IPAA
Private Capital Conference

January 26, 2017

CHIRON
FINANCIAL LLC

Topics

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

CHIRON
FINANCIAL LLC

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

Selected Clients by Service Type

Private Debt and Equity Placement

Del Pueblo Olive Co.
NRPC
NeoSurg
Rancher Energy
Admiral Bay
Spirit
Compass Bank
AEP American Electric Power
Xplor Energy
West Hawk
arcalux
Miller Energy
South Coast Exploration Company
Renata Resort
EnerSea Transport L.L.C.
Gexa Energy
Zavanna
Frontier
BPI Energy
Centurion Exploration Company

Mergers and Acquisitions

South Coast Exploration Company
safescript
Spirit
Congress Materials
Able
CWM
Texas Commercial Energy
NGC
Zavanna
Del Pueblo Olive Co.
Evans Industries, Inc.
Renata Resort
Peabody
KT Energy
PetroChem Inspection Services
ERCOT
Xplor Energy
Geological Data Services

Financial Restructuring

energy XXI
Chevron
Able
All Star Gas
Century Care of America, Inc.
PetroChem Inspection Services
Del Pueblo Olive Co.
Evans Industries, Inc.
Panaco
Compass Bank
Garden Ridge
Southern Structures
sadex
Mpower
Marshall Ranch

Advisory

TrueMRI
safescript
Mexmal
Karlee
T-Bar X
Forest Park Medical Center
Aker Kværner
Authentix
Doctors' Hospital
Victoria Machine Works

Selected Clients by Industry Sector

OIL & GAS

- energyXXI
- All Star Gas
- Admiral Bay
- MANTI Resources, Inc.
- South Coast Exploration Company
- Gexa Energy
- Frontier
- KT Energy
- SAGO Energy LLC
- Zavanna LLC
- West Hawk
- PANACO Inc.
- Miller Energy Resources
- XPLOR Energy
- T-Bar X

HEALTH CARE

- Clinical Labs USA
- Doctors' Hospital
- NeoSurg
- Century Care of America, Inc.
- safescript pharmacies
- Forest Park Medical Center
- KARLEE
- TRUEMRI

BASIC MATERIALS

- Peabody
- U.S. American Stone and Minerals, Inc.
- AMSCO
- Congress Materials

MIDSTREAM & DOWNSTREAM ENERGY

- NGC
- Chevron

OIL FIELD SERVICES & EQUIPMENT

- Spirit Drilling Fluids, LTD
- OneSource
- Barnett Marine Services Group
- PetroChem Inspection Services
- Global Geophysical Services

REAL ESTATE

- US bank
- Renata Resort
- Marshall Ranch

MANUFACTURING

- VMW Victoria Machine Works
- MEXMAL
- Evans Industries, Inc.
- Southern Structures
- arcalux
- Able Door Manufacturing

- 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

OCC Metric	Pass	Special Mention	Sub Standard or Worse
Total Funded Debt to EBITDA	< 3.5:1	3.5-4.0:1	4.0:1 or >
Total Funded Debt / Capital	< 50%	50%-60%	> 60%
Total Committed Debt to FNR	< 65%	65% - 75%	> 75%
Total Proved Reserves Eco Life after Repayment	> 25%	25%-10%	< 10%

Key takeaways:

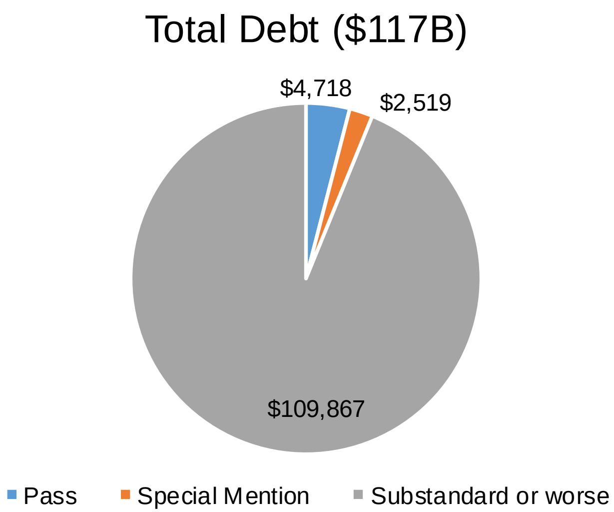
- All debt (not just bank debt) is included in calculations
- Total **committed** amounts of RBL are tested
- Future Net Revenue ("FNR") is calculated using:
    1. Strip pricing
    2. Unrisked reserves
- Removes bank specific metrics (price deck, reserve riskings, etc.)
- Less discretion

How large is the problem?

