January 22, 2016

IPAA Private Capital Conference

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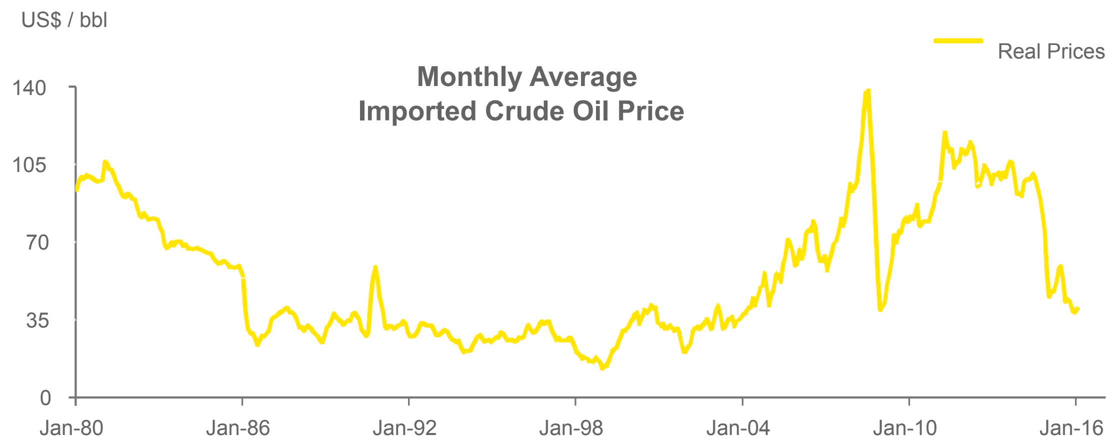
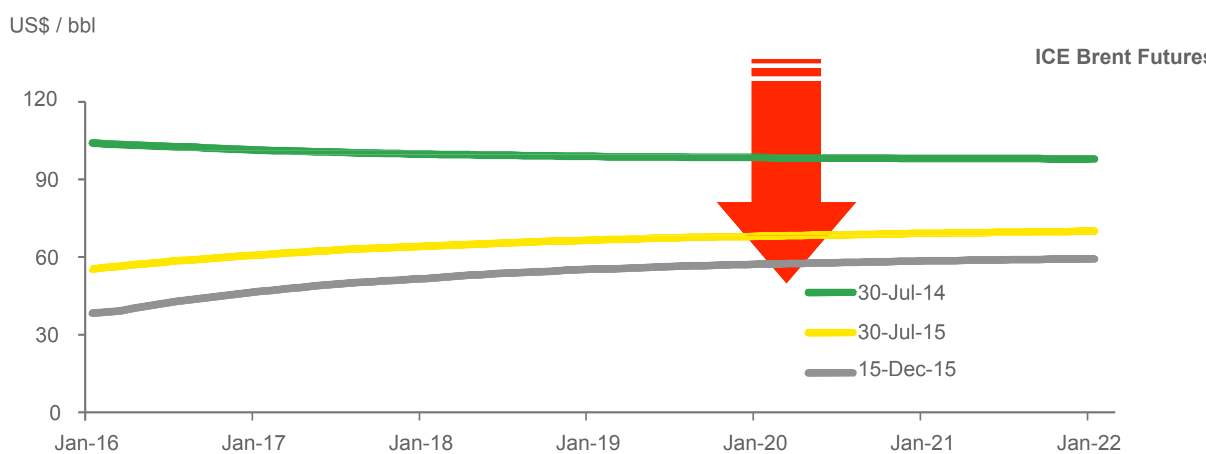
Capital markets

- 2015 was met with an abrupt slowdown in marketed deals and the dearth of IPO activity, as the impact of the commodity price volatility was felt far and wide.
- Energy IPO offerings did not fare well in the challenging market for energy-related securities (closing the year down significantly from initial trading prices).
- Follow-on and secondary offerings were met with a similar reaction from the market, and energy companies were met with (and continue to meet) challenging market conditions.
- Alternative financing (including preferred equity arrangements and other private-equity back financings) may provide a bridge until the public markets effectively re-open for the majority of energy-linked operations.
- With respect to master limited partnerships, the fallout from the commodity prices effectively wiped out 5 years of gains in 12 months (in the Alerian).
- 2016 may be similar to 2015, with equity markets being available to only the cream of the crop, until commodity prices rebound.

