

# ENERGY INDUSTRY UPDATE

**19<sup>TH</sup> Annual Distressed  
Investing Conference**

**November 26, 2012  
New York, New York**

# ENERGY

## Green

- Solar
- Wind
- Hydro
- Biofuels



## Traditional - Oil

- Natural Gas
- Liquefied Natural Gas
- Coal



# **"Green" Energy Graveyard**

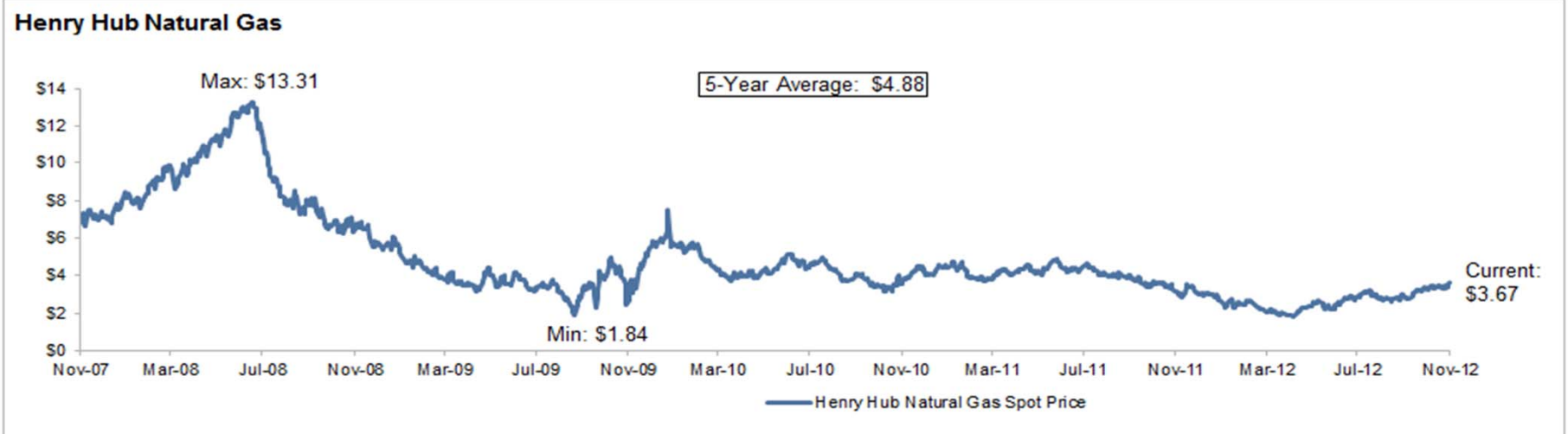
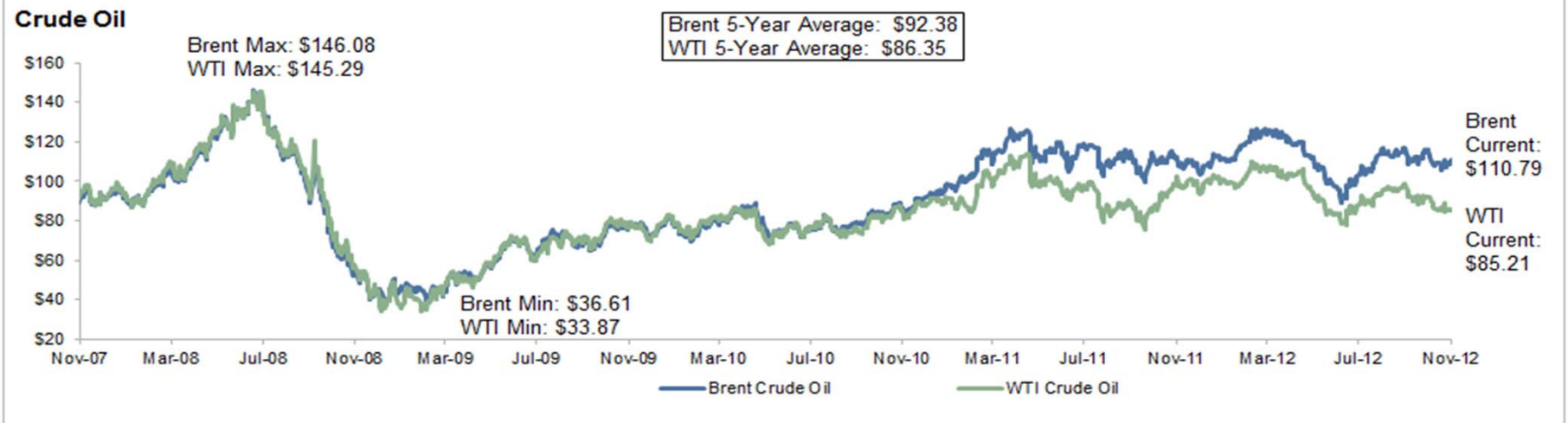
**(Approximately \$2.6 billion in Government Loans)**

