007
9:30 am CT

Man: (Crystal)?

Operator: Good morning. My name is (Crystal) and I will be your conference operator today.

At this time, I would like to welcome everyone to the Gasco Energy Second Quarter conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number 1 on your telephone keypad. If you would like to withdraw your question, press the - press star then the number 2.

Thank you.

I will now turn the conference over to Mr. King Grant, Chief Financial Officer.

Please go ahead, sir.

King Grant: Thanks and good morning, everybody.

Please be advised that our remarks that follow, including answers to your questions, include statements that we believe to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act.

These forward-looking statements are subject to risks and uncertainties that could cause actual results to be materially different from those currently anticipated.

Those risks include among others matters that we have described in our earnings release issued last evening and in our filings with the Securities and Exchange Commission.

We disclaim any obligation to update these forward-looking statements.

While the company believes these forward-looking statements are reasonable, they are subject to factors such as commodity prices, competition, technology, and environmental and regulatory compliance.

Our drilling schedules, capital plans, and other factors may cause our results to differ materially.

Now I'll turn the call over to Mark Erickson, President and Chief Executive Officer of Gasco.

Mark Erickson: Good morning, everyone. Thanks for joining us for today's call.

A couple of recent positive announcements are deserving of early discussion on today's

call.

First, I would like to cover the recent announcement regarding our new financial partner, NFR Energy. NFR Energy is a joint venture between Nabors Industries, the largest land driller in the world, and First Reserve, the oldest and largest private equity firm focused on our sector.

The venture was set up to invest in oil and gas exploitation opportunities worldwide with $1 billion in equity committed by the parties.

NFR and Gasco announced that together we will drill 30 wells in the Riverbend project in 2007 and into early 2008. The program is a Wasatch/Mesa Verde/Blackhawk development program whereby NFR will participate with a 67% working interest and Gasco will operate with a 33% working interest.

This effectively gets Gasco to one net rig or 10 to 12 net wells for the year, which is consistent with our $40 million capital budget for 2007.

Additional benefits to the company are we'll continue to drill with three rigs while maintaining the associated economies of scale in a very non-dilutive way.

The program will potentially result in approximately 28 net proved un-development location additions after taking into account nine net PUD locations drilled and earned by NFR.

The 30-well program will include a pilot pad drilling project targeting 20-acre Wasatch, Mesa Verde, and Blackhawk fluvial sand development.

We also avoided approximately $4.5 million in contract termination penalties to lay down two of the three rigs.

The agreement allows Gasco to continue with the momentum it has created. We are also provided the flexibility to proceed with additional Riverbend drilling plans independent of this agreement, including further testing of the Mancos Dakota, which brings me to the discussion of the Mancos test itself.

As you may've seen, we were fortunate enough to have successfully restored wellbore integrity to the Federal 14-31.

A team effort between our engineers and the completion vendor resulted in an amazingly rapid remediation of the damaged wellbore due to the inadvertent discharge of the perforating guns uphole.

I would like to acknowledge their efforts in getting after the problem, solving it, and allowing Gasco to complete each of the five Mancos intervals that we targeted for production.

The preliminary results from the well are encouraging. We have seen sustained flow rates in the range of 2.5 to 2.7 million cubic feet daily with high flowing pressures.

We are currently drilling out frac plugs and look forward to testing all of the Mancos intervals together, including the first stage, which is behind a bridge plug and tested at rates in the range of 1.1 million cubic feet per day.

We can now move to additional prepared remarks. Joining me on the call today are Mike Decker, Chief Operating Officer; King Grant and Peggy Herald, our Vice

President of Accounting and Administration.

Once King covers the financial results, Mike will discuss detailed operations and Riverbend progress.

After the prepared remarks, we will welcome questions from the conference call participants.

I would now like to turn the call over to King Grant to recap the second quarter's financial results.

King Grant: Thank you, Mark.

Internally we assess part of our performance on a quarter-over-quarter basis as well as sequentially. Commodity prices are an important input in this analysis.

The volatility of the price input continues to affect Gasco and other Rockies operators in advance of the Rockies Express Pipeline, which is - with an expected phase one in-service date of January 2008.

When looking at Q2 ’07 versus Q2 ’06, average prices received, the average realized price for gas for the quarter was $4.31 per Mcf versus $5.18 per Mcf for the same period in ’06.

For liquid, the average price received during the first quarter -- the second quarter was $49.38 per barrel as compared to $59.40 for the same period last year.

