Living an Exit Strategy
Who is TreadStone?

- Yes: We are Named after the Jason Bourne Trilogy
- Kayne Anderson Private Equity Backed Company
- Started April 2011, with Three People
- Became an East Texas Player: One of the Few Areas None of Us had Worked
- Mid 2014: 15 People, Operated 3 Drilling Rigs,
  Produced >12,000 boed (all organic growth)
- Sold July 2014 for $715mm, >10x Return on Investment
Many Types of Exits

- Complete Sale
  - Large independent or major
  - Larger PE backed company
  - Company wanting to IPO

- Partial Exit
  - JV with investor (i.e. foreign money) & continue operations
  - JV & become non-operated

- Extended Exit
  - Sell down PDP on a rolling basis with agreed purchase terms
  - Recap on PDP value and fully develop to sell PDPs
  - Go public through an IPO

- Implications: Payout Timing, Total Payout Risk / Reward, Time Commitment by Management Team
When is the Ideal Exit?

Performance Risk

PDP Development

Acquire Acreage  Prove Concept  Prove Acreage  Prove Density  Develop  Pure PDP
Exit Strategy Thoughts

- Exit strategy is significantly influenced by factors outside of your control...so control what you can

  - Non-Controllable Factors: Can Change Rapidly
    - Marketplace / Industry Entrance & Expansion Strategies
    - Price Environment
    - Investment Capital Availability
    - Market Readiness for Asset

  - Controllable Exit Strategy Factors
    - Acquire the Right Assets
    - Align with Company’s Strengths & Strategy
    - Prepare the Assets for Divestiture

- Be Nimble & Flexible on Exit Timing & Method to Capture Aligned Factors
Acquire the Right Assets

- Fit for company strategy & capability
- Appropriate risk tolerance
- Multiple growth options
- Contiguous acreage position

- Rocks & fluids do matter
- Understand geology & reservoir
- In all plays, there are sweet spots
Prove Concept

- Prove well performance
- Establish recovery profiles
- Show repeatability & consistency
- Keep wells on production

- Test major optimization opportunities
- Land on a successful method early
- Identify opportunities for further optimization in full development phase
Prove the Reserves Base

- Performance across acreage position
- Infill density
- Development pace
- Secondary reservoirs