Creating Your LLC and Various Options for Consulting and Operations

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Society of Petroleum Engineers
Gulf Coast Section, Members in Transition Seminar #9
October 7, 2016
You Can Do This!

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Society of Petroleum Engineers
Gulf Coast Section, Members in Transition
Seminar #9
October 9, 2016
Eight (8) Steps to Getting Started and Getting Funding

1. Your LLC,
2. Funding Your LLC,
3. Forming and Developing Your LLC
4. What Upstream Segments are getting Funded in today's Market,
5. Building a Team,
6. Funding a Team with PE,
7. What and Who are PEs,
Let’s get into Action and get Going in each of these Arenas!

- **Equity**
  - Public, Private

- **Property Acquisition**
  - W.I., ORRI, RI

- **Prospect Generation**

- **Consulting**

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What Upstream Segments are Getting Funded?

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Oil & Gas Financing: Risk & Reward Spectrum

- Reserve Based Lending: 22%
- Stretch Senior and Junior Debt
- Mezzanine Financing
- Equity and Industry Partners
- Wildcat Drilling

Traditionally more highly-regulated from bottom up and new business appetite more severely narrows.

PDP: Development / Exploitation (Engineering Risk)
PDNP: Probable
PUD: Possible
Exploration (Geological Risk)

Lowest Risk / Modest Cost way to start or build assets or a company is to purchase producing assets. These assets should generate approximately 2.5% free CF of the amount invested.
Higher Risk / Higher Cost way to start or build assets or a company is to drill.
1. These wells are uncertain and higher cost than PUD drilling.
2. The timing of CF is uncertain and in the distant future.
3. Additionally, the required upfront investment, uncertainty, risk, long-term and uncertain future CF are the reasons Prospect Generating is lower on my LLC list than it would have been in the past.
Petroleum & Other Liquids

Oil and natural gas companies spending on exploration and development activities increased by 5% in 2013.

Figure 1. Upstream expenditures by category


Source: U.S. Energy Information Administration, This Week in Petroleum, normally published Wednesdays after 1
Global upstream capital spending 2010-2017

Cost deflation, efficiency improvements and reduced activity levels might lead for the first time to three consecutive years of investment decline
Hierarchy of Investment Choices and Financing Options

- Increased Technical - Geologic Risk
- Increased Financial Risk
- Increased Required Return &
- More Limited Financing options
Hierarchy of Investment Choices and Financing Options

Acquisition of Debt (of good companies and assets)
Hierarchy of Investment Choices and Financing Options

- Increased Technical – Geologic Risk
- Increased Financial Risk
- Increased Required Return & More Limited Financing options

Acquisition of Debt (of good companies and assets)
Hierarchy of Investment Choices and Financing Options

Acquisition of Debt (of good companies and assets)

Acquisition of PDP (Bank Rates first, Senior Debt second, equity third)

Increased Technical – Geologic Risk
Increased Financial Risk
Increased Required Return & More Limited Financing options
Hierarchy of Investment Choices and Financing Options

Drilling Your own PUDs (Senior Debt, equity)

Acquisition of PDP (Bank Rates first, Senior Debt second, equity third)

Acquisition of Debt (of good companies and assets)

Increased Technical – Geologic Risk
Increased Financial Risk
Increased Required Return &
More Limited Financing options
Hierarchy of Investment Choices and Financing Options

- Acquisition of Debt (of good companies and assets)
- Acquisition of PDP (CF, Bank Rates first, Senior Debt second, equity third)
- Drilling Your own PUDs (CF, Senior Debt, equity)
- Drilling Probables and Possibles (CF and equity)

Increased Technical – Geologic Risk
Increased Financial Risk
Increased Required Return & More Limited Financing options
Global investment in fossil fuel supply by sector

USD (2015) billion

- Coal
- LNG
- Pipelines
- Oil refining
- Upstream oil and gas

iea.org/investment
Lowest Risk / Modest Cost way to start or build assets or a company is to purchase producing assets. These assets should generate approximately 2.5% free CF of the amount invested.

Traditionally more highly-regulated from bottom up and new business appetite more severely narrows.
Where Do I Find Deals the Right Size a Small LLC?