## **Bankruptcies and other Failures**

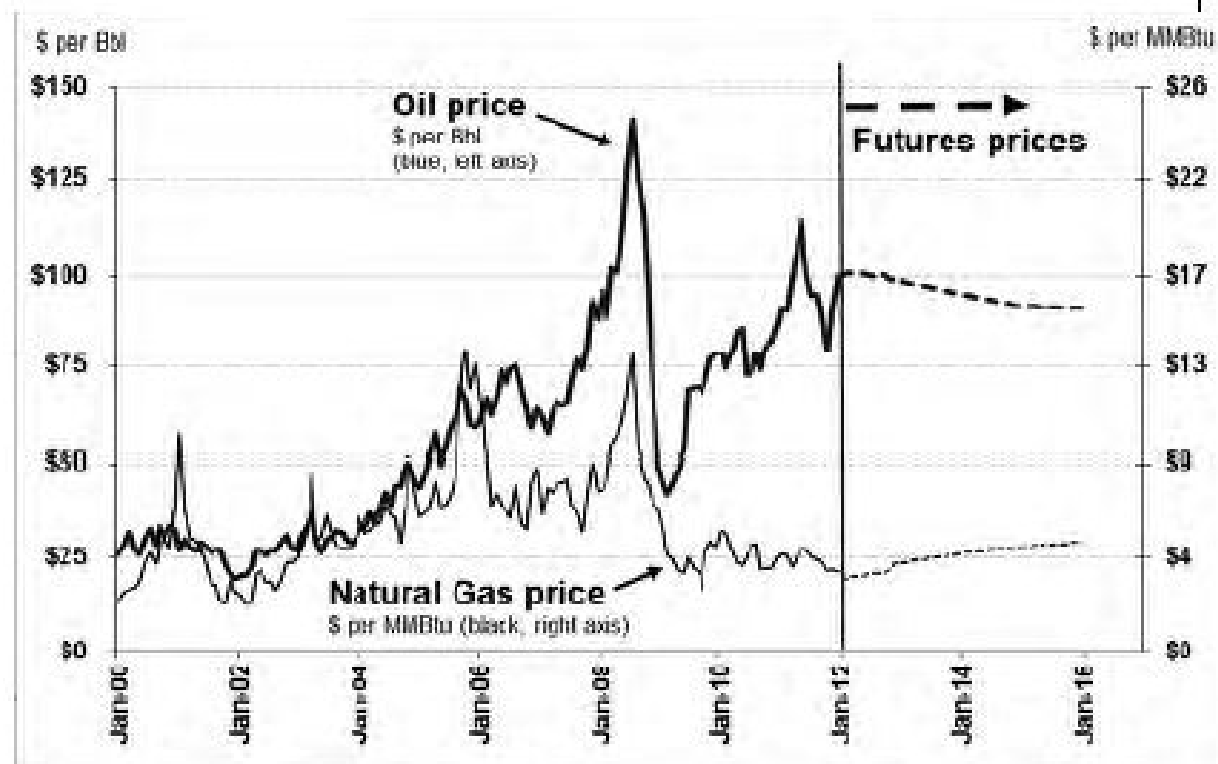
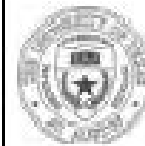
- |  |  |
|--|--|
| 1. Abound Solar \$790M                                       | 11. Nordic Windpower \$24.6M                     |
| 2. Solyndra \$570M   | 12. Spectra Watt \$20.5M                         |
| 3. A123 Systems \$377.1M                                     | 13. Konarka Technologies \$20M                   |
| 4. Ener 1 (EnerDel, subsidiary)<br>\$182.8                   | 14. Sation Technology Corp. \$17M                |
| 5. Range Fuels \$162.3M                                      | 15. Olsen's Crop Service \$10.8M                 |
| 6. Azure Dynamics \$119.1M                                   | 16. Stirling Energy Systems, Inc.<br>\$10.5M     |
| 7. Energy Conversion Services<br>(United Solar Ovan \$110.3M | 17. Thompson River Power LLC<br>\$6.5M           |
| 8. Evergreen Solar, Inc. \$84.9M                             | 18. Cardinal Fastners Speciality Co<br>\$480,000 |
| 9. Beacon Power \$77.4M                                      | 19. Mountain Plaza, Inc. \$424,000               |
| 10. Raser Technologies \$3.3M                                |  |

