# Sage Road overview

<table>
<thead>
<tr>
<th>Overview</th>
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<tbody>
<tr>
<td>➢ Upstream-focused private equity firm founded in 2012</td>
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<tr>
<td>➢ Offices in Houston, TX and Oklahoma City, OK</td>
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<tr>
<td>➢ $100MM of capital under management</td>
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<table>
<thead>
<tr>
<th>Investment Characteristics</th>
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<tbody>
<tr>
<td>➢ Partner with exceptional owner-operators</td>
</tr>
<tr>
<td>➢ Onshore US; primarily conventional assets</td>
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<tr>
<td>➢ Target lower middle market assets with value &lt;$100 million, often &lt;$50 million</td>
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<tr>
<td>➢ Producing assets with development / exploitation upside (avoid “wildcat” exploration)</td>
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<table>
<thead>
<tr>
<th>Deal Structure</th>
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<tbody>
<tr>
<td>➢ $10-30 million equity investments; potential to upsize with co-investment</td>
</tr>
<tr>
<td>➢ Target assets / strategy identified from inception of investment</td>
</tr>
<tr>
<td>➢ Alignment with management via incentive structure and capital commitment</td>
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<tr>
<td>➢ Capitalization consistent with company strategy</td>
</tr>
<tr>
<td>➢ Preference for control</td>
</tr>
<tr>
<td>➢ Patient, long-term capital provides substantial flexibility with regard to structure</td>
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</table>
Private equity has dedicated tremendous capital to E&P space

Financial Sponsors Active in E&P Space

Number of U.S. E&P Focused Management Teams per Financial Sponsor

Source: RBC Richardson Barr estimates.
Energy private equity funds have dramatically grown in size…

- Dramatic growth of energy-focused private equity as firms shifted focus toward larger investments
- Entry by larger “generalist” private equity / LBO firms
- A number of larger PE players have raised dedicated energy-focused investment vehicles, many of which had previously invested out of diversified (i.e. multi-industry) pools of capital
..and have increasingly focused on larger deals

Source: RBC Richardson Barr database

<table>
<thead>
<tr>
<th>Company</th>
<th>Date</th>
<th>Transaction Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>TPG JONAH</td>
<td>Mar-14</td>
<td>$1.8 Billion</td>
</tr>
<tr>
<td>ENCANA</td>
<td>Jan-14</td>
<td>$455 Million</td>
</tr>
<tr>
<td>RIVER STONE</td>
<td>Jan-14</td>
<td>$1.4 Billion</td>
</tr>
<tr>
<td>ANADARKO</td>
<td>Oct-14</td>
<td>$1.95 Billion</td>
</tr>
<tr>
<td>Fleur de Lis Energy, LLC</td>
<td>Oct-14</td>
<td>$350 Million</td>
</tr>
<tr>
<td>WOLFCAMP</td>
<td>Oct-14</td>
<td>$2.5 Billion</td>
</tr>
<tr>
<td>LYNWOOD</td>
<td>Jun-14</td>
<td>Confidential Price</td>
</tr>
<tr>
<td>TRINITY RIVER Energy</td>
<td>Jul-14</td>
<td>Confidential Price</td>
</tr>
<tr>
<td>ENCANA</td>
<td>Bossier/C Vivey</td>
<td>$530 Million</td>
</tr>
<tr>
<td>EAGLEBINE</td>
<td>Jun-14</td>
<td>$715 Million</td>
</tr>
<tr>
<td>BLACKSTONE</td>
<td>HAYNESVILLE</td>
<td>Aug-14</td>
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</tbody>
</table>

Source: RBC Richardson Barr database

Denotes gas transaction  Denotes oil transaction
Sage Road is addressing an under-served niche: small-cap privates

<table>
<thead>
<tr>
<th>Equity Investment Per Deal</th>
<th>Midstream</th>
<th>Acquisition / Exploitation</th>
<th>Exploration</th>
<th>Oilfield Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10 - $25 MM</td>
<td>SAGEROAD</td>
<td>SW Capital Partners</td>
<td></td>
<td>OFS Energy Fund</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Pelican Energy</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>TPH Partners</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Interval Capital</td>
</tr>
<tr>
<td>$25 - $50 MM</td>
<td>Hedwigon Ventures, LLC</td>
<td>Energy Spectrum</td>
<td></td>
<td>Post Oak Energy</td>
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<td></td>
<td>Calin Energy</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Direct Capital</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>SCF Partners</td>
</tr>
<tr>
<td>$50 - $125 MM</td>
<td>SPC Energy Partners</td>
<td>Kayne Anderson</td>
<td>Pine Brook Road Partners, LLC</td>
<td>Lime Rock Partners</td>
</tr>
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<td></td>
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<tr>
<td>&gt; $125 MM</td>
<td>Quantum Energy Partners</td>
<td>Natural Gas Partners</td>
<td>Riverstone</td>
<td>EnCap Investments L.P.</td>
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<td></td>
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<tr>
<td>Mega Funds &gt; $125 MM</td>
<td>Apollo</td>
<td>Blackstone</td>
<td>KKR</td>
<td>TPG</td>
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Why we like the lower middle market E&P space

- Less competition for teams and assets
- Ability to buy value: assets consistently trade at a material discount
- Greater opportunities for operational improvement
- Multiple arbitrage for larger assets
- Greater ability to influence outcomes and add value in partnership with management
Valuation metrics of smaller deals are consistently more compelling

Average Purchase Price / Daily Production
2005-2014 ($000/boepd)

Average Discount: 32.8%

Average Purchase Price / Proved Reserves
2005-2014 ($/boe)

Average Discount: 27.5%

Note: Assumes 10:1 natural gas to crude oil conversion ratio.

