



# **Petroleum Development Corporation**

**3Q 2008 Earnings Release**

**November 6, 2008**

**Richard W. McCullough, President & CEO**

**Bart Brookman, SVP Exploration & Production**

**NASDAQ GSM: PETD**



# Disclaimer

The following information contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on Management's current expectations and beliefs, as well as a number of assumptions concerning future events.

These statements are based on certain assumptions and analyses made by Management in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with Management's expectations and predictions is subject to a number of risks and uncertainties, general economic, market or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by Petroleum Development Corporation; actions by competitors; changes in laws or regulations; and other factors, many of which are beyond the control of Petroleum Development Corporation.

You are cautioned not to put undue reliance on such forward-looking statements because actual results may vary materially from those expressed or implied, as more fully discussed in our safe harbor statements found in our SEC filings, including, without limitation, the discussion under the heading "Risk Factors" in the company's annual report on Form 10-K and in subsequent Form 10-Qs. All forward-looking statements are based on information available to Management on this date and Petroleum Development Corporation assumes no obligation to, and expressly disclaims any obligation to, update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

The SEC permits oil and gas companies to disclose in their filings with the SEC only proved reserves, which are reserve estimates that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The Company uses in this presentation the terms "probable" and "possible" reserves, which SEC guidelines prohibit in filings of U.S. registrants. Probable reserves are unproved reserves that are more likely than not to be recoverable. Possible reserves are unproved reserves that are less likely to be recoverable than probable reserves. Estimates of probable and possible reserves which may potentially be recoverable through additional drilling or recovery techniques are by nature more uncertain than estimates of proved reserves and accordingly are subject to substantially greater risk of not actually being realized by the Company. In addition, the Company's reserves and production forecasts and expectations for future periods are dependent upon many assumptions, including estimates of production decline rates from existing wells and the undertaking and outcome of future drilling activity, which may be affected by significant commodity price declines or drilling cost increases.

This material also contains certain non-GAAP financial measures as defined under the Securities and Exchange Commission rules.





# Rick McCullough President & CEO

# Improving Fundamentals

|  | 2008      |           |           |                    |          |
|--|-----------|-----------|-----------|--------------------|----------|
|  | 2006      | 2007      | 1Q        | 2Q                 | 3Q       |
| Production (Bcfe)  | 17        | 28        | 8.5       | 8.8                | 10.2     |
| Proved Reserves  | 323       | 686       | N/A       | 797 <sup>(1)</sup> | N/A      |
| Realized Gas Prices <sup>(2)</sup>                           | \$6.91    | \$6.52    | \$8.16    | \$9.48             | \$9.49   |
| Adj. EBITDA (\$ thousands) <sup>(3)</sup>                    | \$80,285  | \$136,068 | \$43,561  | \$55,542           | \$59,116 |
| Adj. Cash Flow from Operations (\$ thousands) <sup>(3)</sup> | \$29,769  | \$95,626  | \$40,388  | \$59,208           | \$59,108 |
| Adjusted Cash Flow from Operations (/Share) <sup>(3)</sup>   | \$2.00    | \$6.44    | \$2.72    | \$4.02             | \$3.98   |
| Stock Price <sup>(4)</sup>                                   | \$32-\$47 | \$35-\$61 | \$50-\$73 | \$52               | \$20.71  |

(1) The reserves noted are internal mid-year estimates

(2) Equivalent prices including oil sales, natural gas liquids and realized derivative gains and losses. Excludes non-realized derivative gains & losses

(3) See Slides 22 & 23 for GAAP reconciliation of Adjusted EBITDA, Adjusted Cash Flow respectively. Gain on leasehold sale in 2006 excluded.

(4) Monthly closing ranges. Third quarter 2008 amount is the October 31, 2008 closing price.

