



IPAA Private Capital Conference

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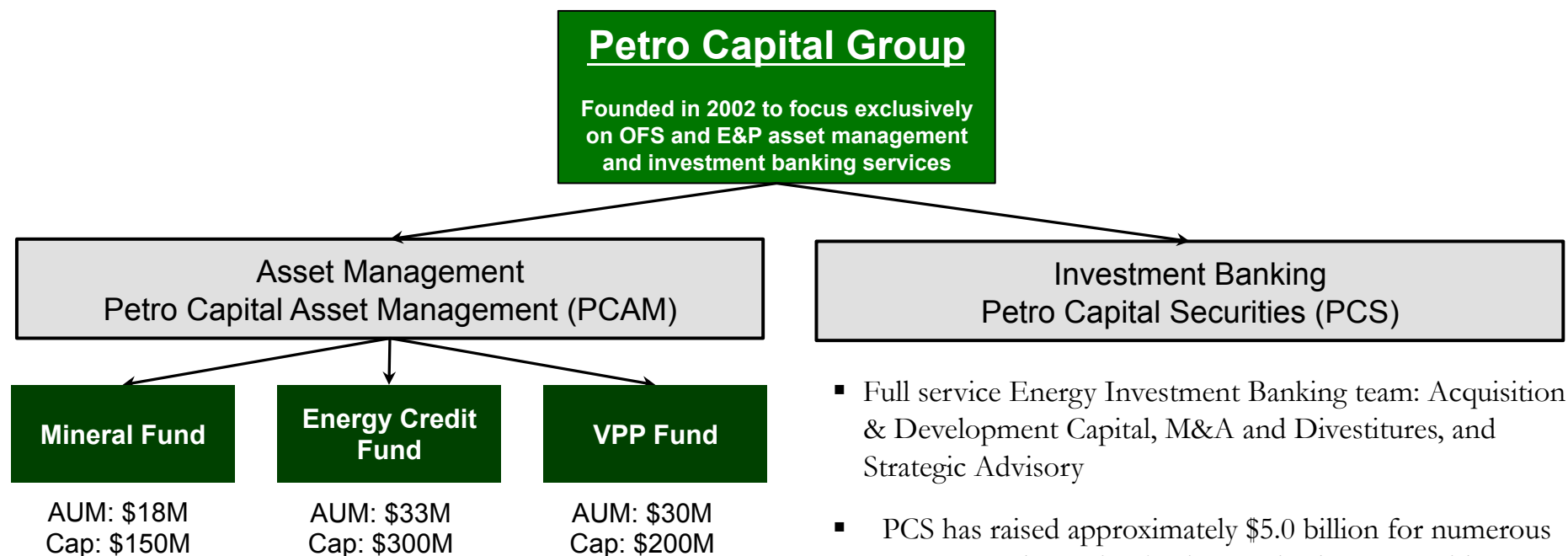
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www.petrocapitalfunds.com

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**PETRO
CAPITAL
GROUP**

Petro Capital Group Overview



- Highly experienced team of ten professionals have collectively executed more than 100 energy transactions over 20+ years, through multiple hydrocarbon pricing and financial cycles
- Since inception, PCG has invested ~\$300 million in the energy sector
 - Completed 46 investments in 26 companies
 - PCG has managed two credit funds and many special purpose vehicles & co-investments focusing on debt and control equity investments

- Full service Energy Investment Banking team: Acquisition & Development Capital, M&A and Divestitures, and Strategic Advisory
- PCS has raised approximately \$5.0 billion for numerous start-up and ongoing businesses in the E&P, midstream and OFS sectors
- All bankers have experience in technically focused transactions across the energy sector; their transaction history totals more than \$100 billion of value

Petro Capital Energy Credit

- **Senior Secured Debt** – focus on debt, debt with equity kickers, and control equity in small cap E&P and oilfield service companies
- **Red Rock Mineral Fund** - a newly established fund in partnership with an experienced E&P operator to acquire mineral interest at historically low prices in advance of, and adjacent to, their drilling program
- **Volumetric Production Payments** - monetize future hydrocarbon production

What Was a Volumetric Production Payment?