Source: J.S. Herold, Inc.
Value creation playbook

**Asset Characteristics at Entry**
- “Orphaned” assets: undermanaged and under capitalized
- Limited scale: <$50MM, and often <$25MM
- Volatile cash flows (no commodity hedging in place)
- Concentrated asset portfolio
- Poor information quality / information systems
- Little or no access to capital
- Fragmented market with limited exit opportunities

**Value Creation During SRC Ownership**
- Comprehensive approach to value creation:
  - Operations
  - Growth
  - Finance / Strategy

**Asset Characteristics at Exit**
- Larger scale: >$50MM
- Stable production base
- Diversified portfolio of assets
- Tangible inventory of development upside
- Robust financial reporting and information systems
- Greater access to capital (debt and equity)
- Greater access to advisors
- Substantially larger buyer universe (MLP’s, privates, etc.)
## Sage Road value proposition

<table>
<thead>
<tr>
<th><strong>Operations</strong></th>
<th><strong>Growth</strong></th>
<th><strong>Finance / Strategy</strong></th>
</tr>
</thead>
</table>
| - Comprehensive review of all operating practices  
  - Drilling and completions  
  - Budgeting / capital allocation  
  - Operations / management  
- Optimization of existing asset base  
  - Lease operating expense  
  - Infrastructure  
  - Reinvest in high value-add  
- Systematic review of contractual arrangements  
- Right-size staffing and augment personnel where needed | - Exploitation of existing assets  
  - Recompletions  
  - Workovers  
  - Enhanced recovery  
- Development  
  - “Infill” drilling  
  - New horizons  
  - “Step out” drilling  
- Complementary add-ons  
  - Regional consolidation  
  - Synergies  
  - Diversification / scale  
- Leasehold acquisition | - Stabilize top-line revenue  
  - Hedging program  
  - Marketing arrangements  
  - Basis differential  
- Optimizing portfolio  
  - Diversification  
  - Production vs. inventory  
- Institute best practice systems  
  - Information / reporting  
  - Budgeting  
- Prudent leverage  
- M&A / capital markets activities  
- Manage exit timing and strategy |

**Sage Road Involvement**

Lesser  

Sage Road Involvement  

Greater
Value creation paradigm

**Degree of Influence**

- Least
  - Commodity Price
  - Geologic Serendipity
  - Multiple Expansion
  - Development Drilling
  - Operational Enhancements
  - Initial Producing Assets

- Most

**Elements of Value Creation**

- Volatility enhances option value
- Increases value of existing assets and renders additional resource economic
- Stacked pay and innovation create opportunities to unlock resource potential
- Offset activity can “prove up” unknown resource
- Larger packages garner higher valuations due to more competitive / liquid markets
- Development drilling in both new and existing formations.
- Low-risk quantifiable upside projects
- Operational / cost efficiencies
- Existing developed asset base with production and cash flow

**ROI**

- 5.0x +
  - Multiple “upside” elements provide opportunity to exceed expected results

- 2.5x
  - Target asset-level “base case” return of 2.5x - 3.0x
  - “Downside” protection to return of capital plus modest return
Portfolio snapshot

Commentary

- Fund I raised in 2012-2013; ~ $100MM AUM
- ~60% committed to date in 4 companies; 30% invested at 12/2014
  - **SouthCoast Resources (August 2013):** Gulf Coast / Central Texas acquisition, exploitation and development of onshore conventional assets; primary assets in Runnels County, TX
  - **Krewe Energy (September 2013):** South Louisiana acquisition and exploitation strategy, specializing in restoring and optimizing production in previously abandoned or under-managed fields
  - **K3 Oil (May 2014):** Western Kansas acquisition and development strategy, utilizing 3D seismic to identify shallow, undrilled conventional oil structures in established oil producing regions
  - **Banner Oil & Gas (June 2014):** Oklahoma and North Texas acquisition, exploitation and development of crude oil-weighted assets; primary asset is the Loco Field waterflood in Stephens County, OK

Fund I Commitments

Portfolio Map

SAGE ROAD capital

Highly Confidential
## Investment parameters

<table>
<thead>
<tr>
<th>Management Team</th>
<th>Asset Characteristics</th>
<th>Deal Structure</th>
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</thead>
</table>
| ➢ Established track record consistent with company strategy  
 ➢ Team members have a history of (successfully) working together  
 ➢ “Complete” technical and operating team | ➢ Onshore US; primarily conventional assets  
 ➢ Substantial runway for growth (e.g. regional fragmentation / acquisition opportunities)  
 ➢ Focus on producing assets with development / exploitation potential (avoid “wildcat” exploratory strategies) | ➢ $10-30 million investments in companies with enterprise values of less than $50 million  
 ➢ Target assets / strategy identified from inception of investment  
 ➢ Alignment with management via incentive structure and capital commitment  
 ➢ Capitalization consistent with company strategy  
 ➢ Preference for control  
 ➢ Flexible structure; ability to invest in project or company level; carve-out for legacy assets |
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