# Quarterly Highlights & Updates



- 32% production increase 3Q 2008 over 3Q 2007 and 16% production increase in 3Q 2008 over 2Q 2008
- Unrealized hedging gains of \$172.2 MM for 3Q 2008
- Key financial metrics (comparisons to 3<sup>rd</sup> Quarter of 2007):
  - Oil & Gas Sales up 124%
  - Average realized prices per Mcfe up 56% to \$9.49 (including realized derivatives)
  - Adjusted Cash Flow from Operations<sup>(1)</sup> increased \$27.5 MM up 87%
  - Adjusted Net Income<sup>(2)</sup> is \$16.1 MM or \$1.08/share up 112%
  - Costs are generally in line with expectations
- Gysle Shellum named Chief Financial Officer effective November 11, 2008

(1) See Slide 23 for GAAP reconciliation of Adjusted Cash Flow from Operations.

(2) See Slide 24 for GAAP reconciliation of Adjusted Net Income.

# Summary Financial Results

|   | 2007    | 2008    |         |         |
|---|---------|---------|---------|---------|
|   | Annual  | 1Q      | 2Q      | 3Q      |
|   | \$/MCFE | \$/MCFE | \$/MCFE | \$/MCFE |
| O&G Revenues  | 6.26    | 8.45    | 11.23   | 9.76    |
| O&G Operating Margins <sup>(1)</sup>                        | 4.50    | 6.31    | 8.86    | 7.58    |
| Adjusted EBITDA <sup>(2)</sup>                              | 4.87    | 5.14    | 6.36    | 5.81    |
| Adjusted Net Income <sup>(2)</sup>                          | 0.97    | 1.32    | 2.27    | 1.58    |
| Adjusted Cash Flow from Operations Per Mcfe <sup>(2)</sup>  | 3.42    | 4.76    | 6.73    | 5.81    |
| Adjusted Cash Flow from Operations Per Share <sup>(2)</sup> | 6.44    | 2.72    | 4.02    | 3.98    |

(1) O&G Operating Margins is defined as O&G sales less O&G production and well operations costs.

(2) See Slides 22, 23 and 24 for GAAP reconciliation of Adjusted EBITDA, Adjusted Cash Flow from Operations and Adjusted Net Income, respectively.

See Slide 2 regarding Forward Looking Statements





# Summary Financial Results



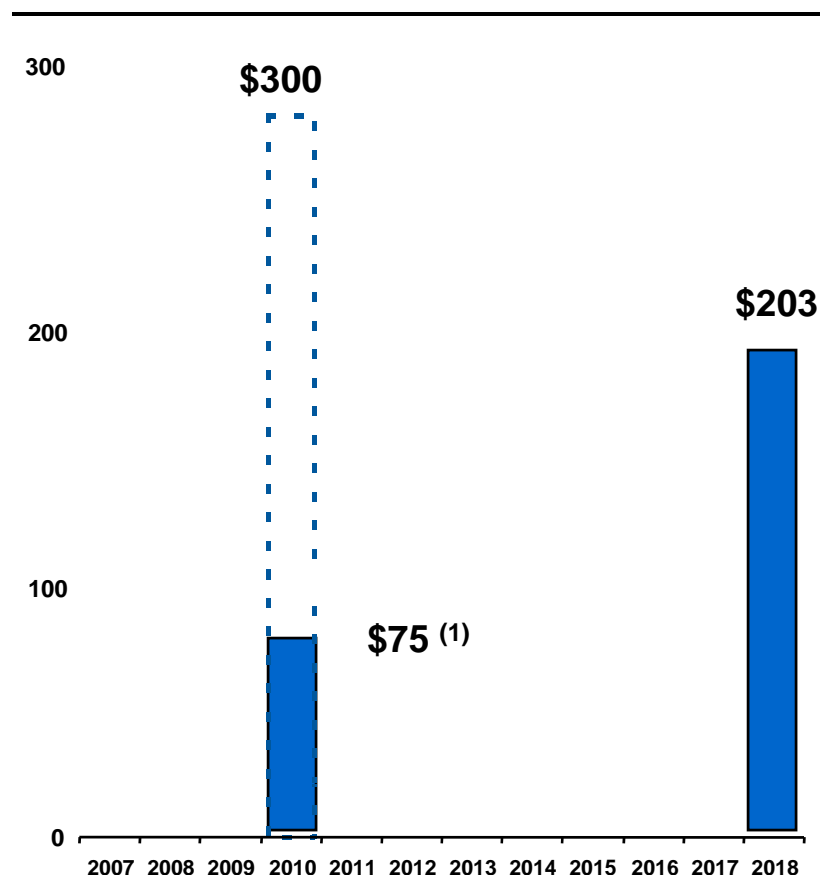
|                             | 2007<br>Annual | 2008    |         |         |
|-----------------------------|----------------|---------|---------|---------|
|                             |                | 1Q      | 2Q      | 3Q      |
|                             | \$/MCFE        | \$/MCFE | \$/MCFE | \$/MCFE |
| DD&A                        | 2.53           | 2.49    | 2.51    | 2.56    |
| G&A <sup>(1)</sup>          | 1.11           | 1.16    | 1.05    | 0.80    |
| Lifting Cost <sup>(2)</sup> | 0.90           | 1.13    | 1.13    | 0.94    |
| Production Taxes            | 0.44           | 0.59    | 0.79    | 0.68    |