All of our production remains unhedged.

The 17% drop in prices received for gas, which makes up 95% of our production is reflected in our income statement.

Commodity prices obviously have a direct impact on the ceiling test we perform each quarter as a company that uses the full-cost method of accounting.

As many of you are aware, Gasco last night reported - it recorded a non-cash impairment charge for the quarter. For the second quarter 2007, Gasco reported a net loss attributable to common shareholders of $66 million or 70 cents per share as compared to a net loss for the same period in '06 of $53 million or 62 cents per share.

Included in both Q2 '07 and Q2 '06 operating expenses are non-cash charges of $64 million and $51 million respectively. The charges are related to the impairment of the carrying value of oil and gas properties.

Before the impairment charge for Q2 '07, Gasco would've posted a net loss of $2 million or 2 cents per share.

Approximately $10 million in the impairment for the quarter was attributed to our Wyoming assets and the balance relates to our Utah projects.

The natural gas price at June 30 was $3.90 per Mcf at the wellhead. The price at which we would not have taken the ceiling test write-down would've been $5.82 per Mcf.

And to cover the impairment and its effect on net income, I'll further break down the income statement items for Q2 '07.

Total revenues for the quarter were $6.1 million, a 6% decrease over total revenue of $5.8 million for the -- excuse me, 6% increase over total revenue of $5.8 million for the same period in '06.

The line item breakout is approximately half a million dollars for gathering income. Oil and gas sales were $5.1 million as compared to $4.6 million in the year-ago period.

Rental income is a new line item this period. The $300,000 in revenue relates to rental payments we received from the operator of our drilling rig now that it is under contract to another E&P company.

G&A for Q2 '07 was $2.2 million or a 15% decline from the 2006 period's total of $2.6 million. We continue to focus on managing our expense base.

Included in the quarter's G&A expense was $0.9 million in stock-based compensation from the vesting during the quarter of a prior period's grant of restricted stock and options to employees.

For the second quarter, Gasco posted positive cash flow measured by EBITDA of $2.3 million, which compares to positive cash flow of $2.1 million in the same period in '06.

In looking at selected unit cost analysis for Q2 '07, LOE exclusive of production and property taxes was 55 cents per Mcfe versus 85 cents per Mcfe for Q2 '06.

The decrease is attributed to decreased water-hauling expense due to the operation of our water disposal facility in Riverbend. We also performed fewer (workovers)

during the quarter.

DD&A expense was $3.20 per Mcfe versus $3.41 per Mcfe in Q2 '06.

Long-term debt at June 30, 2007 was $12 million. The debt is part of our $250 million revolving credit facility. The borrowing base is now $37 million, of which the aforementioned $12 million is currently drawn.

Now let me give you a little more color on the financial aspects of our new drilling deal with NFR.

At signing, we received approximately $19 million, representing their share of the drilling and completion costs on two wells plus their share of the drilling cost on an additional 11 wells that have been drilled, are currently drilling, or are scheduled to begin drilling this month.

All 13 of these wells will have additional cash cost to NFR as we schedule more completions.

The 30 wells in the program represent gross investment of approximately $93 million. Gasco's working interest in the wells before the deal averaged 75% and approximately 25% after giving effect to the deal.

The first of the 30 wells was spud in the first quarter and the 30th well is scheduled to reach TD in the first quarter of 2008. Completions on the program will occur throughout 2007, all of 2008 and into 2009.

Our investment in the program should be approximately $25 million. Ignoring certain

accounting treatments, for the full-year 2007 we expect to have drilled 10 to 12 net wells in Utah and invested approximately $40 million in CAPEX inclusive of the infrastructure at the Mancos test and our 2D shoot.

From the cash flow statement in our 10-Q, cash paid for CAPEX was $50 million for the first half. Included in this number was $13 million in accruals from our 2006 program.

Of the $19 million that we received from NFR, approximately $10 million was reimbursement for costs incurred during the first half.

Thus our pro forma first half CAPEX for the 2007 program was approximately $27 million.

At June 30 -- excuse me, at June 30, cash and investments were $8.6 million. Pro forma for the NFR transaction, we have $27.7 million in cash.

When I add in unused availability under our bank revolver, we have $45 million in funds available to continue drilling and completing wells.

Of course, we're generating cash flow from operations as well. The combination of cash on hand, undrawn bank lines, and cash from operations will take us well into 2008.

I would now like to turn the call over to Mike Decker to continue today's conference call with a discussion of operations.