- **Oil & Gas Clearinghouse Actions:**
  - held every other month or so mid-week, the first full week of the month,
  - can bid in person which is good to do at first to become more experienced in live bidding for oil & gas assets or live on the computer,
  - have larger negotiated transaction but those are typically way too big for a small LLC,

- **Energy Net:**
  - Tue-Thursday afternoon competitive on-line bidding (this takes some practice),

- **Petroleum Listing Service (PLS):**
  - properties offered continuously, negotiated basis (many available properties),

- **Multiple marketed deals from multiple Investment Banks:**
  - deals are typically way too large for a small LLC,
  - primary source for PE backed companies *(Private, Non-Marketed Deal).*
Working in a Team for Bigger Impact, Results and Rewards

- Equity
  - Public, Private
- Prospect Generation
- Property Acquisition
  - W.I., ORRI, RI
- Consulting

Employment

#5 Building a Team!
You go big or you go home

And you don't seem like the kind of person who goes home.

either go big

or go home

Go Big or Go Home
Developing and Working with an Independent Team for Bigger Impact, Results and Rewards:

• PE and Credit Firms will only support competent teams not individuals.
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- PE and Credit Firms will only support competent teams not individuals.
  - PE and Credit Firms want experienced teams that have worked together, successfully.
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- PE and Credit Firms will only support competent teams not individuals.
  - PE and Credit Firms want experienced teams that have worked together, successfully.
- Where do I find these guys? If you are just starting out because of the downturn and layoffs, there are likely multiple experienced individuals with whom you have successfully worked that went through the same or earlier layoffs from your same firm and many experienced individuals with whom you have likely worked with in the past from other companies that are in the same situation.
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  • Get together with those peers at least once a week for a working lunch. Include peers from multiple different disciplines. The benefits include:
    • Support!!!
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  • Get together with those peers at least once a week for a working lunch. Include peers from multiple different disciplines. The benefits include:
    • Support!!!
    • Accountability in new job search or can your own new team be created from this group?
    • Generate and feed one another with contacts, ideas, opportunities.
    • Grow this network and spend hours on the phone with them and others every day.
      • Networks find many more jobs and opportunities than the computer, newspaper, cold calls ever will, especially in slow markets.
Developing and Working with an Independent Team for Bigger Impact, Results and Rewards:

• The more your successful, experienced and past shared work experiences teams have the more accepting the PE and credit firms will be in receiving you:
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• The more your successful, experienced and past shared work experiences teams have the more accepting the PE and credit firms will be in receiving you:
  • Petroleum Geoscientists: are development, exploitation and exploration covered?
  • Petroleum Engineers: operations, reservoir, reserve reporting, A&D/M&A.
  • Land: data and lease management systems, leasing, running brokers, business development, document preparation and other agreements, JV working experience.
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  - Accounting:
  - Finance: reporting and previous experience with PE firms.
  - Management: who in the group has had GM, P&L responsibility, Senior Management experience.
- You can not do this alone although small groups even 2 with most of these areas covered with access to additional talent can.
Consulting
Prospect Generation
Property Acquisition
W.I., ORRI, RI

Working in a Team for Bigger Impact, Results and Rewards

#6 Funding a Team with PE!

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Working in a Team for Bigger Impact, Results and Rewards

- Equity
  - Public, Private

- Prospect Generation

- Property Acquisition
  - W.I., ORRI, RI

- Consulting

#7 What and Who are PEs!
Oil & Gas Financing: Risk & Reward Spectrum

- Mezzanine Financing
- (PE) Private Equity Financing
- Reserve “Bank” Lending

Target Rate of Return %

Development / Exploitation (Engineering Risk)

Probable Exploration (Geological Risk)
Development of Private Equity Firms (PE)

• First one was KKR (Kohlberg, Kravis, and Roberts) whom left Bear Stearns in 1977 to form KKR.
Development of Private Equity Firms (PE)

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• Next year there were 80 PE firms.