(1) 1Q 2008 includes \$3.2MM and 3Q2008 includes \$1.1 MM non-recurring costs associated with executive transition. The 2008 nine month G&A = \$0.99/Mcfe and if non-recurring items above are excluded the nine month G&A = \$0.83/Mcfe

(2) Lifting Cost does not include production taxes.

# Debt Maturity Schedule (\$MM)

- \$300 million revolver matures November 4, 2010
- Maturity schedule reflects:
  - Mitigation of liquidity risk
  - Diversification of funding sources
  - Expect to complete \$75 million revolver borrowing base upsize initiative by mid November 2008
  - Current revolver availability enhanced by expected \$75 million upsize provides strong liquidity position

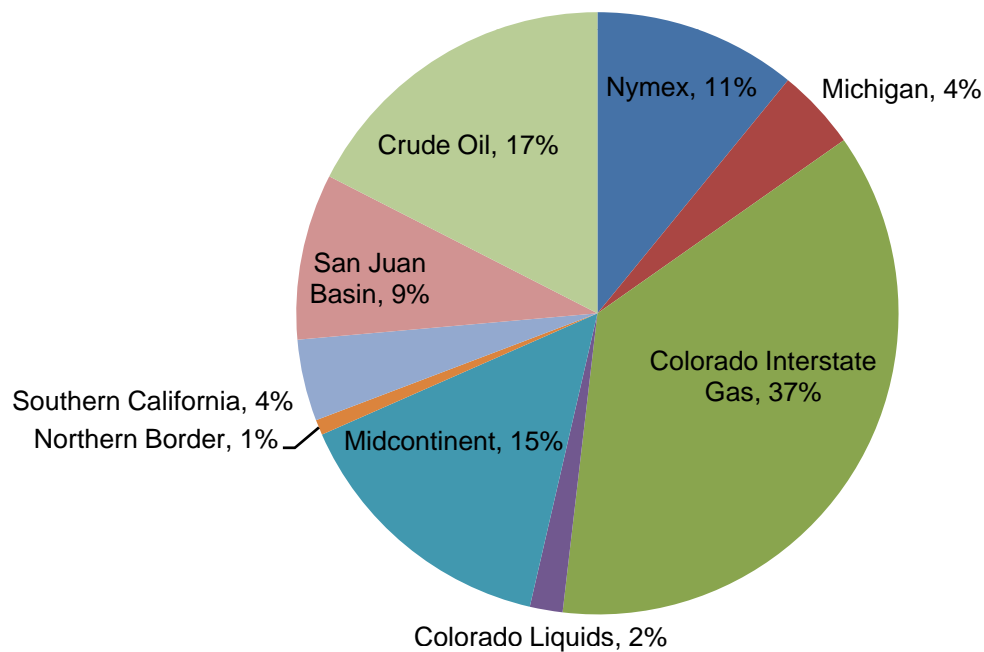


<sup>(1)</sup> \$122 MM Drawn balance and \$47 MM cash balance as of September 30, 2008