Mike Decker: Thank you, King.

I will first cover production, which was a record for the quarter and the first half of 2007.

During the second quarter, we produced more than 1.1 billion cubic feet of national gas equivalents. This is a company record for production in any quarter.

It also marks an increase of almost 8% over first quarter 2007 production of 1.05 billion cubic feet equivalent and more than 30% of second quarter 2006 production of 863 million cubic feet equivalent.

As always, all of our production comes from the Riverbend project in Utah.

I think that it is important to note that we reported increased volumes even with our decision to delay completion activity on our recently drilled rails and curtail production from some of our existing gas wells.

As previously announced, curtailed net volumes for the quarter are estimated to be about 100 million cubic feet or about 1.1 million cubic feet -- or, excuse me, we have 1.1 million cubic feet per day.

Once the Rockies begin to rebound from the current seasonally low natural gas prices, Gasco will return all wells to the production and begin completing our inventory of new wells and re-completing our older existing wells with behind pipe potential.

I'd like to talk about our drilling activity now.

During the second quarter, we invested approximately $19 million for drilling, completion, re-completions, and infrastructure operations, including the following activities.

Gasco spudded eight gross wells or 5.6 net and reached total depth on six gross wells, 4.4 net in Utah.

The company is currently running three drilling rigs on its Riverbend project. We are particularly pleased with the results from our drilling operations. Average time to total depth on the last ten Gasco-operated wells was 18.6 days.

As many of you know, our target for 2007 is 20 days. So we are currently beating one of our 2007 goals.

Recently Rig 99, our new rig, drilled a Blackhawk well in 16 days, equaling its best time to TD in the play since it began turning to the right in March.

The operations team continues to record excellent results in the ongoing initiative to reduce drilling days and the other project costs that are within its control.

Year to date, Gasco 13 gross operated wells, 10.1 net, and reached total depth on 13 gross wells, 9.4 net.

Gasco also has its second well in Nevada to begin drilling and which it is non-operated and carried for a 20% working interest.

As I said, three rigs are currently drilling ahead on the Riverbend project. I think it is important to note here that with the NFR deal complete, we can continue to build upon the momentum of reducing drilling days through drilling operation improvements.

Our completion activity -- during the quarter, Gasco conducted initial completion operations on 2 wells or 1.5 net. We did not reenter any wells to complete behind pipe pay zones.

We also did not participate in any outside operated wells completed in the quarter.

Year to date, Gasco conducted initial completion operations on 9 operated wells, 6.2 net, and reentered one operated well, one net to complete behind pipe pay zones.

The company also participated in the completion of one outside operated well in which we had a 0.25 net interest.

Currently Gasco operates 99 gross producing wells with ten additional wells awaiting initial completion activities.

The company also currently has an inventory of 27 operated wells with uphole completions. Gasco continues to build its re-completion inventory in advance of what the company believes could be a stronger Rockies commodity price environment.

Operations on our Nevada farm-out are underway. The project is being operated with tight-hole status, so we won't be able to provide updates for some time.

I would now like to add some additional details to the Federal 14-31, our Mancos Dakota test.

As Mark said earlier, we have fully repaired the wellbore. We have also fully completed the Mancos formation with five frac jobs.

To recap the results today, we tested the Dakota formation and found that while we had numerous gas-charged sands, we have deemed the sands to be not of reservoir quality and noncommercial, therefore not worthy of completing.

While mildly disappointing, the Dakota sands are variable in thickness and quality. It should be emphasized that this one wellbore does not condemn the Dakota.

A plug was set of the Dakota and the initial Mancos stage was completed. Within hours after fracing the zone, it came on at an initial rate of 1.132 million cubic feet of gas per day while flowing back frac fluid. It was at this point that a third party service provider damaged the wellbore.

Now subsequent to the repairs, we have now completed the four remaining Mancos frac stages. During flow-back of these four stages, we turned the well to sales at an initial rate of 3.47 million cubic feet a day with associated frac fluids.

The well had initial flowing casing pressure of approximately 7000 psi. Over this past weekend, we choked the well back to a sustained rate of 2.5 to 2.7 million cubic feet of gas per day.

We are now in the process of drawing out the frac plugs and the bridge plug over the initial Mancos stage completion. This work is expected to take several days to complete. We will then flow test the well knowing that all of the zones are open and contributing.

At this time, we are uncertain how many of the four states noted above were open and flowing to the wellbore.

