
Preparing for Trouble

Independent Producers Association of America
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Netherland, Sewell & Associates, Inc.
Company Overview
Netherland, Sewell & Associates, Inc. (NSAI)

- Experience in reserves / resources evaluations
  - 60+ Engineers, Geologists, Geophysicists, and Petrophysicists
    - Average 20 years experience
    - 5-15 years with a major oil company
  - 75+ Petroleum Analysts
    - Average 6 years experience

- Expertise in most producing basins
  - Conventional and Unconventional
  - Domestic and International

- Well known within the oil & gas and financial communities
  - More companies pick NSAI for their SEC reserves reporting than any other firm
  - Clients include:
    - Exploration & Production Companies (Public, Private, Majors, Independents)
    - Government Oil Companies (National Oil Companies, World Bank, IFC)
    - Financial Institutions (Commercial/Investment Banks, Insurance/Pension Funds, Capital and Money Management Firms)
    - Private Equities (Funds, Individuals)
Where Does NSAI Fit in Distressed Debt Process

Reserves reports set out volumes and cash flows by reserves category and are typically used for:

- 10-K filings (Exhibit 99) to add credibility to investor markets
- Secondary stock and bond offerings
- Reserve Based Loans (RBLs)
- Mezzanine financing

For distressed debt NSAI typically provides:

- Review/screening for pre-bankruptcy decisions regarding structured proceedings
- Underlying value for oil and gas clients in bankruptcy
- 4th party review for parties protecting interest
Due Diligence Issues for Reserves Reports

- **Production Trends & Undeveloped Opportunities**
  - Do trends match history
  - What is maturity of existing production
  - Basis for projections on newer wells and undeveloped locations
  - Statistical support for and data leverage of undeveloped estimates (spacing, frac design, etc.)
  - Economic viability/sensitivity of individual locations
  - Acreage terms

- **Operating Costs**
  - How are "recurring non-recurring" costs being handled
  - How is overhead (cost or recovery) being handled
  - Does forecast match history (12 months, last month, etc.) and how is end of life modeled
  - Do projections include "shared expenses" allocated between reserves categories

- **Pricing Differentials**
  - Do differentials match history (12 months, last month, etc.)
  - Are differentials forecast to change over time
  - How are firm transportation commitments handled

- **Capital Costs**
  - Do capital costs match historical AFEs
  - Do capital costs coincide with EUR estimates for PUDs (lateral length, frac size, etc.)
  - Is capital included for ancillary facilities (SWD, gas handling, batteries) associated with drilling
  - Is abandonment liability included with current estimates of costs and timing
Suggestions

Oil & Gas Companies

- Recognize that the world looks and acts different in a slower pace activity environment

- A documented consistent story is critical to support reserves and cash flow estimates

Financial Institutions

- Review underlying reserves report to understand level of vetting already performed by 3rd party

- Reserves reports often do not include estimates for all existing and future revenue, operating costs, and capital costs (e.g., report often limited to upstream assets)
Disclaimer

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