# Energy Market Exposure

## Percentage of Mcfe Sold by Market (For Three Months Ended September 30, 2008)



See Slide 2 regarding Forward Looking Statements

# Pro Forma Marginal Economics <sup>(1)</sup>

| Estimated Pricing Scenarios (per Mcfe) |                 |                 |                 |
|--|-----------------|-----------------|-----------------|
| O&G Revenues                           | \$4.00          | \$5.00          | \$6.00          |
| Operating Margin <sup>(2)</sup>        | \$2.23          | \$3.16          | \$4.09          |
| EBITDA <sup>(3)</sup>                  | \$0.46          | \$1.39          | \$2.32          |
| Interest                               | \$0.65          | \$0.65          | \$0.65          |
| F&D/DD&A                               | \$1.35 / \$2.56 | \$1.35 / \$2.56 | \$1.35 / \$2.56 |

- (1) Based on 3Q 2008 production & cost levels
- (2) O&G Operating Margins is defined as O&G sales less O&G production and well operations costs.
- (3) EBITDA calculated similarly to Adjusted EBITDA reconciliation on slide 22.



# Hedges in Place



|  | 4Q 2008 | 2009    | 2010    |
|--|---------|---------|---------|
| Weighted Average Hedge Price                 |         |         |         |
| With Floors                                  | \$9.45  | \$8.73  | \$10.09 |
| With Ceilings                                | \$9.55  | \$10.80 | \$12.03 |
| % of 9/30/08 Production                      | 63%     | 58%     | 19%     |
| Weighted Avg Forward Prices <sup>(1)</sup>   | \$5.91  | \$7.17  | \$7.91  |
| Blended Pricing @ 9/30/08 Production Levels  | \$8.14  | \$8.10  | \$8.51  |
| Blended Pricing @ 20% Increase in Production |         | \$7.94  | \$8.41  |

(1) Assuming forward prices as of October 31, 2008 for unhedged production

See Slide 2 regarding Forward Looking Statements

# CAPEX Spending & Production Growth



|                            | 2006                 | 2007               | 2008                 |
|----------------------------|----------------------|--------------------|----------------------|
| CAPEX Total (\$MM)         | \$146                | \$264              | \$305 <sup>(1)</sup> |
| CAPEX Developmental (\$MM) | \$124 <sup>(2)</sup> | \$224              | \$256 <sup>(1)</sup> |
|                            |                      |                    |                      |
| Organic Production Growth  | 20% <sup>(2)</sup>   | 32% <sup>(2)</sup> | 38%                  |

(1) Projected as of November 2008 for year-end actuals.

