IPAA Private Capital Conference

Garrett Mayer

garrett@pc-funds.com
(214) 615-1525 (o)
(214) 766-6041

January 22, 2015

www.petrocapitalfunds.com
Petro Capital Group Overview

Petro Capital Group
Founded in 2002 to focus exclusively on OFS and E&P asset management and investment banking services

Asset Management
Petro Capital Asset Management (PCAM)

- Energy Credit Fund: AUM: $33M, Cap: $300M
- VPP Fund: AUM: $30M, Cap: $200M

Investment Banking
Petro Capital Securities (PCS)

- 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

- 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
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

Andrew S. Fastow
Director - Funding
Enron Finance Corp.

Monte L. Gleason
Senior Reservoir Engineer
Enron Finance Corp.

Patrick H. Hickey
Account Representative
Enron Finance Corp.

Gene E. Humphrey
Vice President
Enron Finance Corp.

Amanda K. Martin
Senior Counsel
Enron Gas Services Corp.

ENRON GAS SERVICES CORP.

July 1992

PETRO CAPITAL GROUP
What Was 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?

- **VPP Seller**
  - Monthly Production from Burdened Leases / Wells
  - Limited Term Overriding Royalty Interest (Conveyance of Future Production)

- **VPP Buyer**
  - VPP Purchase Price (upfront $)
  - VPP Payments: Market Price of Agreed Oil & Gas Volumes

- **Oil/Gas Marketer**
  - Monthly Production Proceeds (Total $)
  - Residual Payments: Market Price of additional Oil & Gas Volumes

**VPP Payments:** Market Price of Agreed Oil & Gas Volumes
**Residual Payments:** Market Price of additional Oil & Gas Volumes
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
Petro Capital Energy Funds

Garrett Mayer

garrett@pc-funds.com
214-615-1525 (o)
214-766-6041 (m)