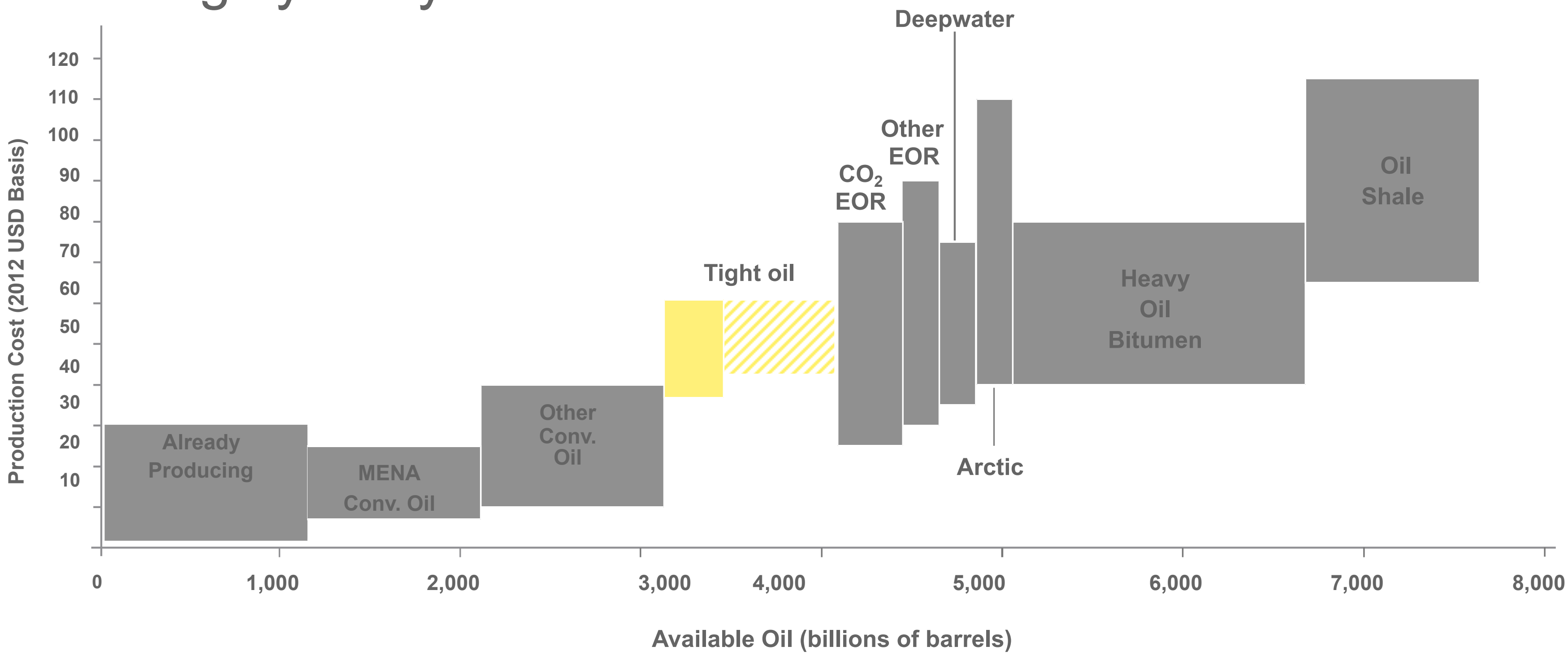
Significantly lower oil price expected to remain for several years, creating substantial stress on E&P companies





Shale plays have disrupted the traditional supply curve with technology and cost improvements

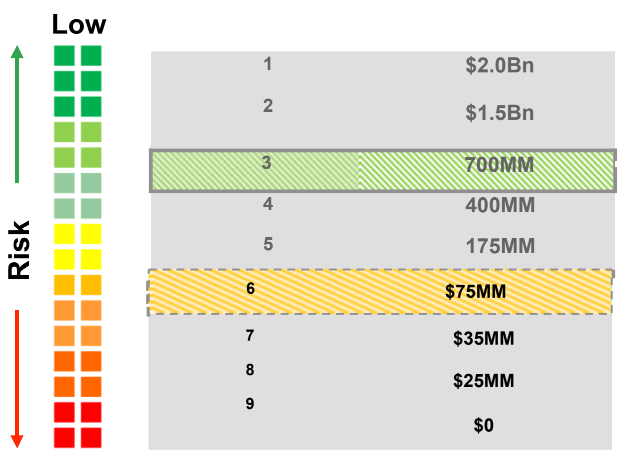
- Geologic factors limit reported shale reserves to proved; industry consensus indicates approximately 1 trillion boe as highly likely



Source: IEA World Energy Outlook, EY analysis

A new development in this cycle is the increased scrutiny from the US bank regulators on oil & gas lending portfolios