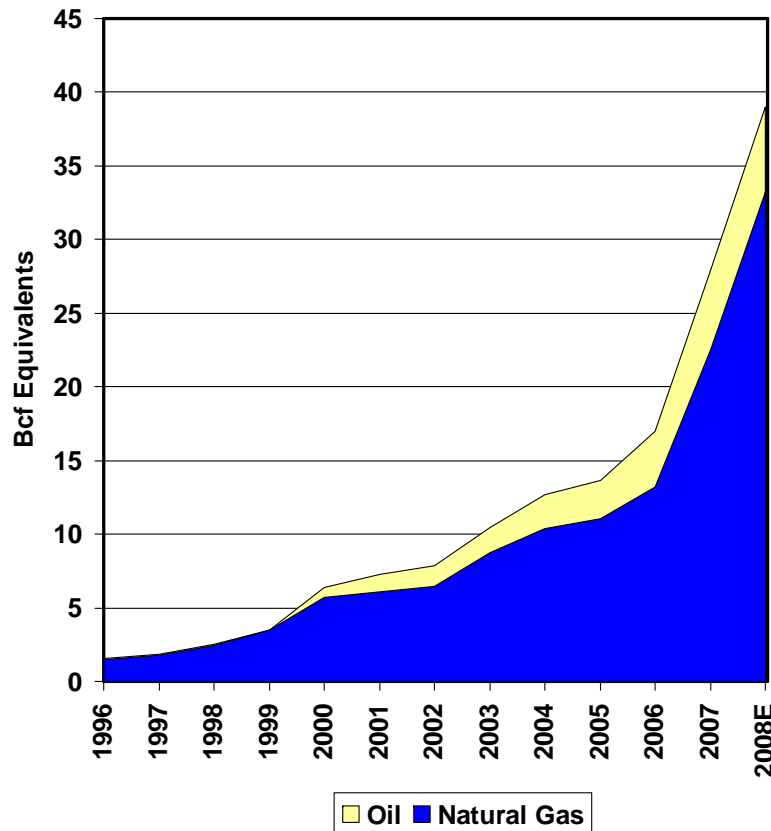
(2) Internal estimate



# Bart Brookman

## SVP Exploration & Production

# Increasing Production

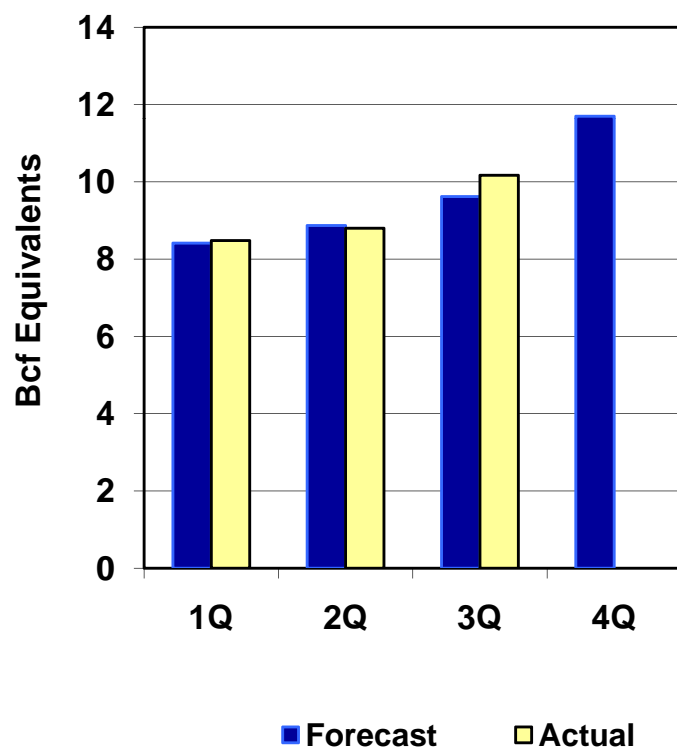


- 32% improvement over 3Q 2007
- Record 10.2 Bcfe 3Q 2008
- 16% improvement over 2Q 2008



# 2008 Production Forecast

2008 Production Forecast



- Estimated 2008 production of 38 - 39 Bcfe.
- Piceance production currently curtailed at 10% – 15%
  - Anticipated curtailments through most of 4Q 2008
- Current production slightly below forecast due to curtailments

# 2008 Production Forecast

2008 Forecast by Area<sup>(1)</sup> (MMcfe)

| Area           | 9 mos Actual | 9 mos Actual / 9 mos Forecast | Forecast |       |       |               | 2008          |
|----------------|--------------|-------------------------------|----------|-------|-------|---------------|---------------|
|                |              |                               | 1Q       | 2Q    | 3Q    | 4Q            |               |
| Rocky Mountain | 23,348       | 103%                          | 7,050    | 7,478 | 8,243 | 9,702-10,152  | 32,473-32,923 |
| Appalachia     | 2,926        | 93%                           | 974      | 1,001 | 1,164 | 1,133         | 4,272         |
| Michigan       | 1,174        | 100%                          | 389      | 388   | 387   | 398           | 1,562         |
| Company Total  | 27,448       | 101%                          | 8,413    | 8,867 | 9,794 | 11,233-11,683 | 38,307-38,757 |