• By 2015 there were 2,800 worldwide and 1,700 in the U.S.
Development of Private Equity Firms (PE)

• First one was KKR (Kohlberg, Kravis, and Roberts) whom left Bear Stearns in 1977 to form KKR.
• Next year there were 80 PE firms.
• By 2015 there were 2,800 worldwide and 1,700 in the U.S.
• Categorized by size (large = $1B+, mid-market $150M - $1B, small < $150M) and / or by Specialty Sector (e.g. Oil & Gas).
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• Categorized by size (large = $1B+, mid-market $150M - $1B, small < $150M) and / or by Specialty Sector (e.g. Oil & Gas).
• PE compensation: 2% of managed capital + 20% carried interest from profits on distribution.
• Expect at least a 2X in 5 years (rule of 72s, that rate will generate no or little bonus for the PE backed firm).
• Within a PE single portfolio: 20% will provide 5X, 10% 4X, 50% 1.5 – 3.5X, and 20% will fail.
• Currently have $75-100B for Oil & Gas Investment!
Private Equity Has Consistently Outperformed Both VC and Public Markets since 2001

NAV Index for PE (dark blue), VC (light blue), S&P 500 (orange)


from Mike Lorelli, Private Equity, May 5, 2016
Working in a Team for Bigger Impact, Results and Rewards

Equity
Public, Private

Prospect Generation

Property Acquisition
W.I., ORRI, RI

Consulting

Employment

Funding a Team with PE!

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Sources for Finding the Right PE Firm:

- Starting spots for 2,800 worldwide, too general, costly but FYI:
  - PrivateEquity.com
  - PrivateEquityinfo.com
    - $195 for 3 month trial
    - $1,320 per year
Sources for Finding the Right PE Firm:

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- Oil & Gas Upstream and Mid-Stream Equity Providers information suggestion:
  - Who in your group has experience working M&A, A&D (this is where your network counts).
    - With what Investment Banks (middle men) did you work?
    - With what PE firms did you or the sellers use that you might have made contacts?
    - What other PE contacts have the members of your group developed?
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  - Best scoping source is NAPE:
    - Pick up all the literature you can, investors magazines, management and technical publications (use the advertisers as your first sources) and
    - Sweep the booths and isles, pick up literature and introduce yourself with a 30 second elevator pitch.
    - Have a 30 second, 2 minute, 5 minute and 30 minute pitch ready.
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- Ask up and running PE backed E&P companies and employees for recommendations (network).
  - See if you can get contact information and introductions
  - If not find the Analyst and Junior roles and start there
    - This is a process not a single meeting, success and getting your funding
    - The goal at every step is not funding until the end, the goal is to get to the next meeting.
#6: The Pitch
Developing and Working with an Independent Team for Bigger Impact, Results and Rewards:

• The more your successful, experienced and past shared work experiences teams have the more accepting the PE and credit firms will be in receiving you:
  • Petroleum Geoscientists: are development, exploitation and exploration covered?
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• You can not do this alone although small groups even 2 with most of these areas covered with access to additional talent can.

• Show Prior Success!
Bill recently turned around a mid-size, private equity (PE) financed Exploration & Production (E&P) firm from a $70 million loss to a $600 million dollar gain in two years. Previously he was a key Executive leader at well-known, private E&P firm driving growth, strategically advancing a $200 million firm into a billion dollar organization in six years, adding two new regional offices and multiple new investment opportunities. He has successfully led Acquisition & Divestiture (A&D and M&A) teams in technical and general management positions and as President, CEO and COO. Bill has obtained equity and debt financing for several organizations.

Bill has been involved in the majority of U.S. resource plays prior to the resource revolution directing new investment opportunities, portfolio development, strategic planning, reserve evaluation and cash flow models. Bill is credited with economic discovery of the WolfBone play in the southern Delaware Basin and placing his company in Elm Coulee (Bakken) Field prior to discovery, the largest onshore U.S. discovery in 56 years. He and his teams have discovered dozens of new fields in traditional plays in the Rocky Mountains, Williston and Permian Basins, ArkLaTex-Mississippi Salt Basins, South Texas, South Louisiana and offshore Gulf of Mexico.

Bill is currently President of Riverford Exploration, LLC and CEO of PetroTex Energy Partners, LLC consulting practices and E&P companies in The Woodlands and Dallas, Texas with production in the Delaware and Midland Basins, Scoop and Bakken. Previously, Bill was President / COO of Discovery Resources & Development and Vice President of Land & Exploration for Independent E&P companies.

