

Proprietary and Confidential

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# Rockcliff Energy LLC

**Alan Smith**

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**IPAA Private Capital Conference**

**January 22, 2016**

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# Thought-Provoking Quotes

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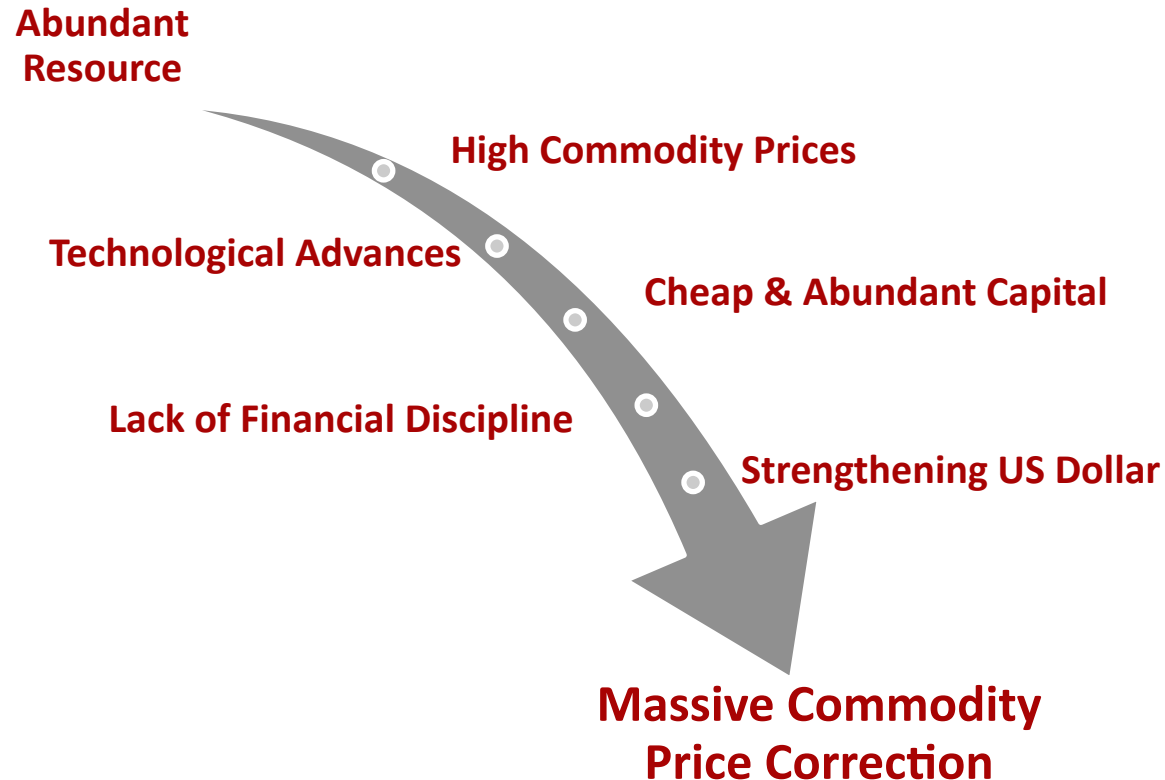
***“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness.....”***

***Charles Dickens, A Tale of Two Cities***

***“Markets can remain irrational longer than you can remain solvent.”***

***John Maynard Keynes, English Economist***

# The End of a Huge Commodity Bull Run



**Result: Liquidity Crisis and/or Balance Sheet Rehab**

# **We Now Live in a Dramatically Altered State...**

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- **Companies are hunkering down**
  
- **Prudent operators living within cash flow**
  
- **Access to capital has dried up or is significantly reduced**
  - **Borrowing base squeeze accelerating**
  - **Capital markets closed for most E&Ps**
  
- **Foregoing growth to protect balance sheets**
  - **Companies striving to avoid going on decline**
  - **Investors are cool or fleeing the space**
  
- **Intellectual honesty as to cash flow and returns is finally occurring**
  - **Likely to see a shift in portfolio / investment decisions**

# ...Leaving Us with the “Have’s” & “Have Not’s”



Have's – Established Players & New Entrants	Have not's
<ul style="list-style-type: none"><li>• Strong balance sheet / reasonable leverage ratios</li></ul>	<ul style="list-style-type: none"><li>• Over-levered with tight to busted covenants</li></ul>
<ul style="list-style-type: none"><li>• Access to capital</li></ul>	<ul style="list-style-type: none"><li>• Limited or no access to capital</li></ul>
<ul style="list-style-type: none"><li>• Built a top tier rock position</li></ul>	<ul style="list-style-type: none"><li>• Significantly under hedged</li></ul>
<ul style="list-style-type: none"><li>• Significant HBP acreage</li></ul>	<ul style="list-style-type: none"><li>• Expiring acreage</li></ul>
<ul style="list-style-type: none"><li>• PE-backed, proven teams with significant dry powder</li></ul>	<ul style="list-style-type: none"><li>• Lower tier rock / multiple basins (lack of focus)</li></ul>

**Opportunistic sales or JV's to improve B/S or extend CF**

**Forced to sell assets, restructure or liquidate**

# So, When Will the Dam Break?

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## The dam will break when:

- Production growth is no longer the driver of capital allocation decisions
- Focus becomes balance sheet health – regardless of being a Have or Have Not
- Banks decide that they must take action instead of kicking the can down the road
- Companies run out of creative, financially engineered “life lines”

**Likely to occur in 2<sup>nd</sup> half of 2016**

# Rockcliff's Track Record



	Chalker Energy Partners I	Chalker Energy Partners II	Chalker Energy Partners III	QRF	QR Energy MLP
<b>Role</b>	CEO	Chairman	Lead Director	CEO	CEO
<b>Time frame</b>	2003 – 2006	2006 – 2008	2008 – 2012	2009 – 2015	2010 - 2014
<b>Asset locations</b>	East Texas	East Texas	Texas Panhandle	Permian, Mid-Con, Ark-La-Tex	Permian, Mid-Con, Ark-La-Tex
<b>Equity Source</b>	Private Equity	Private Equity	Private Equity	Institutional LP Equity	Public Equity
<b>Strategy</b>	Acquire & Lease/ Drill	Acquire & Lease/ Drill	Acquire & Lease/ Drill	Private MLP	Public MLP
<b>Major acquirer</b>	Forest Oil	NFR	Jones Energy	Various	Breitburn
<b>Gross transaction value (\$mm)</b>	\$255.2	\$461.5	\$371.0	\$2,376.0	\$3,039.0

# Rockcliff's Approach



	<u>Risk</u>	<u>Allocation</u>
Acreage/ Leasing		25%
Joint Ventures		25%
Acquisitions		50%

**\$650 MM in Equity Offers:**  
Differentiation from most of our competitors  
Ability to pursue larger transactions  
Ability to play in 2 areas  
Opportunity to optimally develop an asset

**Designed to achieve the best risk-adjusted returns**



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