**Overall More Winners than Losers**

# Crude Oil and Natural Gas Pricing: 2007 - Present



# US futures curve calls for prolonged oil – gas divergence



# Traditionally, the industry is broken down into three sectors



## Upstream:

Exploration &  
Production

## Midstream:

Pipeline  
Transportation  
Marine Transportation  
Gas Gathering

## Downstream:

Refineries  
Power Generation  
Trading  
Marketing

Support Activities for Upstream and Midstream Sectors:

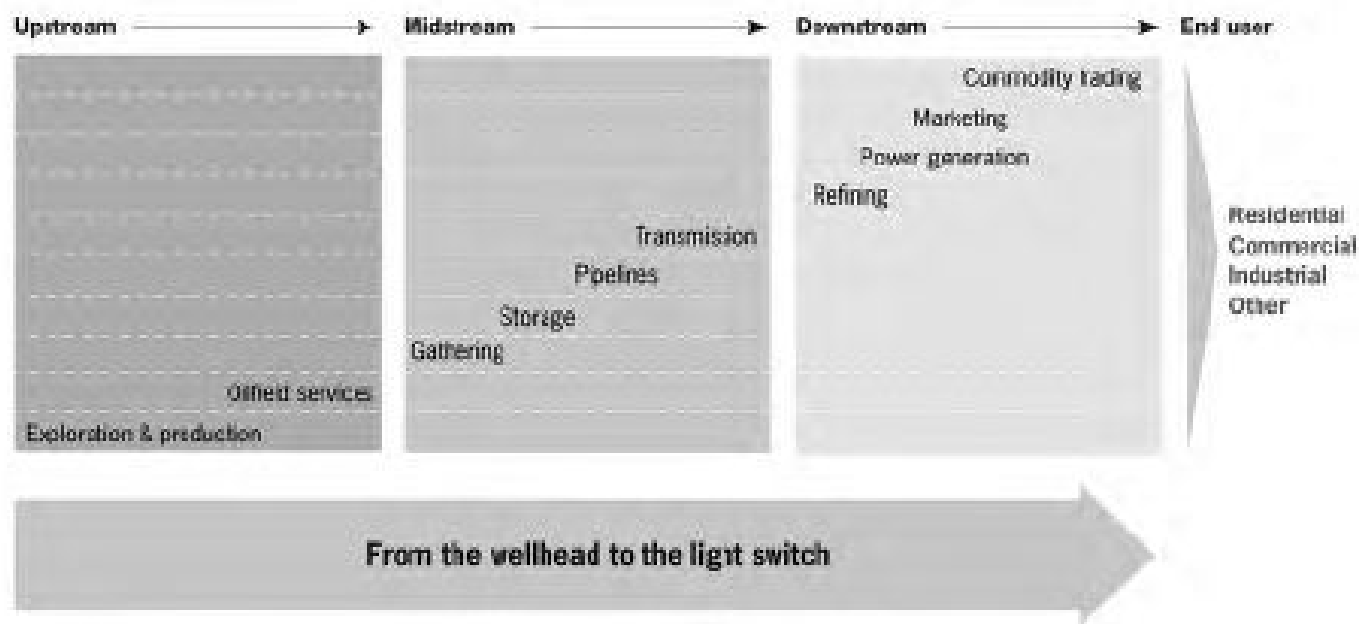
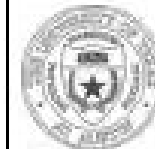
### Upstream:

Geophysical Services  
Drilling Contractors  
Equipment Providers  
Production Services  
Well Services

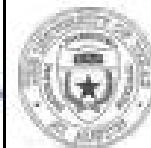
### Midstream:

Pipeline Construction &  
Services  
Transportation Scheduling  
Marine Vessel Construction

# Energy Supply Chain



# Types of E&P Assets and Liabilities



## Assets:

- Working Capital
- Oil and Gas Reserves
- Hydrocarbon Inventory
- Hedging Instruments
- Other Fixed Assets
  - Gathering systems, helicopters, landing pads, boats, etc)
- Seismic Data
- Permits and Licenses
- Contracts