It should also be noted that we drilled the well in 79 days, which we believe is a record for shortest number of days drilled for a Dakota test.

This included 17 days of rig downtime. We currently believe that we may be able to drill a Mancos Dakota test in 55 days. Total cost to date is $8.6 million for the well through the Mancos completion.

This includes approximately $1.5 million of costs to date for the repair of the well and rig downtime.

Please keep in mind that this is our first Mancos Dakota test. And the cost to date includes significant investment in science. We could - we would not incur these costs in a typical development scenario.

Overall we are pleased and cautiously optimistic about our first Mancos test. We encountered gas-charged sands in the Dakota. We encountered silty fractured gas-charged intervals in the Mancos. We encountered over-pressuring.

And finally we are encountering nice initial flow rates from the completed Mancos intervals.

Going forward, we are evaluating different drilling options to reduce our investment and maximize our rate of return on this deeper project.

That covers operations. I will now turn the call back over to Mark.

Mark Erickson: Thanks Mike.

Before we turn it over to questions, I want to impart a few closing thoughts.

We are pleased with the results for the second quarter. We have continued to demonstrate lower well costs and reduced drilling days. The benefits from our water disposal facility are showing up in lower operating costs.

Both production and revenue are up. We have a large inventory of low cost, behind pipe completion opportunities. We successfully drilled and completed our first Mancos Dakota well, adding a new and exciting pay horizon that should result in materially lower finding costs in the future.

Granted it is early to predict the ultimate outcome in this emerging play, our new agreement with NFR will allow the company to exit 2007 in a strong financial position with little debt.

All in all, we are well positioned to continue our growth. Goals for the second half of 2007 include continue with our plan to monetize non-strategic assets with a target of approximately $10 million in asset sales, secure funding for a - for future development of the project, firm up our gas marketing plan providing for a secure flow path to solid gas markets, and expand our Mancos exploration project.

Operator, I'd now like to turn the call over for questions.

Operator: As a reminder, if you would like to ask a question, please press star then the number 1 on your telephone keypad. Again, if you have a question, please press star-1.

We'll pause for a moment to compile the Q&A roster.

Your first question comes from the line of Kim Pacanovsky with Ferris Baker Watt.

Kim Pacanovsky: Hi guys.

Men: Good morning, Kim.

Kim Pacanovsky: How are you?

Mark Erickson: Good. How are you?

Kim Pacanovsky: Good. Thanks. Good news on the Mancos. I - you know, I noted in your previous release of a couple - like a week or so back you had mentioned that you thought that there was likely higher quality in the other stages.

Man: Yeah and that is - and that…

Kim Pacanovsky: Can you give us a little bit more color on that and let us know what you saw?

Man: Well, I would say that, you know, with the flow rates that we're seeing, Kim, that that is what we are seeing. We are seeing higher quality up the hole.

At this point in time, we don't know exactly if all of the zones are contributing because as you know, with the flow-through plug sometimes one of them may get stuck. And so we - maybe we'll find another surprise here to where maybe it actually

will - there's a zone that's not flowing and contributing.

The other thing that we don't k now at this point in time, until we run a production log is just the individual quality of those five different stages. And that will be further science that we'll put into the project as well.

Kim Pacanovsky: Okay, great. And when do you think you're going to know all that?

Man: Well, we will - right now we're in the hole with our snubbing unit to drill the plugs. We anticipate to begin drilling out plugs tomorrow. Hopefully we can get them out and drilled in a day, so maybe by sometime next week we will have a better of what the combined flow rates are out of the wellbore.

Kim Pacanovsky: Okay.

And how many acres do you have that have Mancos potential?

Man: Theoretically the Mancos underlies the whole basin.

Man: That's correct.

Kim Pacanovsky: Okay.

Man: I mean, the Mancos is underneath, you know, the entire area. And it should be underneath our entire acreage position. And we have rights to the Mancos almost underneath our entire acreage position as well.

Kim Pacanovsky: Okay.

And you have some processing done on the seismic. Is there anything preliminary you could say about what you've seen?

Man: You know, Kim, we just got the process seismic on last week.

Kim Pacanovsky: Okay.

Man: And so we are just now beginning to look at it and analyze it. And that was for the first stage, the first 100 miles that we had shot.

Kim Pacanovsky: Mm-hm.

Man: The remaining 89 miles, they're currently drilling the shot holes on that. And we'll hopefully begin recording here toward the middle of August.

But at this point in time, the first 100 miles, we literally just got the - or the process seismic in-house.