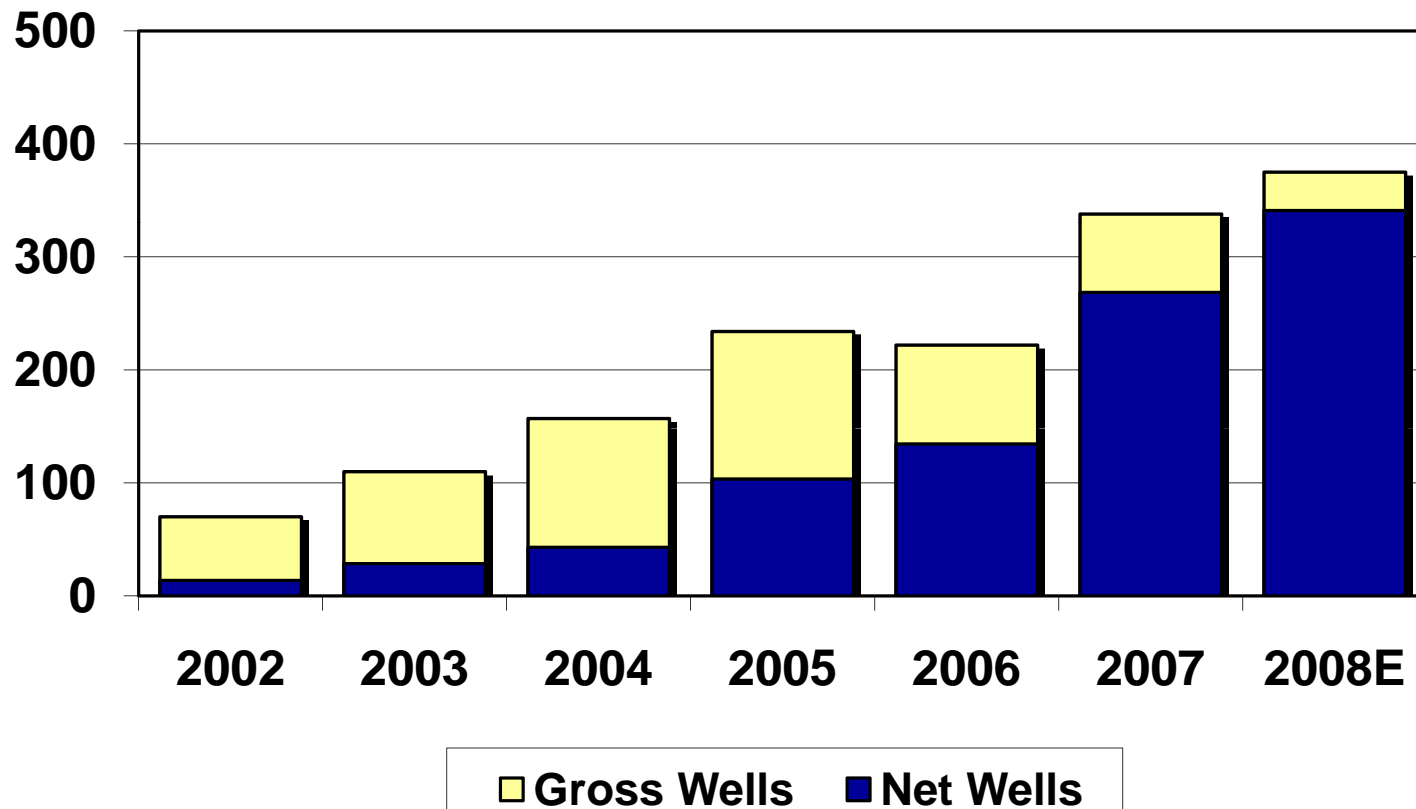
Rocky Mountain Forecast by Area<sup>(1)</sup> (MMcfe)

| Area                 | 9 mos Actual | 9 mos Actual / 9 mos Forecast | Forecast |       |       |              | 2008          |
|----------------------|--------------|-------------------------------|----------|-------|-------|--------------|---------------|
|                      |              |                               | 1Q       | 2Q    | 3Q    | 4Q           |               |
| Wattenberg           | 11,152       | 112%                          | 3,088    | 3,344 | 3,524 | 4,366        | 13,652        |
| Grand Valley         | 8,459        | 99%                           | 2,833    | 2,676 | 3,062 | 3,730-4,180  | 12,301-12,571 |
| NECO                 | 3,517        | 87%                           | 1,077    | 1,370 | 1,583 | 1,470        | 5,765         |
| North Dakota         | 153          | 71%                           | 52       | 88    | 74    | 60           | 323           |
| Other                | 68           | NA                            | NA       | NA    | NA    | 76           | 76            |
| Rocky Mountain Total | 23,348       | 103%                          | 7,050    | 7,478 | 8,243 | 9,702-10,152 | 32,473-32,923 |