Bill has a Bachelor (BA) and Master of Science degrees in geology and Bachelor and Master of Business Administration (MBA) concentrating in finance. Bill enjoys applying leading-edge technical expertise and business practices that drive upstream E&P programs and companies to economic success.
Sources for Finding the Right PE Firm:

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By accepting the enclosed materials, You agree to keep all information confidential and not disclose any information to parties outside your immediate firm. The enclosed information is the property of PetroTex Energy Partners, LLC, and any disclosure of such information may create irreparable harm to PetroTex Energy Partners, LLC.
Overview

Cash Flow and PDP Focus with future upside
PDNP, PUD and drilling enhancements.

- Goal is to build a portfolio of high quality operated and non-operated working interests in producing (PDP), low-decline, depletion-drive, long-life, low-LOE to revenue oil & gas assets.
- Focus on cash flow generation and operating efficiencies.
- Unique deal sourcing from 35 years of industry contacts.
- Experienced Management Team with members that have worked together in multiple, successful previous ventures.
  - 120+ years of cumulative experience,
  - Industry leaders in engineering, geoscience, and business development.
- Proven Track Record
  - Over $1 billion of value created in the Bakken, Permian, Oklahoma Stack and Scoop, Mississippian Lime, Barnett, Haynesville/Bossier, Marcellus/Utica and other conventional assets,
  - Successful sale of private equity backed Eagle Oil & Gas assets with 3 Team members playing influential role,
  - Influential at public, private and yield based companies, such as Marathon Oil, Petro-Hunt, Hunt Oil and Merit Energy.
# Management Team

<table>
<thead>
<tr>
<th>Principal</th>
<th>Expertise</th>
<th>Background</th>
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<tbody>
<tr>
<td>Bill Fairhurst</td>
<td>Exploration Geology and Geophysics</td>
<td>• Managing Partner for Riverford Exploration</td>
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<tr>
<td>CEO</td>
<td></td>
<td>• Former partner with Eagle Oil &amp; Gas; VP-Land &amp; Exploration</td>
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<td></td>
<td></td>
<td>• VP-Exploration for Petro-Hunt</td>
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<td></td>
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<td>• Various influential and management positions within Marathon Oil</td>
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<tr>
<td></td>
<td></td>
<td>• Ohio Wesleyan University (Geology &amp; Business Management)</td>
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<td></td>
<td></td>
<td>• University of Missouri-Columbia (MS in Geology)</td>
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<td>• University of Houston (MBA in Finance)</td>
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<td></td>
<td>• Certified Petroleum Geologist with AAPG</td>
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<tr>
<td>Ronnie Nutt</td>
<td>Engineering, Operations and Business Development</td>
<td>• COO for Vess Oil Corporation</td>
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<td>President – PTX Operating</td>
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<td>• VP of Southern Business Unit for Forest Oil Corporation</td>
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<td></td>
<td>• Director for Scotia Waterous Oil and Gas M&amp;A</td>
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<td></td>
<td>• Various engineering and management positions within Santa Fe Energy/Devon</td>
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<td>• Texas A&amp;M University (BS in Petroleum Engineering)</td>
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<td>Kevin Dickerson, CPL</td>
<td>Land, Legal and Business Development</td>
<td>• VP-Business Development with Orange Energy Corporation</td>
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<td>President</td>
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<td>• Landman with Hunt Oil Company &amp; El Paso Production Company</td>
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<td>• Certified Professional Landman with AAPL</td>
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<td>Frank Reid</td>
<td>Operational Geology, Geosteering and Geophysics</td>
<td>• Senior Geologist with Eagle Oil &amp; Gas</td>
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<td>VP of Geosciences</td>
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<td>• Contract Geologist with Eagle Oil &amp; Gas, Rosewood Resources &amp; Amoco Corporation</td>
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<td>• Leased and sold 147,000 acre Morrow Prospect to Rosewood Resources &amp; Amoco</td>
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<td>• Contract Geologist with Arch Petroleum</td>
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<td>• Operations Manager/Geologist with Red Livingston Inc. (Megargel Drilling Company)</td>
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*Full bios available*
Bill Fairhurst