Kim Pacanovsky: Okay.

And could you go over those cost numbers again on the Mancos. You went through that a little bit quickly. I didn't get all of those numbers down.

Man: Well, at this point in time, we're about $8.6 million into the wellbore. About a half million dollars of that is attributable to the repair job…

Kim Pacanovsky: Mm-hm.

Man: …which will be covered by the third party vendor.

Kim Pacanovsky: Okay.

Man: And then the - another $1 million is attributed to the 17 days of rig downtime…

Kim Pacanovsky: Okay.

Man: …that we had out there as well.

So in essence, if we back out the $1.5 million, we're at about $7.1 million is we're we'd be right now.

Kim Pacanovsky: Okay.

And I remember that you had said a while ago that the cost of deepening Riverbend wells to the shale was about $1-1/2 million to $2 million. Are you still comfortable with that estimate as sort of a long-term number?

Man: Right now I'd say, you know, we're looking at well costs of $3.1 million for our Blackhawk wells. And I would say we're probably more in the range of maybe $3 million is what we're looking at it. So it'd get us in the…

Man: Six.

Man: Yeah, that'd be fully completed, Kim.

Man: The one and a half (unintelligible).

Kim Pacanovsky: Right, okay.

Man: Yeah.

Kim Pacanovsky: Okay. And…

Man: And that would be fully completed, all zones, that would be Wasatch, Mesa Verde, Blackhawk, Mancos, and then potentially Dakota.

So - and I believe that's in line with what some of our other competitors have said recently as well.

Kim Pacanovsky: Okay.

Man: You know, this well, if you recall, we have a number of science projects going on. We ran extra logs that we normally wouldn't've done. We took a number of rotary sidewall cores in this one.

Kim Pacanovsky: Mm-hm.

Man: They're currently going through a desorption process just like you would in a coal bed methane project.

Kim Pacanovsky: Mm-hm.

Man: And so we've got a number of like say science projects going on so we better understand

what we have underneath our acreage position as well.

Kim Pacanovsky: Okay.

And just one more quick question -- with the production that you have chosen, the wells that you've chosen to not complete at this time…

Man: Uh-huh.

Kim Pacanovsky: …if you get a kick in gas prices and decide to go ahead and complete those, how long would it take to get all of those wells onto sales?

Man: Well, what we would - most of these are drilled in the Spring Canyon trend.

Kim Pacanovsky: Mm-hm.

Man: And there - again they're really strong wells and so we probably only complete the Spring Canyon in those wells. And at this point in time, we could do at least two wells per week if we were to frac just the Spring Canyon.

Kim Pacanovsky: Okay.

Man: And so we could move on rather quickly.

Kim Pacanovsky: Great. Thanks a lot, guys.

Man: You're welcome.

Operator: Your next question comes from the line of Robert Lynd with Simmons & Company.

Robert Lynd: Good morning, guys.

Man: Hi Robert.

Robert Lynd: With this arrangement with NFR, now much of your current net production are you going to lose based on the working interest that they pick up?

Man: The two wells that were on production I think (have been on) for weeks, so very little.

Robert Lynd: Okay.

And will this arrangement allow you to kind of accelerate to make up for that production in the back half of the year?

Man: Well, I think the - all of the re-completions and initial completions that we've got inventoried will help us make up for it.

Man: Yeah, if you recall, Robert, I had mentioned that we have ten wells that are brand new wells that have yet to be completed. And we have 27 wells in which we have re-completion activity.

And so we can move on those quickly to get our production ramped up if we should begin to encounter higher gas prices, which we are all hopeful will happen towards the end of the year.

Robert Lynd: Okay.

And next question, I - you may've mentioned this earlier. I apologize if I missed it, but the rig that was drilling 100%, I assume it's still on the Mancos - the Federal 14-31 location?

Man: No, that's a rig-less well out there.

Robert Lynd: Okay.

Man: There's a snubbing unit on it now.

Robert Lynd: Okay, there a snubbing unit on it.

Well, the - will that rig move to drill another Mancos shale test?

Man: It could. Right now it's drilling in our field, drilling the Blackhawk wells with NFR.

Robert Lynd: Okay.

Man: I think it's two wells beyond the (unintelligible).

Man: Beyond - that's right. So it's already moved back into the field and we can easily, you know, that well is capable of drilling to these depths. And if we decide to drill another one after we monitor the results of this initial Mancos test, then we can do that.

