



Managing Debt in Troubled Times – Surviving 2016

Preparing for Trouble

Independent Producers Association of America

April 21, 2016

JW Marriott, Galleria – Houston, Texas

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Company Overview

Netherland, Sewell & Associates, Inc. (NSAI)

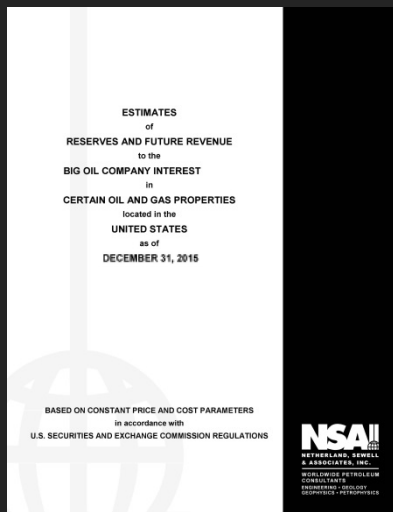
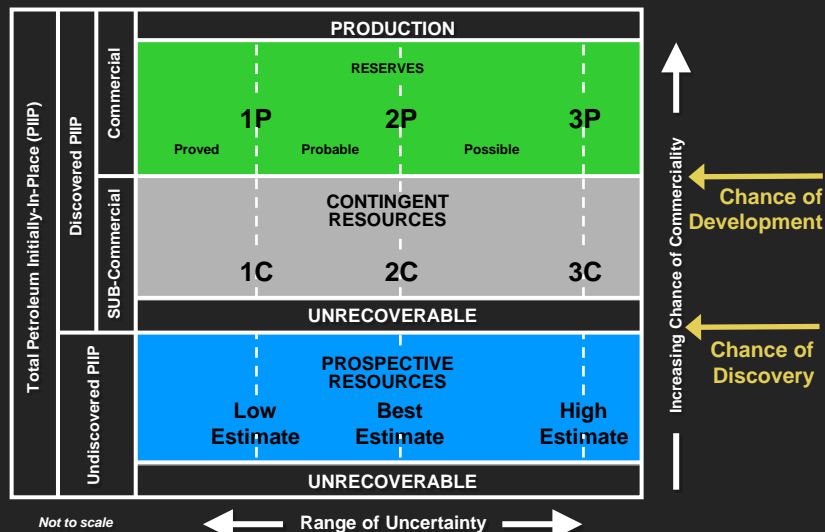
- Experience in reserves / resources evaluations
 - 60+ Engineers, Geologists, Geophysicists, and Petrophysicists
 - Average 20 years experience
 - 5-15 years with a major oil company
 - 75+ Petroleum Analysts
 - Average 6 years experience
- Expertise in most producing basins
 - Conventional and Unconventional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