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Upon joining Eagle, Eagle and Eagle’s Financial Partners (EnCap and Liberty Energy Holdings (now Old Ironside Energy)) in 2009, these partnerships were $70 million in the hole for unsuccessful Exploration and Development efforts in traditional plays and reservoirs, primarily onshore Gulf Coast and Permian Basin. Bill lead Eagle in the transitioning into several significant resource plays including the Haynesville-Bossier play in North Louisiana and East Texas and the WolfBone play in the Delaware Basin. Eagle and partners have since discovered and are developing 1.5 TCFG in the Haynesville-Bossier and over 400 MMBOE in the WolfBone Trend, Delaware Basin which was sold in December, 2011 to Comstock Resources and others for $400 million, recently resold by Comstock to Rosetta for $780 million and then to Noble Energy for $2.8B (including some Eagle Ford assets). A midstream system developed with the Haynesville-Bossier exploration and development has been sold for $60 million with the producing assets and reserves remaining with Eagle. Over a $750 million turn around in just over two years. Bill also generated, developed and negotiated a joint venture with EXL during these efforts. EXL sold these Delaware Basin assets to Oxy. EXL has recently been backed with a $500 million commitment from Quantum using a similar acquisition model as developed by Fairhurst and his team.

Bill has been involved in the majority of U.S. resource plays prior to the resource revolution directing new investment opportunities, portfolio development, strategic planning, reserve evaluation and cash flow models. Bill is credited with economic discovery of the WolfBone play in the southern Delaware Basin and placing his company in Elm Coulee (Bakken) Field prior to discovery, the largest onshore U.S. discovery in 56 years. He and his teams have discovered dozens of new fields in traditional plays in the Rocky Mountains, Williston and Permian Basins, ArkLaTex-Mississippi Salt Basins, South Texas, South Louisiana and offshore Gulf of Mexico.

Bill has successfully developed exploration, development-production teams and organizations adding several hundred million barrels of reserves and generating more than a billion dollars of wealth for multiple organizations. He has over 20 years of Oil & Gas General and Senior Management experience with Profit & Loss Responsibility for Major and Independent Oil & Gas Companies. Bill has developed, implemented and managed corporate probabilistic risk analysis, economic evaluation and portfolio systems and been an active team member in developing successful business development, exploration, drilling and programs primarily onshore U.S. focusing most recently on several very successful unconventional resource plays. He remains a technical contributor to exploration and development geology; reservoir engineering; drilling and production operations; project and corporate finance and budgeting.
Ronald C. Nutt

Prior to joining PetroTex, Ronnie was the Chief Operating Officer for Vess Oil Corporation in Dallas, Texas. There he revamped the company’s efforts in existing acreage in the EagleBine trend to achieve better results by updating drilling and completion procedures. He focused the company’s acquisition efforts to purchase an additional 14,000 acres adjacent to the existing leasehold to establish a 36,000 acre core area for horizontal drilling and development. He was in charge of all drilling, completion and work over operations and managed the drilling program completing 6,000’ laterals with 30 stage completions in the Woodbine formation.

Prior to Vess Ronnie served as Vice President-Southern Division for Forest Oil. At Forest he initiated and executed entry into the Eagle Ford play by sourcing, purchasing, and developing a new core area in Gonzales County, Texas. After drilling and completing over 2-dozen 5,000’ laterals, portions of this asset were sold to Penn Virginia to fund future company investments and capital requirements and with the remaining acreage formed a JV with Schlumberger. As Vice President-Southern Division managed 100 employees with Profit and Loss responsibility for Eagle Ford, Eaglebine and other East and South Texas assets.

Prior to joining Forest Oil Ronnie served as Director-Engineering for Scotia Waterous participating in approximately $5,000,000,000 in asset sales in 4 years. Throughout his career he has been involved with all facets of drilling, completions, reservoir, and production engineering in basins across Texas, Louisiana, Oklahoma, Arkansas, New Mexico, and Kansas.