(1) 4Q 2008 & 2008 total forecast revised November 2008

See Slide 2 regarding Forward Looking Statements

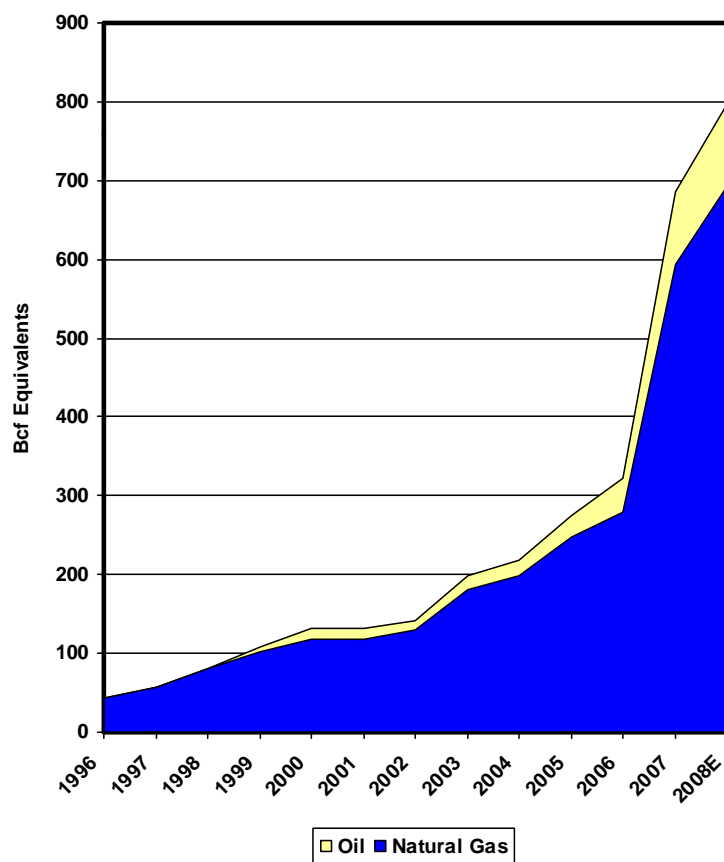
# Drilling Activity



See Slide 2 regarding Forward Looking Statements

# Reserves

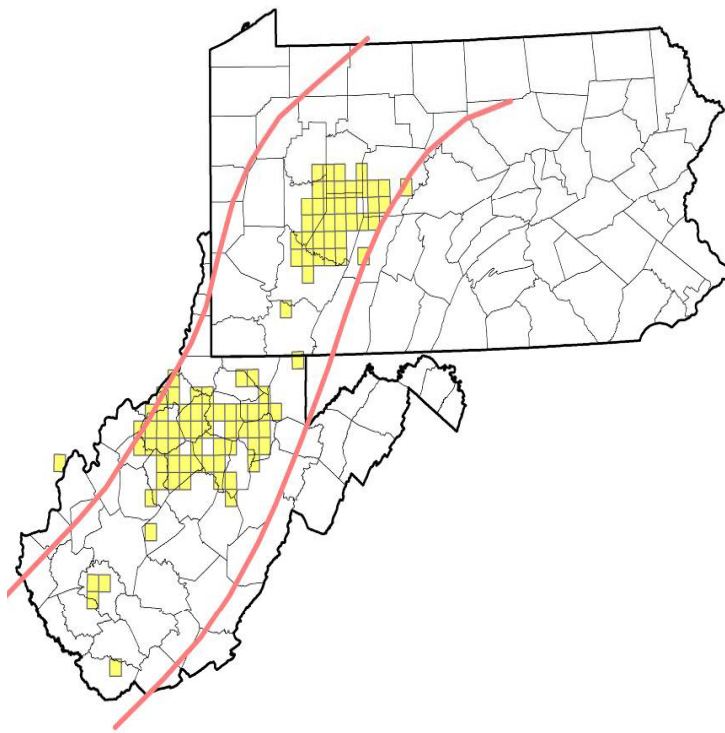
## Mid-Year 2008 Reserves Summary



- 797 Bcfe proved reserves
- 15% improvement from YE 2007
- 1.17 Tcfe 3P reserves<sup>(1)</sup>
- 3P does not include Barnett or Marcellus

(1) The reserves noted are internal estimates

# Marcellus Update



■ PDC Areas of Operations

\* Subject to upward or downward adjustment depending upon obtaining necessary curative instruments to perfect title