PRESENTATION
OF
CACTUS HYDROCARBON LIMITED PARTNERSHIP 1992-A

Contact List



ENRON GAS SERVICES CORP.

July 1992

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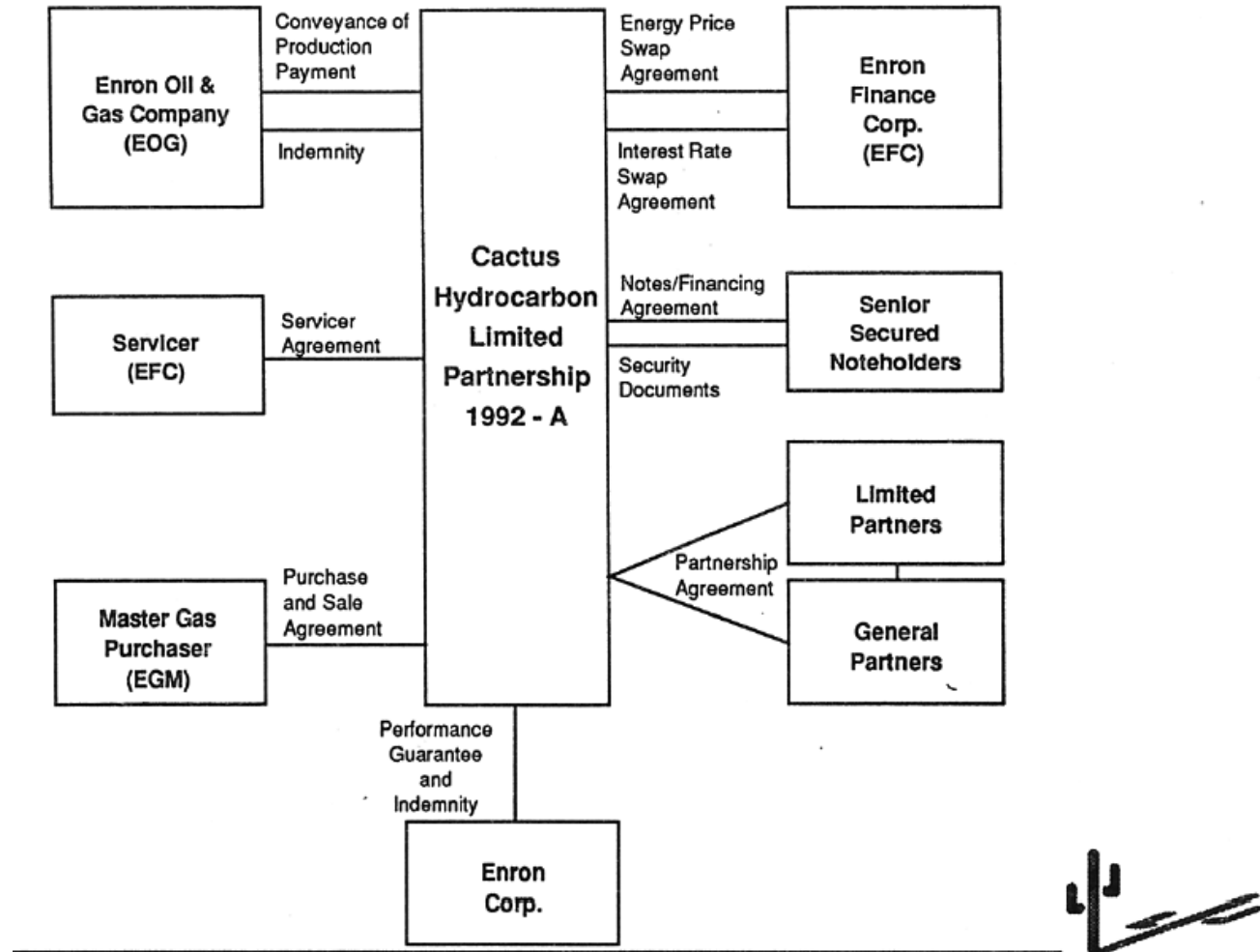
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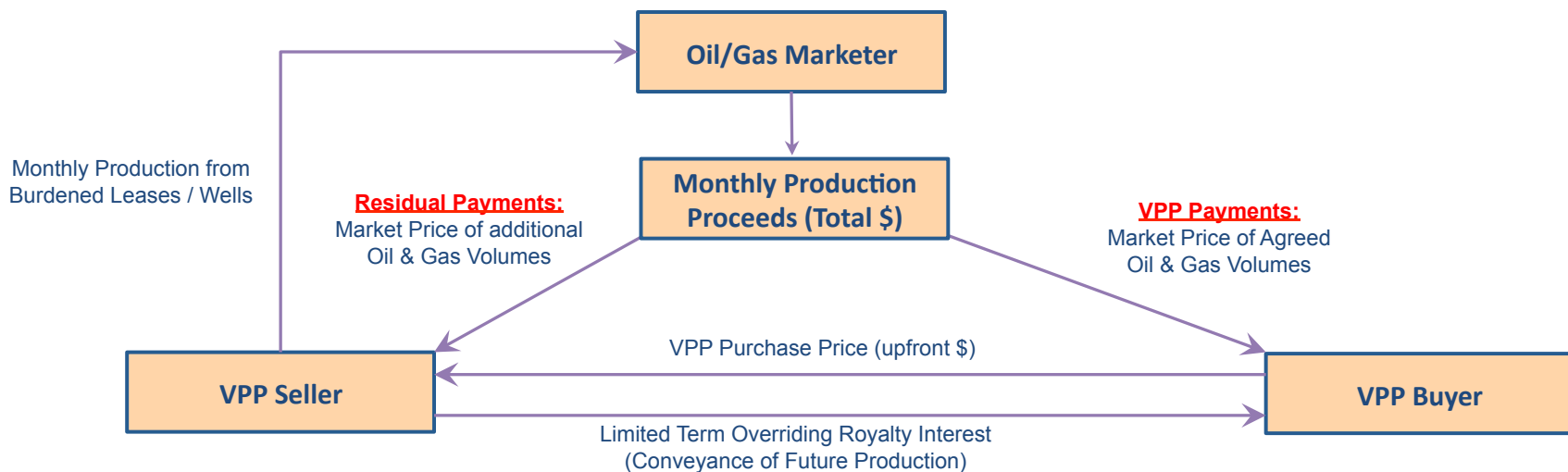
What Was a Volumetric Production Payment?