Ronnie has over 35 years of experience in management and operations/reservoir engineering positions for both large public and small private oil and gas companies including BP, Mesa, Apache, Devon, Forest Oil, Vess Oil, as well has several years in the investment banking business with Scotia Waterous. Ronnie is a licensed Professional Engineer in the State of Texas and is currently a member of ADAM Houston, ADAM Dallas, and the Society of Petroleum Engineers. Ronnie received his B.S. in Petroleum Engineering from Texas A&M University and currently resides in Dallas, Texas.
Operational Excellence

- Divestitures
- Acquisitions
- Operations Experience

- Private equity backed
  Eagle Oil & Gas Delaware Basin Asset Sale

- Private equity backed
  Steward Energy Delaware Basin Asset Sale

- Acquisition of Bakken, Permian, Oklahoma Stack and Scoop, Mississippian Lime, Barnett, Haynesville/Bossier, Marcellus/Utica and other conventional assets

- Operations success in all major basins
## Acquisition Evaluation Tools

<table>
<thead>
<tr>
<th>Category</th>
<th>Ideal</th>
<th>Target</th>
<th>Baseline</th>
<th>Opportunistic</th>
<th>Pass</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decline Rate</td>
<td>&lt; 5%</td>
<td>6% - 10%</td>
<td>11% - 20%</td>
<td>21% - 25%</td>
<td>&gt; 26%</td>
</tr>
<tr>
<td>Lease Operating Expense</td>
<td>&lt; 20%</td>
<td>21% - 25%</td>
<td>26% - 30%</td>
<td>31% - 50%</td>
<td>&gt; 50%</td>
</tr>
<tr>
<td>Percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio Match</td>
<td>10% - 20%</td>
<td>21% - 29%</td>
<td>30% - 39%</td>
<td>40% - 49%</td>
<td>&lt; 10% or &gt; 50%</td>
</tr>
<tr>
<td>Land</td>
<td>One or few leases, all rights, all depths, non-producing HBP</td>
<td>Other Factors/Single Factors</td>
<td>Larger number of leases relative to value</td>
<td>Horizontal or vertical limitations</td>
<td>Well-bore only</td>
</tr>
<tr>
<td>Geology</td>
<td>Simple trap, simple reservoir, well defined &amp; understood</td>
<td>Simple trap, simple reservoir, not as well understood</td>
<td>Single trap and/or reservoir complexity, well understood</td>
<td>Single trap and/or reservoir complexity, not well defined</td>
<td>Multiple complexities, not understood</td>
</tr>
<tr>
<td>Accounting</td>
<td>No outside reporting besides financial partners &amp; tax</td>
<td>Other Factors/Single Factors</td>
<td>Distribution requirements to WI/Royalty Owners</td>
<td>External JIB reporting</td>
<td>Too costly/time consuming in relation to asset value</td>
</tr>
</tbody>
</table>

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Business Plan

- Cash Flow (PDP): producing assets with upside potential.
- Team has the ability to buy assets at a competitive price.
- Initial focus on acquiring producing assets in Permian, Mid-Con and ArkLaTex or other low-decline, primarily depletion-drive, low-LOE plays.
- Target assets with an HBP acreage position that has development potential in multiple horizons.
- Apply multi-basin operations expertise and innovations to new areas
- Exit realized at optimal inflection of value creation and equity commitment
By accepting the enclosed materials, You agree to keep all information confidential and not disclose any information to parties outside your immediate firm. The enclosed information is the property of PetroTex Energy Partners, LLC, and any disclosure of such information may create irreparable harm to PetroTex Energy Partners, LLC.
Developing and Working with an Independent Team for Bigger Impact, Results and Rewards:

• The more your successful, experienced and past shared work experiences teams have the more accepting the PE and credit firms will be in receiving you:
  • Petroleum Geoscientists: are development, exploitation and exploration covered?
  • Petroleum Engineers: operations, reservoir, reserve reporting, A&D/M&A.
  • Land: data and lease management systems, leasing, running brokers, business development, document preparation and other agreements. JV working experience.
  • Accounting:
  • Finance: reporting and previous experience with PE firms.
  • Management: who in the group has had GM, P&L responsibility, Senior Management experience.
  • You can not do this alone although small groups even 2 with most of these areas covered with access to additional talent can.

