

**Rating Action: Moody's assigns B2 Corporate Family Ratings to Sheridan partnerships**

---

Global Credit Research - 23 Dec 2010

**Approximately \$950 million of debt affected**

New York, December 23, 2010 -- Moody's Investors Service assigned a first time B2 Corporate Family Rating (CFR) to each of Sheridan Investment Partners I, LLC, Sheridan Production Partners I-A, L.P., and Sheridan Production Partners I-M, L.P. (collectively Sheridan). The Probability of Default Rating and the ratings outlook for each is B3 and stable, respectively.

In addition, Moody's assigned the following ratings to each entity:

Sheridan Investment Partners I, LLC - senior secured debt rating: B2; loss given default: LGD3, 34%

Sheridan Production Partners I-A, L.P. - senior secured debt rating: B2; loss given default: LGD3, 34%

Sheridan Production Partners I-M, L.P. - senior secured debt rating: B2; loss given default: LGD3, 31%

"The B2 CFR reflects Sheridan's low risk reserve base and strong credit metrics relative to its peer companies," said Stuart Miller, Moody's Vice President. "The rating also considers the short operating history, limited reserve growth potential, and the complex organizational structure of Sheridan."

Sheridan's reserve base is very low-risk. There is sufficient production history for each of the properties so that decline curve analysis can be used to estimate remaining proved producing reserves and future production rates with a high degree of certainty. Sheridan's drilling locations are primarily infill and down-spacing which allows it to report a high drilling success rate and very low drill bit finding costs. In addition, Sheridan has relatively strong credit metrics for a company its size. Debt to proved developed reserves is low at \$7.11 per BOE. Based on the last year of operations, Sheridan reported relatively low finding and development costs of \$11.22 per BOE, and good capital productivity with a leveraged full-cycle ratio of 2.7X. While leverage measured by the ratio of debt to average daily production is high for its rating category at \$35,116 per BOE, this is offset by the very long life of the Partnership's reserves.

Sheridan has a short operating history, having been formed in 2006. It has a unusual organizational structure that was created to address business and tax considerations of a diverse mix of individual, corporate, and tax-exempt investors. Moody's ratings recognize the inter-dependence of the three issuers, including a common borrowing base; however, certain structural elements require evaluation of each entity separately and could result in different ratings across the three partnerships in the future. The more complex organizational structure and different investor groups introduces uncertainty into when a default may occur, and therefore the ultimate recovery for creditors may be affected should an event of default occur. The unusual structure also limits its growth potential. Sheridan originally had \$1.3 billion of equity commitments and has already invested \$1.1 billion of that amount. Once the remaining equity commitment is called and spent, Sheridan's priorities will likely shift from an acquire and exploit strategy to a reserve liquidation and cash distribution model. Therefore, there is limited growth potential for Sheridan beyond its current portfolio of properties.

Due to the limited growth prospects and expectations for a relatively aggressive plan to distribute cash flow, a positive rating action is unlikely in the future. A negative rating action could occur if Sheridan's leverage increases as a result of debt financed acquisitions or if a ramp up in distributions to the limited partners were to occur.

The principal methodologies used in this rating were Independent Exploration and Production (E&P) Industry published in December 2008, and Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009.

**REGULATORY DISCLOSURES**

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, and confidential and proprietary Moody's Investors Service information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of assigning a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website [www.moodys.com](http://www.moodys.com) for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

New York  
Stuart Miller  
Vice President - Senior Analyst  
Corporate Finance Group

Moody's Investors Service  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

New York  
Steven Wood  
MD - Corporate Finance  
Corporate Finance Group  
Moody's Investors Service  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

Moody's Investors Service  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653



© 2010 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS

and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.