Robert Lynd: Okay.

So you currently have three rigs drilling Blackhawk wells.

Man: That is correct.

Robert Lynd: Okay. Thanks gentlemen. That's all I had.

Man: Mm-hm.

Operator: Again, if you would like to ask a question, please press star then the number 1 on your telephone keypad.

Your next question comes from the line of Neil Dingmann with Dahlman Rose.

Neil Dingmann: Good morning, guys. Good quarter.

Say, I was wondering, you had mentioned on the Mancos that you're seeing sort of a sustained rate now of the 2.5 million to 2.7 million. How - you know, how long will that continue? Or will you sort of play with that flow rate for a little while until you determine sort of what the optimal rate is?

Man: Well, Neil, right now, I mean, that was a choke-back rate, which I want to emphasize, because we wanted to go ahead and limit the flow-back fluid to flowing it back about 100 barrels per hour.

That was a gauge. It wasn't necessarily the gas flow rate. It was to make sure that we were keeping some back pressure on the formations or so we don't damage it. So we were flowing back about 100 barrels per hour on our frac fluid. And so the 2.5

million to 2.7 million was a result of that.

Now with that being said, we're currently going in the hole with the snubbing unit, so this flow rate will not be there because we'll be drilling out all the plugs.

And we may see that we have some plugs till stuck. Plus you'll recall we still have the initial Mancos test underneath the bridge plug. We'll be drilling that out as well.

So this was just a temporary flow rate for - over the weekend and while we were flowing back frac fluid from the four stages that are above the bridge plug.

Neil Dingmann: Okay.

And then I missed part of this. You mentioned - did you talk about some penalties for getting out of some rig contracts? I was just wondering what the contracts are now as they sit.

Man: We've got three rigs, as you know. The two rigs, Rig 611 and Rig 270 are under contracts that terminate on December 15, of '07. The Rig 99 that we picked up in late March of this year runs through March of 2010.

Neil Dingmann: Okay.

Man: Okay, so…

Man: (Unintelligible).

Man: …the terminations were measured from kind of last - that amount was measured - it's the

daily early release penalty.

Neil Dingmann: (Unintelligible).

Man: So we measure that from the point in time if we have had not known we were going to do (in a bar) when we would've been laying rigs down or pushing them on another operator.

Neil Dingmann: Okay. I gotcha.

And then lastly, as you continue to mention not just your timing, but your costs continue to come down nicely. I mean, how much more, you know, either if you're talking about the frac side or just, you know, some of these other costs, you know, how much more can these costs come down? You've obviously seen a really dramatic improvement over the last year, so?

Man: Yeah, Neil, what we figure right now is if you recall from some of our presentations, we've now drilled a couple wells in 14 days. And we think that those two wells have the potential (and at) at this point in time to be sub-$300 million wells, okay?

But yet we have not completed them, so I don't have the, you know, what the exact costs are going to be on those yet. But we - that's kind of what we're speculating at this point in time.

We do continue to see service costs soften in the field. We are very aggressively bidding out all service costs, both on the drilling and the completion side. So we think we'll continue to see improvements on the investment side for a total well.

Neil Dingmann: Okay. Thanks guys. Look forward to seeing (unintelligible) results.

Man: Thank you.

Operator: Your next question comes from the line of David Tameron with Wachovia.

David Tameron: Congratulations on a - on getting the deal done.

Man: Thank you, David.

Man: Thank you.

David Tameron: And getting back to the deal, so this expires in theory after you drill these 30 wells? I guess it does expire if you drill the 30 wells. Is there a thought to the 2008 program? You know, have they expressed an interest to participate assuming this goes well? Or where do we stand as far as NFR for 2008?

Man: Certainly they have definitely expressed an interest in (unintelligible) investment opportunities with us. So get this one closed and start talking immediately with them and potentially others about financing '08 and beyond.

David Tameron: Okay.

And is that a preference to do this rather than a capital markets transaction, an equity raise?

Man: Well, yes.

And the - part of our analysis is that, you know, we have somewhere between 3000 or up

to maybe 6000 gross locations, most of which aren't getting capitalized into the story.

So if we can accelerate drilling with other people's money, the NAV pickup simply by moving the cash flows forward and exploiting the resource and moving some - more of that into the proved or high quality probable category given where the stock has been the last 12 months, it's a very minimally dilutive way to do it.

Mark Erickson: And I think David - this is Mark.