• **Show Prior Success!**
• **Have a deal, deal ready!**
Stages of Progress and Funding:

- **Idea or Catalyst**
  - LLC Registered, Operating Agreement in Place and Bank Account Opened

- **Up & Running with Trailing EBITDA**
  - Team is up and Running, all holes plugged and have property under control
  - Purchasing Properties, other assets, Generating and Consulting

- **Reg D Funds**
  - VC $  
  - VC $  

- **Friends & Family $**
  - Funding the Team!
Stages of Progress and Funding:

**Idea or Catalyst**
- LLC Registered
- Operating Agreement in Place
- Bank Account Opened

**Up & Running with Trailing EBITDA**
- Team
- Team is up and running, all holes plugged and have property under control

**Purchasing Properties, other assets, Generating and Consulting**

**Working for Profitability and Value (Wealth) Creation**
Stages of Progress and Funding:

Funding Sources and Stages:
1. Self Funded (Boot-Strap),
2. Family & Friends,
3. Venture Capital,
   A. Angels (High Net Worth Individuals),
   B. PE – Private Equity**
   C. Mezzanine,
4. Loans (Debt Financing),
   A. Small Business Administration,
   B. Commercial Banks,
   C. Convertible (Debt to Equity),
5. Non-Traditional,
   A. Cash Awards (Competitions),
   B. Vendor Credit,
   C. Factoring of Account Receivables.
Trend in Value Creation for the PE’s has changed since these firms were first developed.
Arbitrage includes (at least):
1. 2% of Managed Capital,
2. Uptick on interest charged to GP (Operating Team), and
3. Portion (half) the Operational Improvement
Working in a Team for Bigger Impact, Results and Rewards

Equity
Public, Private

Prospect
Generation

Property
Acquisition
W.I., ORRI, RI

Consulting

Employment

#8 Funding from Banks When, Why!

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Oil & Gas Financing: Risk & Reward Spectrum

- Mezzanine Financing
- (PE) Private Equity Financing
- Reserve "Bank" Lending
- Stretch Senior and Junior Debt
- Reserve Based Lending 22%

### Acquire 50,000 acres at $1,000 per acre

<table>
<thead>
<tr>
<th>Action</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquire 50,000 acres</td>
<td>$50,000,000</td>
</tr>
<tr>
<td>Drill and complete 16 wells @ $6MM / well</td>
<td>$96,000,000</td>
</tr>
<tr>
<td>$250M GP overhead for 5 years</td>
<td>$15,000,000</td>
</tr>
<tr>
<td><strong>Total Investment:</strong></td>
<td><strong>$161,000,000</strong></td>
</tr>
</tbody>
</table>

### Sell in 5 years: $402,500,000

| PDP @ $50,000/BOEPD + $5,000 / acre       | $402,500,000|

### Return:
- **Cash on Cash:** 2.5 : 1
- **Return at 12%:** 1.4 : 1

### Cash Returns ($MM):

<table>
<thead>
<tr>
<th></th>
<th>Investors</th>
<th>PE</th>
<th>GP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$376.27</td>
<td>$14.78</td>
<td>$11.56</td>
</tr>
<tr>
<td></td>
<td>93.5%</td>
<td>3.7%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

---

*Financed: 100% PE Funds for Expl*
### Financial Analysis

#### Acquisition and Development Costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquire 50,000 acres at $1,000 per acre</td>
<td>$50,000,000</td>
</tr>
<tr>
<td>Drill and complete 16 wells at $6MM/well to fully PUD acreage</td>
<td>$96,000,000</td>
</tr>
<tr>
<td>$250M GP overhead for 5 years</td>
<td>$15,000,000</td>
</tr>
<tr>
<td><strong>Total Investment</strong></td>
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</tbody>
</table>

#### Revenue Estimation

<table>
<thead>
<tr>
<th>Description</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell in 5 years</td>
<td>$402,500,000</td>
</tr>
<tr>
<td>PDP @ $50,000/BOEPD + $5,000/acre</td>
<td>$75,000,000</td>
</tr>
</tbody>
</table>

