IPAA
Private Capital Conference
January 26, 2017
Topics

1. Chiron Financial Snapshot
2. OCC Guidelines
3. Bank Refinancing Alternatives
4. More Stressed Solutions
Chiron Overview

What We Do

Private Placements
- Private placements of capital at every level of capital structure
- Trusted relationships with traditional and alternative capital sources
- Considerable experience with creative structures that meet client objectives and are well received in the capital marketplace

Mergers & Acquisitions
- Company and asset sales
- Considerable experience executing complex, multi-constituent transactions
- Trusted relationships with strategic and private equity buyers
- Extensive experience with complex, creative structures, both in and out of bankruptcy

Financial Restructuring
- Negotiation of multi-party senior/subordinated debt/trade restructurings
- Preparation of complete financial analysis to support restructuring plan
- Evaluation and negotiation of Chapter 11 plans and out-of-court settlements

Advisory
- Complex valuations of going concern entities involved in litigation situations and bankruptcy proceedings
- Support stakeholder compromises, strategic combinations
- Fairness and solvency opinions
- Feasibility analyses
- Expert testimony to support work product
Chiron Overview

Selected Clients by Service Type

**Private Debt and Equity Placement**

- Del Pueblo
- NRPC
- NeoSurg
- Rancher Energy
- Admiral Bay
- Compass Bank
- American Electric Power
- XPLOR Energy
- West Hawk
- Miller Energy
- South Coast Exploration Company
- Range Resort
- EnerSea Transport LLC
- Gexa Energy
- Zavanna
- Frontier Energy
- BPI Energy
- Centurion Exploration Company

**Mergers and Acquisitions**

- South Coast Exploration Company
- safescript
- Spirit Energy, LLC
- Congress Materials
- Del Pueblo
- Texas Commercial Energy
- NGCx
- Zavanna
- Del Pueblo Inspection Services
- Evans Energy Industries, Inc.
- Range Resort
- Peabody
- KT Energy
- PetroChem Inspection Services

**Financial Restructuring**

- Chevron
- Alliance
- All Star Gas
- Century Care of America, Inc.
- Garden Ridge
- Southern Structures
- Sadex
- Marshall Ranch

**Advisory**

- Century Care of America, Inc.
- T-MAX
- safescript
- MEXMAL
- KARLEE
- T-Bar X
- Forest Park Medical Center
- DKI
- Doctors’ Hospital
- VMW
Selected Clients by Industry Sector

- **OIL & GAS**
  - energyxxi
  - ANSTAR GAS
  - Admiral Bay
  - MANTI Resources, Inc.
  - South Coast Exploration Company

- **HEALTH CARE**
  - Clinical Labs USA
  - Doctors' Hospital
  - NeoSurg
  - Century Care of America, Inc.

- **BASIC MATERIALS**
  - Peabody
  - ITUL Pr حر
  - Condor Materials

- **MIDSTREAM & DOWNSTREAM ENERGY**
  - Gexa
  - ENERGIX
  - KENERGY
  - Sago
  - Zavanna

- **OIL FIELD SERVICES & EQUIPMENT**
  - Miller Energy
  - XPLOR Energy
  - T-BAR X

- **REAL ESTATE**
  - West Hawk Oil & Gas
  - BANACO
  - CERE
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- **MANUFACTURING**
  - Chevron
  - Spirit Energy
  - One Source
  - Global
  - Petrochem Inspection Services
  - Barrett
  - US Bank
  - Renata Resort
  - VMW
  - MEXMAL
  - Evans Industries
Two key regulatory agencies:
1. **Federal Deposit Insurance Corporation ("FDIC")**
   - Most state and regional banks
2. **Office of the Comptroller of the Currency ("OCC")**
   - National banks and foreign bank branches

Both the FDIC and OCC have specific guidelines in regards to oil & gas lending
- OCC historically more stringent

OCC released guidelines in March 2016 on reserve based lending ("RBL") facilities
- Quantitative metrics to classify RBL loans as:
  1. Pass
  2. Special Mention
  3. Substandard
  4. Doubtful
  5. Loss
- Classifications have dramatic impacts on amount of capital banks must hold against loans