Basic Legal Documentation



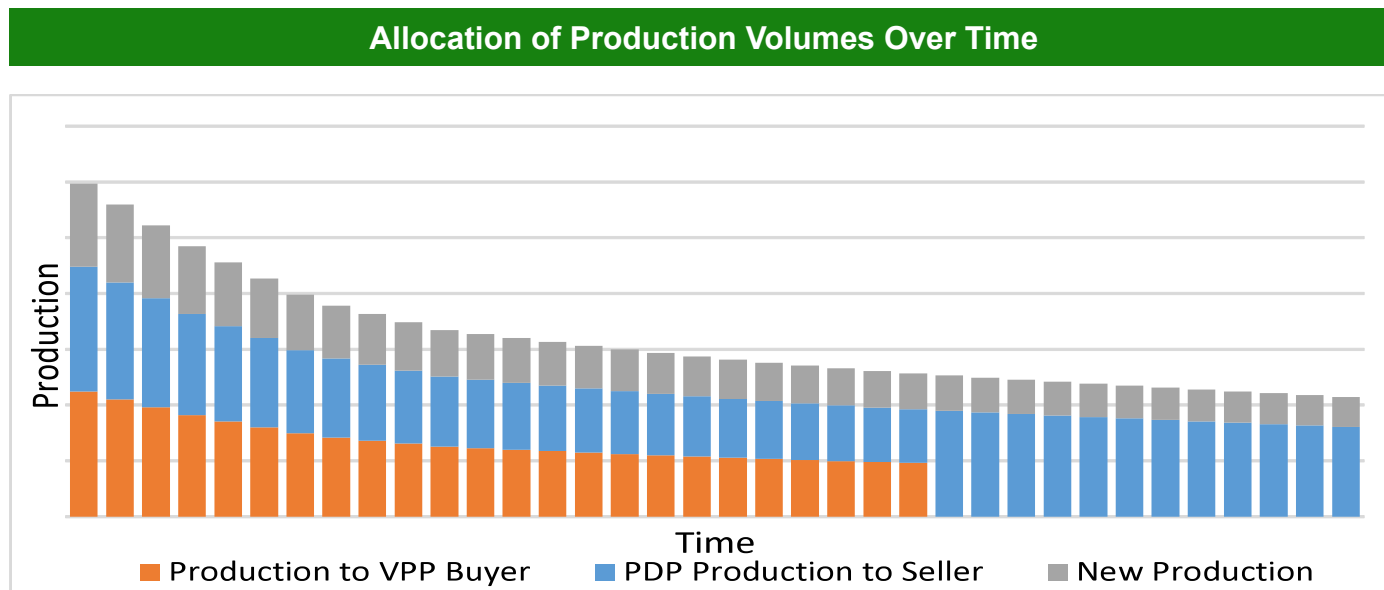
What is a Volumetric Production Payment?