#### Financial Outcomes

- **Cash on Cash Return**: 2.5:1
- **Return at 12%**: 1.4:1

#### Cash Returns ($MM):

<table>
<thead>
<tr>
<th>Source</th>
<th>Investors</th>
<th>PE</th>
<th>GP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$376.27 (93.5%)</td>
<td>$14.78 (3.7%)</td>
<td>$11.56 (2.9%)</td>
</tr>
<tr>
<td></td>
<td>$114.42 (93.8%)</td>
<td>$4.29 (3.5%)</td>
<td>$3.29 (2.7%)</td>
</tr>
</tbody>
</table>

### Notes

- Financed: 100% PE Funds for Expl
- **Return on Investment (ROI)**: 2.5:1
- **Cost of Funds**: 100% PE Funds for Expl, 100% PE Funds for PDP Acquisition

---

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Eliminate the PE Firm and go directly to the Source of Funds

- Public pension funds: 28.7%
- Funds of funds:
- Corp pension funds & corps: 16.2%
- Banks/financial services cos.: 14.2%
- Endowments/foundations: 10.6%
- Insurance Cos.: 8.4%
- Sovereign wealth funds: 6.4%
- Wealthy investors/feeder funds: 5.4%
- GP contribution: 3.9%
- Family offices: 3.6%
- Union pension funds: 2.2%
- Other:

Mod after Mike Lorelli, Private Equity, May 5, 2016
<table>
<thead>
<tr>
<th>Description</th>
<th>100% PE Funds for PDP</th>
<th>50% PE Fund and 50% Bank Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquire PDP Property:</td>
<td>$50,000,000</td>
<td>$100,000,000</td>
</tr>
<tr>
<td>RC / WO / PUD:</td>
<td>$10,000,000</td>
<td>$20,000,000</td>
</tr>
<tr>
<td>$250M GP overhead for 5 years</td>
<td>$15,000,000</td>
<td>$15,000,000</td>
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<tr>
<td>Total Investment (PE)</td>
<td>$50,000,000</td>
<td>$50,000,000</td>
</tr>
<tr>
<td>Sell in 5 years</td>
<td>$75,000,000</td>
<td>$150,000,000</td>
</tr>
<tr>
<td>Free CF</td>
<td>$47,000,000</td>
<td>$84,000,000</td>
</tr>
<tr>
<td>Return: Cash on Cash</td>
<td>2.4 : 1</td>
<td>Paid off 50% Loan 2 years: 4.7 : 1</td>
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<td>Return at 12%</td>
<td>1.4 : 1</td>
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<tr>
<td>Cash Returns ($MM):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investors:</td>
<td>$114.42</td>
<td>$198.3</td>
</tr>
<tr>
<td>PE:</td>
<td>$4.29</td>
<td>$15.5</td>
</tr>
<tr>
<td>GP:</td>
<td>$3.29</td>
<td>$20.2</td>
</tr>
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</tr>
<tr>
<td>Cash Returns ($MM):</td>
<td>Exp Ex</td>
<td></td>
</tr>
<tr>
<td>Investors:</td>
<td>$114.42 93.8%</td>
<td>&gt;3X Inv $198.3 84.6%</td>
</tr>
<tr>
<td>PE:</td>
<td>$4.29 3.5% 56.6%</td>
<td>$14.78 $15.5 6.6%</td>
</tr>
<tr>
<td>GP:</td>
<td>$3.29 2.7% 43.4%</td>
<td>$11.56 $20.2 8.6%</td>
</tr>
</tbody>
</table>
Working in a Team for Bigger Impact, Results and Rewards

- Equity
  - Public, Private
- Prospect Generation
- Property Acquisition
  - W.I., ORRI, RI
- Consulting

Employment

Building Complete! (for today)
Eight (8) Steps to Getting Started and Getting Funding

1. Your LLC,
2. Funding Your LLC,
3. What Upstream Segments are getting Funded in today's Market,
4. Forming and Developing Your LLC
5. Building a Team,
6. Funding a Team with PE,
7. What and Who are PEs,
You Can Do This!

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Society of Petroleum Engineers
Gulf Coast Section, Members in Transition
Seminar #9
October 7, 2016

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Creating Your LLC and Various Options for Consulting and Operations

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Society of Petroleum Engineers
Gulf Coast Section, Members in Transition
Seminar #8
September 9, 2016