See Slide 2 regarding Forward Looking Statements

- 11,000 net Marcellus acres in Central PA\*
- 25,000 net Marcellus acres in WV\*
- 16,500 net shallow Marcellus acres in NY\*
  - 3,000 ft depth, under pressured, & lower per well reserves expected
- Majority of PA & WV acreage is HBP
- Will commence drilling 1<sup>st</sup> PDC Marcellus test in WV Nov 12
- 4 Marcellus tests are planned in 4Q 2008 & early 1Q 2009
- Strong technical focus on Marcellus in 2009

# 2008 4Q Developments



- Modest slowdown in drilling in Wattenberg & NEOCO relative to plan
- Production curtailment in Piceance anticipated through late 4<sup>th</sup> quarter – approximately 10,000 mcf/day
- Drilling will begin on first Marcellus well in WV
- Production gains in Appalachian basin anticipated with lower line pressures and colder weather
- Very strong production in Wattenberg
- Startup of facility expansions in Wattenberg anticipated in mid-2009
- Fourth Barnett well fraced early Nov – closely monitoring production/reserves/ pricing – early economic results marginal
- Up to four Bakken tests planned on North Dakota acreage – Joint Venture – minimal capital commitments by PDC



# 3Q 2008 Financial Results



## A P P E N D I X

# Adjusted EBITDA Reconciliation

(\$ in thousands)

| <u>Adjusted EBITDA</u>           | <u>2006</u>     | <u>2007</u>      | <u>1Q08</u>     | <u>2Q08</u>     | <u>3Q08</u>     |
|----------------------------------|-----------------|------------------|-----------------|-----------------|-----------------|
| Net Income(loss)                 | \$237,772       | \$33,209         | (\$13,928)      | (\$40,712)      | \$129,896       |
| Gain on Sale of Leasehold        | (\$328,000)     | -                | -               | -               | -               |
| Unrealized Derivative (Gain)Loss | (7,252)         | 4,417            | 39,899          | 86,444          | (172,154)       |
| Litigation Provision             | -               | 1,500            | -               | 4,195           | (170)           |
| Interest, net                    | (5,607)         | 6,617            | 4,661           | 6,319           | 7,666           |
| Income Taxes                     | 149,637         | 20,981           | (8,202)         | (22,809)        | 68,233          |
| Depreciation                     | 33,735          | 70,844           | 21,131          | 22,105          | 28,645          |
| <b>Adjusted EBITDA</b>           | <b>\$80,285</b> | <b>\$137,568</b> | <b>\$43,561</b> | <b>\$55,542</b> | <b>\$59,116</b> |

See Slide 2 regarding Forward Looking Statements

# Adjusted Cash Flow Reconciliation

(\$ in thousands)

| <u>Adjusted Cash Flow Operations</u>          | <u>2006</u> | <u>2007</u> | <u>1Q08</u> | <u>2Q08</u> | <u>3Q08</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Net Cash Used in Operating Activities         | \$67,390    | \$60,304    | \$48,789    | \$18,942    | \$36,062    |
| Changes in Assets & Liabilities to Operations | (37,621)    | 35,322      | (8,401)     | 40,266      | 23,046      |
| Adjusted Cash Flow from Operations            | \$29,769    | \$95,626    | \$40,388    | \$59,208    | \$59,108    |

See Slide 2 regarding Forward Looking Statements

# Adjusted Net Income Reconciliation

(\$ in thousands)

| <u>Adjusted Net Income</u>        | <u>2007</u>     | <u>1Q08</u>     | <u>2Q08</u>     | <u>3Q08</u>     |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net income (loss)                 | \$33,209        | (\$13,928)      | (\$40,712)      | 126,896         |
| Unrealized derivative (gain) loss | (4,417)         | 39,899          | 86,444          | (172,154)       |
| Litigation provision              | 1,500           | -               | 4,195           | (170)           |
| Tax effect                        | (1,632)         | (15,042)        | (29,467)        | 61,520          |
| Adjusted net income               | <u>\$28,660</u> | <u>\$10,929</u> | <u>\$20,460</u> | <u>\$16,092</u> |

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