FDIC published its own guidelines on June 2016, which are less quantitative, less specific

The new guidelines are causing a sharp transformation in bank credit availability for E&P companies
OCC: Key quantitative metrics

<table>
<thead>
<tr>
<th>OCC Metric</th>
<th>Pass</th>
<th>Special Mention</th>
<th>Sub Standard or Worse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Funded Debt to EBITDA</td>
<td>&lt; 3.5:1</td>
<td>3.5-4.0:1</td>
<td>4.0:1 or &gt;</td>
</tr>
<tr>
<td>Total Funded Debt / Capital</td>
<td>&lt; 50%</td>
<td>50%-60%</td>
<td>&gt; 60%</td>
</tr>
<tr>
<td>Total Committed Debt to FNR</td>
<td>&lt; 65%</td>
<td>65%-75%</td>
<td>&gt; 75%</td>
</tr>
<tr>
<td>Total Proved Reserves Eco Life after Repayment</td>
<td>&gt; 25%</td>
<td>25%-10%</td>
<td>&lt; 10%</td>
</tr>
</tbody>
</table>

Key takeaways:
- All debt (not just bank debt) is included in calculations
- Total **committed** amounts of RBL are tested
- Future Net Revenue ("FNR") is calculated using:
  1. Strip pricing
  2. Unrisked reserves
- Removes bank specific metrics (price deck, reserve riskings, etc.)
- Less discretion
How large is the problem?

An Estimate: Analysis and Assumptions

- Cash flows and debt for LTM thru September 2016
- Reserves FNR at December 2015
- $366B in total debt in public companies
- 170 publicly traded companies included
- $220B in investment grade credits removed: standards not applied
- Removed companies that have filed bankruptcy or no longer operating
- Omitted repayment test due to lack of information (i.e. full reserve report)
- Relevant universe: 138 public companies with $117B in total debt
Estimates of the Amount of Problem Debt

**Total Debt ($117B)**
- $4,718 (Pass)
- $2,519 (Special Mention)
- $109,867 (Substandard or worse)

**Total Bank Debt ($55B)**
- $5,590 (Pass)
- $2,299 (Special Mention)
- $47,647 (Substandard or worse)

**Total Substandard Debt ($110B)**
- $20,390 (1 Violation)
- $58,383 (2 Violations)
- $31,094 (3 Violations)

**Total Substandard Bank Debt ($48B)**
- $19,000 (1 Violation)
- $11,960 (2 Violations)
- $16,687 (3 Violations)

- 138 Companies
- 122 Companies
Takeaways

- Up to $48 billion of public E&P bank debt may need to be replaced
- **These 122 companies** have total debt of about $110 billion
- Some changes may also affect non-bank debt

Caveats:

- The numbers will change as of 12/31/16
- Rising oil and gas prices change the analysis
- Some banks may wait and hope
What can E&P companies do?

Alternative debt: Likely the primary route
- Credit funds, hedge funds, public markets
- First lien, second lien, unsecured bonds
- More costly
- More flexible
- Range of E&P experience
- Potential to combine drilling or acquisition with refinancing
- Finance any unencumbered assets (e.g. pipelines, liquids plants, etc.)

Sale of non-essential assets
- Non-core areas
- Lower priority acreage; royalties
- Real estate

Sell equity
- Parent company
- Subsidiary
- Preferred
- Project working interest
- Equity swap for non-bank debt
More Stressed Solutions

Out of court refinancing or sale
  • Some debt may take a discount and/or equity
  • UCC Article 9 sale
Pre-packaged Chapter 11
  • Reordering of debt and equity structure
  • Debt often reduced substantially
  • Substantial negotiation with all or most investor classes prior to filing

Chapter 11 reorganization
  • Restructured debt
    • Debt reductions; “term out”
  • Potential debtor in possession (DIP) financing
  • Potential exit financing: debt and/or equity

Chapter 11 Rule 363 sale
  • Orderly sale
  • Potential debtor in possession (DIP) financing

Last resort: Chapter 7 liquidation
  • Can result from lack of cash and/or lack of viable business plan
  • Speedy auction or salvage value
  • Receiver manages process
  • To be avoided in any way possible
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