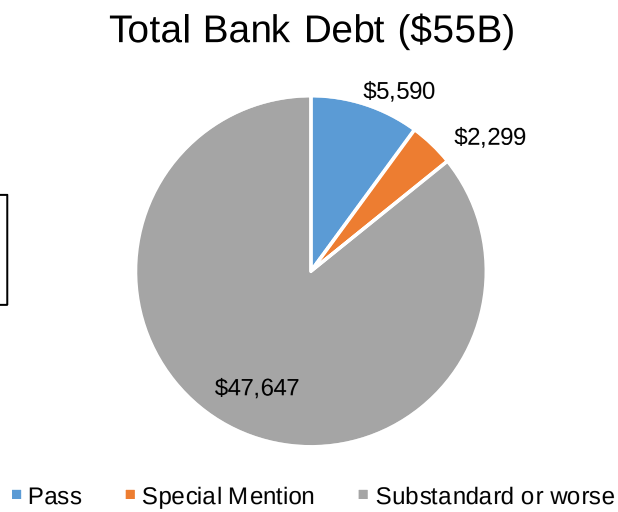
<u>An Estimate:</u> Analysis and Assumptions

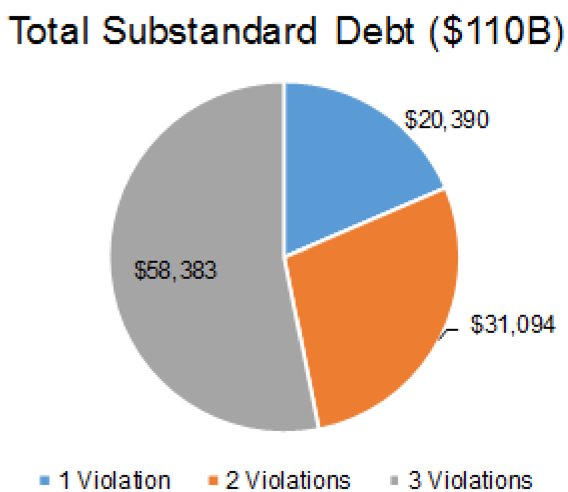
- Cash flows and debt for LTM thru September 2016
- Reserves FNR at December 2015
- $366B in total debt in public companies
- 170 publicly traded companies included
- $220B in investment grade credits removed: standards not applied
- Removed companies that have filed bankruptcy or no longer operating
- 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

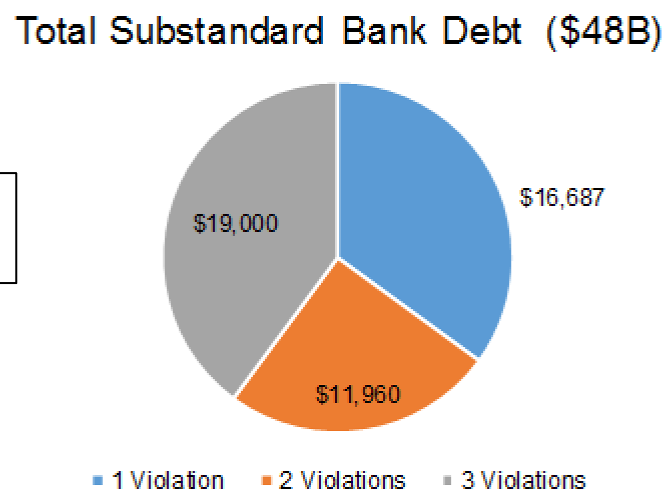


138 Companies





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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