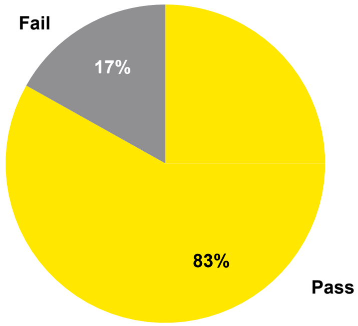
Illustrative ratings / lending limits



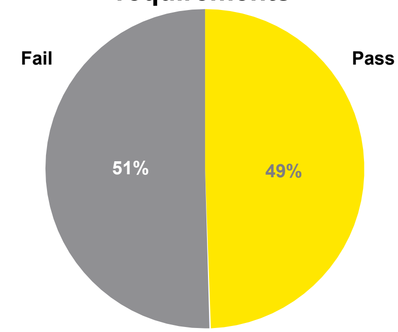
- Bank regulators are applying enhanced scrutiny to oil and gas lending portfolios
- Multi-notch downgrades are expected, significantly impacting borrowing capacities
- Any credit exposure that exceeds the maximum lending limits is highly scrutinized, which creates pressure for banks to offload excess exposure or push borrowers to reduce credit facility sizes
- Lead banks are required to communicate downgrades to all syndicates, effectively freezing alternate bank financing sources

Public E&P companies susceptible to failure of regulatory requirements

Interest coverage ratios



Payback period requirements



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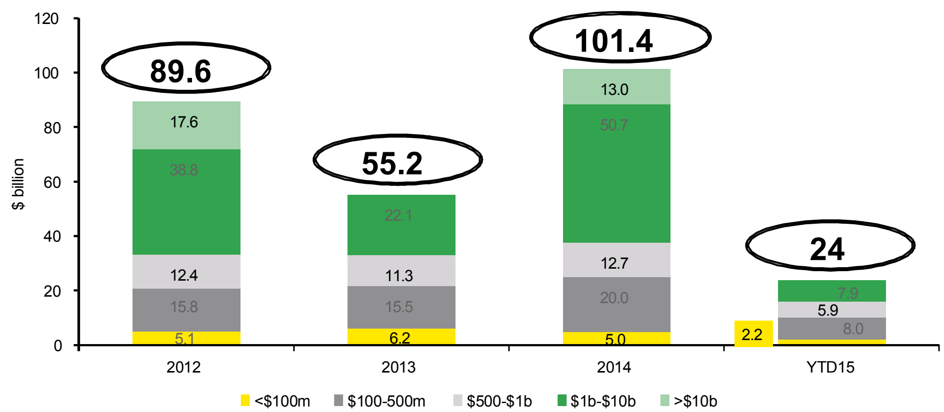
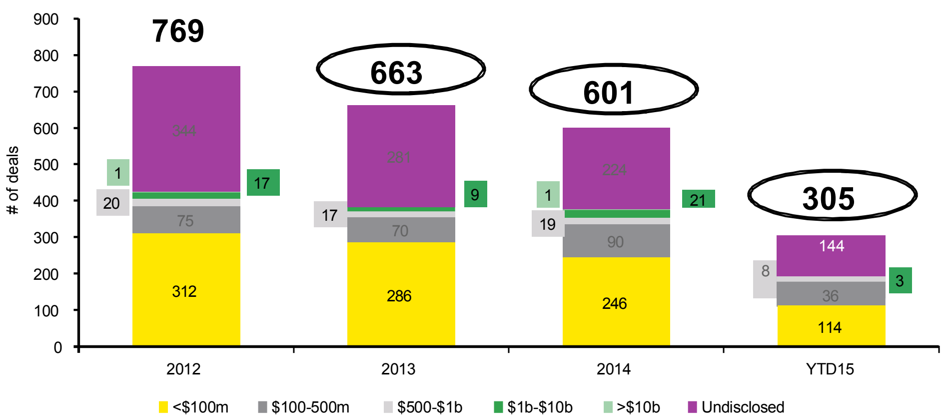
A valuation gap has muted transaction activity in 2015, but that gap may be closing due to increased levels of financial stress as the downturn persists

Transactions - Deal Value



Transactions - Deal Count



- Bid ask differentials have muted 2015 transaction activity
- Valuation gaps have largely been driven by divergent outlooks on the future price of oil between buyers and sellers
- Further liquidity pressure is expected to close the valuation gap
  - Banks are expected to further contract on exposure to the industry
  - Deferral of drilling capital will decrease production and reserves; negatively impacting future cash flow and borrowing base