- A Volumetric Production Payment (“VPP”) is a transaction whereby a seller agrees to deliver a specified hydrocarbon volume to the buyer over a period of time in exchange for an upfront payment of cash
- A VPP is conveyed through the sale of a limited term overriding royalty interest (ORRI) in a specific group of leases
- When the total volume has been delivered to the buyer the VPP terminates and the seller interest returns back to the prior NRI



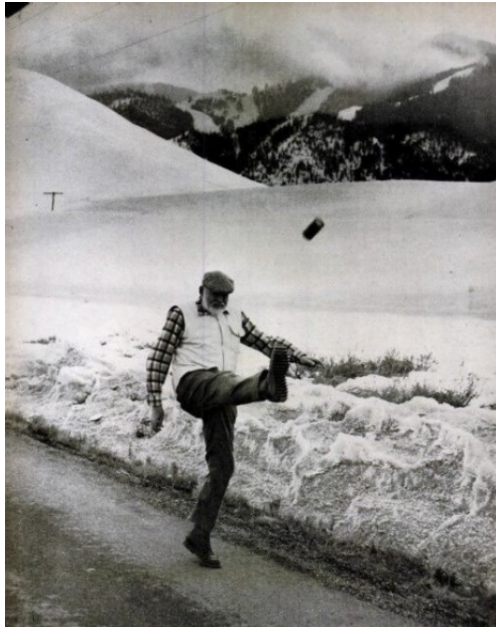
What is a Volumetric Production Payment?

- VPPs can be used to monetize a portion of existing reserves enabling the producer to raise capital from its specific leases while keeping control over the assets and maintaining the upside from enhancements of reserves and production.
- Recourse only to be specified lease interests and not other assets
- No financial covenants or personal guarantees



What is a Volumetric Production Payment?

- The proceeds of a monetization transaction can be used to:
 - Pay down debt



- Increase exploration and development spending
- Fund acquisitions

Reasons to Sell a VPP – Alternative to Asset Sale

The sale of a VPP has advantages to selling the asset outright:

- Keep 100% of asset's upside potential (including upside from future technologies)
- Not a taxable event
- Maintain operational control
- Ability to size VPP to amount of desired proceeds only

Reasons to Sell a VPP – Alternative to Asset Sale

A VPP is simple, can be very competitive versus debt financings based on advance rates and documentation

Simplicity

- Obligations are non-recourse to seller
- No financial covenants
- Lower up front costs
- No personal or corporate guarantees
- VPP buyer is responsible for hedging, not seller

Competitive

- Why sell in a down market?
- Closes faster than bank debt
- Allows for acquisition of reserves without significant equity component

Documentation

- Purchase & Sale Agreement
- Limited Term Overriding Royalty
- Marketing Agreement



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