A key part of that is as we've really started to move into what we'll call more of the development phase and get - you know, we've demonstrated lower costs and quicker drilling days, you know, there appears to be, you know, other sources of capital that are attracted to the project right now where in the past, when we had higher well costs and the economics were running a fine line, you know, we pretty much had to continue with the equity path.

David Tameron: All right. No, that's fair enough.

And what I'm thinking out to 2008, obviously the Riverbend's - the Spring Canyon trend's been delineated and you guys know what you have there.

And I'm just wondering in 2008 how - where does the capital come from to step out and perhaps try to delineate other pieces of the acreage or, you know, take what you've learned in the Spring Canyon and chase - or in this particular Riverbend area and chase, you know, other areas of your acreage?

How do you envision that playing out? Because I assume the NFR is in development. I

mean, the reason NFR jumped in is because you can develop these wells at - presumably at an economic rate to them.

Man: (Unintelligible).

David Tameron: So if you're stepping out to do your own exploration, how do you think about that in '08?

Man: Well, let me speak to NFR and I'll let Mike - Mark talk to '08 and beyond.

You know, for the type deal we did where say you drill a well and get - it's a 40-acre location and so potentially earning a 20-care offset, given the, you know, modest amount of upside they have, you know, that - the type deal we did was a development deal.

Their - you know, the risk profile if they were earning, you know, into a larger area and giving them more upside would be, you know, a little bit different to perhaps a lot different.

Man: I would look, David, at our budget going forward because we've created a huge inventory of what I'll call low hanging fruit. And both in the Riverbend, you know, Spring Canyon trend and, you know, the Wilkin Ridge area of the Kenilworth trend, the Aberdeen trend, is just - with a little bit of cost reduction, that area is going to turn into another development area.

The other thing that we're doing is we've drilled one 12-acre offset already. The results we got from that support what we've always thought, which this play will go to 20-acre spacing. We're drilling the pad program with NFR, the three 20-acre wells

as another pilot project.

So I would just look, you know, at our future drilling. It's going to be heavily weighted towards development drilling, harvesting, you know, from the large inventory of low risk opportunity that we have.

But we are going to continue with the exploration effort, you know, in Gate Canyon, Wilkin Ridge. But expanding the Mancos play, we've got well requirements in those areas because of the units. So you will see some drilling in those areas to continue to expand the play.

But I think you're going to see a much greater emphasis on development as opposed to exploration.

David Tameron: Okay, no. That's - yes. Oh no, thanks for that answer.

Back to the Mancos, obviously Questar is going to have a ton of wells down. They're talking probably close to 20 wells in the deep Mancos. You know, they're talking 3 Bs to 5 Bs a section and perhaps 2 to 3 from some of the Mancos, maybe three to four from that section alone. And I guess it's early obviously with just an additional sales rate.

But what type of EURs are you targeting or do you think this (unintelligible) test kind of leads to? Is it a 3 Bcf, 4 Bcf-type number?

Man: Well, David, Mark says he wants to answer that one.

Mark Erickson: Yeah…

David Tameron: Okay.

Mark Erickson: …thank you.

I'll take that since you're putting a gun to my head.

Man: I'll let him take the bullet, David.

Mark Erickson: And please appreciate that it's very, very early and - in this play.

One thing in our area is we feel really good that the uphole pays based on our previous experience that we're seeing are going to be in the range of 2 Bcf.

And if you look at kind of initial flow rates and rules of thumb that, you know, we all use in the Rocky Mountains, you know, for every million a day, you know, you kind of are targeting about a Bcf of recoverable gas.

So if you're looking at our downhole pay, you know, do I feel pretty comfortable that it might be a 2-Bcf add to the 2 Bcf uphole? I'd say yes, I do, recognizing that it's still - we need some sustained flow rates. We haven't even drilled out the plugs and seen the co-mingled production from the well.

But, you know, the kind of numbers that are being thrown around out there, 3 Bcf to 5 Bcf for these types of wells is with the uphole pay included, I - that's not out of line.

David Tameron: So, I mean, assuming you get the entire pay -- where I'm going with this, you get 4 Bs to 5 Bs form $6 million to $6-1/2 million, so it's kind of the - if I

look out, you know, 6 to 12 months and things work as expected if you continue along the current trend.

Man: Yeah.

I mean, you know, we're going to - this wellbore if you take into account the adjustments for the down rig time and the remediation on the well, you know, all in with science dollars and everything and taking that into account would be about an $8 million.