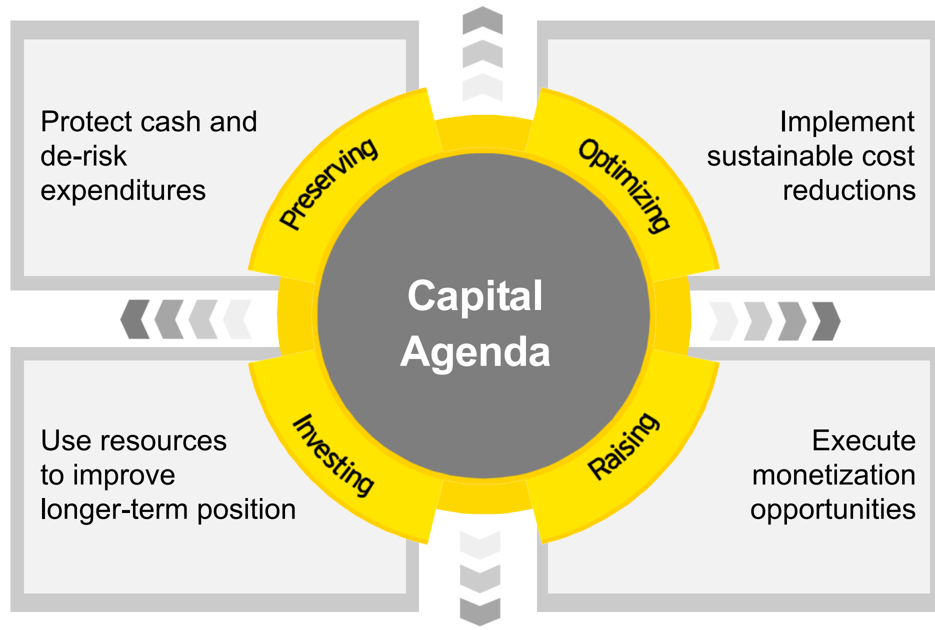
This time, however, a more sophisticated response using levers in all areas of the Capital Agenda may be required

Why might this cycle be different?

- Possible structural shift in the supply curve
  - Prolonged downturn
  - Increased commodity price volatility
  - Abundance of accessible reserves
- Demand headwinds

Specific response strategies will depend on:

- Relative competitive strengths and weaknesses
  - Operating capability
  - Portfolio attributes and optionality
  - Financial urgency



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Types of potential investors

Domestic Strategic

- Looking to expand reserve base or supplement current geographic position
- Exert more control over operations
- Includes entities such as BG, BHP, Statoil, thus includes Non US HQ Companies with US footprint already
- Domestic majors generally want to purchase outright but will do carry deals if acreage is highly attractive

Financial (PE) Investor

- Will look for exit in near term-potentially 2-3 years
- Cash waterfall model looking at multiple on investment at exit
- Less operational pressure but may impose more financial oversight and pressure to exit sooner than management team desires thus need flexible structure to allow independent exit if possible

Institutional Investor

- Longer term profile with same operational control benefits as PE investor
- Will still be focused on exit and there may be some pressure to make distributions
- Interested in long term cash flow post development and classification of income

Individual Investors

- Return/yield focus
- Long-term investment horizon
- Focus on classification of income and character
- Limitations on losses depending on level of management/participation and business operations

Types of potential investors (cont.)

Sovereign Wealth Funds

- Qualification as a Sovereign Wealth Fund under Section 892
- FIRPTA impact
- Passive investment
- Return focus
- Longer-term investment focus
- Diversification

Foreign Financial (PE) Investor

- Will look for exit in near term - typical PE model
- Cash waterfall model looking at multiple on investment at exit
- Less operational pressure but may impose more financial oversight and pressure to exit sooner than management team desires thus need flexible structure to allow independent exit if possible
- Unlikely to qualify for U.S. tax treaty benefits

Foreign Corporate Investor

- U.S. tax treaty qualification
- FIRPTA and exit planning
- Longer-term investment focus
- Knowledge transfer
- Corporate versus flow-through structure
- Compliance burden

Domestic PE Investor with Foreign Limited Partners

- Impact on return to foreign limited partners
- Cash waterfall model looking at impact to limited partners as well as the multiple on investment at exit
- Desire to exit early
- Financial oversight
- Compliance burden

Financing developments

- Alternative financing for drilling and development programs has continued to evolve.
- Although the recently popular “carried interest” transactions continue to have viability (i.e., where one party (the “carrying party”) funds a disproportionate amount of future capex in exchange for a current working interest percentage), alternative arrangements have started to gain (or regain) traction.
  - Complete payout arrangements (where the carrying party is entitled to 100% of production until it has recouped all of its development costs, including operating costs to produce such amount, whereupon the carried party’s share of production reverts to it).
  - Convertible preferred investments (mandatory and non-mandatory conversion rights).
  - Perpetual preferred investments.

Financing developments (cont.)

- Use of the "DrillCo" structure has gained momentum in the current downturn.
- Under the "DrillCo" structure, the investor receives a working interest in new wells drilled and completed on the subject properties. In return, the investor funds all or a significant portion of the development costs of each well. Once the investor receives a return of capital plus a stated IRR, some of the investor's working interests revert back to the company (which is typically the operator).

(1) Investor funds a certain amount of capex.
(2) Investor receives an [85]% working interest until a return of capital and a stated return on capital is met.
(3) Thereafter, Investor has a [5]% working interest in the properties.