When you take all of the science out of it and get the drilling down to 60 days or something, which is very realistic and, you know, to be sub $7 million is very realistic. And that's, you know, very early in the phase of this project. So we certainly have targets of getting the well cost down below that.

One of the nice things about the Mancos is it's very inexpensive to complete. We're using slick water fracs, not a lot of proppant. You're really using the natural fracture network there.

So it's a great opportunity to add reserves at a reasonable cost.

Man: And David, I think, you know, there's been some discussion -- I believe we've had some discussion with you that the other operator out here has had, you know, had mentioned about $6 million to $6-1/2 million for a Mancos well.

I would say that's kind of what we're thinking once we get, you know, we do - you know, our - (Chuck Wilson), our drilling manager, yesterday said that, you know, he really believes he can get this down in 55 days. And with those kind of days,

then, you know, we could definitely drive costs out of this wellbore and out of the system.

Man: What, it's about $48,000 a day fully loaded to drill?

Man: That's about right.

David Tameron: Okay. And I promise, just two more questions, one more on the Mancos.

My understanding is Questar's drilling a well literally almost on top of your acreage. Is that correct?

Man: Yeah, they 're - they're drilling - they - well, I don't know if they - if they're actually drilling and turning to the right. But we have seen where they've filed a staking permit and they might have the permit on it as well on just the other side of the river from our Riverbend project. And so they're about two to three miles away from our acreage on the west side of the river.

David Tameron: Okay. And that's a deep Mancos test, correct?

Man: That's what we understand. That's correct, David.

David Tameron: Okay.

Man: Yeah, and David, also recognize that on the east side of the river, we haven't really talked about it that much, but we do have several thousand acres of deep rights, as well as some Wasatch/Mesa Verde rights on the east side of the river.

David Tameron: All right.

And one last question, and I guess maybe this is a Mike question, but I'm not sure.

The seismic shoot that you're doing, where exactly -- I know you said it's in the eastern portion? Where is the seismic shoot in relation to kind of where you have the wellbores down now?

Man: Okay, the 100 miles that was kind of - we call it our phase one (unintelligible) over the Spring Canyon trend. And we purposely designed it so that two of the lines cross in the vicinity of our Mancos test, okay.

The remaining 89 miles will be out in the Wilkin Ridge and Gate Canyon area. And that is like I said, we'll begin recording that here midmonth.

David Tameron: And basic question, what are you hoping to - what are you looking for?

Man: Well, it - just on a - as we had mentioned to Kim, you know, we've just now got the processing back, I mean, literally last week. But we are seeing some structural fabric to the area. We are - think we're seeing some stratigraphy.

But again, this is just really early stages. And we're just trying to tie it out, David.

David Tameron: But yeah, yeah, I know. But, I mean, is it different than - you had some seismic there, right, some older, lower resolution? I mean, is this just better seismic? Or is it new? Is it…?

Man: Well, the seismic that was in the area was old. And it was not a very high quality. I - there'd

been some reprocessing done. I know Newfield had dome some reprocessing of the old seismic -- which we'd seen -- and trying to pull out what they could.

But this - with this seismic, it's new. We have got good reflectors down at depth. We are seeing some detail. We made sure we had good charges in the hole.

Dynamite charges is what we used. And so it's just more modern. We shot it in straight lines. The old seismic was going up and down roads. And so it's - it is - it's state of the start.

David Tameron: Okay. All right. I'll let somebody else jump in. Thanks again and congrats on the deal.

Man: Thank you, David.

Operator: Your next question comes from the line of (Scott Loomis) with Simmons & Company.

Robert Lynd: Hey guys, it's Robert Lynd. Sorry about that, had to jump phones.

I just had a follow-up question. The company-owned rig that's drilling for another operator, when do you get that back? Is it well to well? And what do you do when you get it back?

Man: It's a one-year contract, Robert. And it's out to like April 1 of the next year, of '08. And as we get further on to '08 and better define our plans for drilling, then we'll decide what we're going to do, whether we want to take that rig back or not.

Robert Lynd: Okay. I see.

Would you consider marketing it out to someone else or selling it or…

Man: Yeah.

Robert Lynd: …all options open I guess?

Man: All options are open. Yes to all of the above.

Robert Lynd: Okay. Thanks. That's all I had.

Man: Okay.

Operator: At this time, there are no questions in queue.

Man: Thanks everyone for participating in our second quarter call today.

Man: Thank you.

Operator: This concludes today's conference call. You may now disconnect.

END