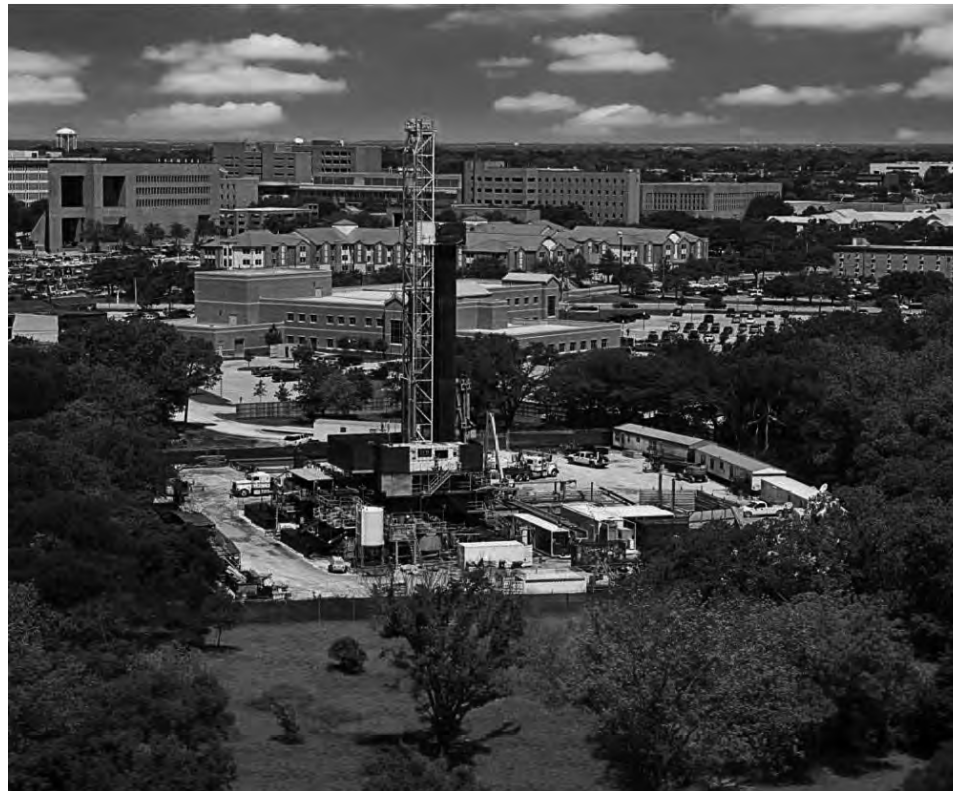
## Liabilities:

- Asset Retirement Obligations
- Environmental Liabilities
- Pre-emptive Rights
- Debt

\*\*\* Transactions are typically structured as asset purchases.

## Exploration & Production

# Drill or Die



## What Do E&P Financial Statements Tell Us?

### Five Common Misconceptions or Misinterpretations of E&P Credits

## Misconception #1. Three times (3x) leverage and debt trading at 60 is a good buying opportunity of an E&P credit

- Lack of leverage can be a highly misleading indicator
- Leverage needs to be analyzed within the context of the financial statements
- Asset values v. cash flows
  - PDP = Proved Developed Producing
  - PDNP = Proved Developed Non-producing
  - PUD = Proved Undeveloped
  - 3P = Proved + Probable + Possible
- Geographic location(s) of operations matters more than you think

## Misconception #2. Hedging protects my downside during a challenging commodity price environment

- Finite in life
- Not always economic
- Perils of potential termination

### Misconception #3. Accounts Payable don't matter I'm buying secured debt obligations

- Not all payables are equal....Mechanic's & Materialman's liens
- Contracts that may not be rejectable or are subject to set-off
- Impact on the transferability of E&P assets in a sale or restructuring

## Special Priority Issues

### Mechanics and Materialmen's Liens against Mineral Property

- Statutory Liens given to persons performing services or providing materials in the oil and gas industry

Example: Oilfield service company contract to drill well for leaseholder

- Liens cover “mineral activities” – “digging, drilling, torpedoing, operating, completing, maintaining, or repairing an oil, gas or waterwell, an oil and gas pipeline, or a mine or quarry”
- Broad coverage in Texas and Oklahoma
- Lien covers all wells on the lease not just the well for which materials and services provided
- Lien covers all contiguous acreage operated as a single unit

## Misconception #4. The Company's liquidity position is solid because of its large undrawn revolver

- Typically secured by oil & gas reserves
- Revolver borrowing base tied to reserves subject to semi-annual redeterminations
- Unique perils for E&P companies during challenging periods
- Motivations for redeterminations can vary

**Misconception #5. I can ignore plugging and abandonment liabilities or shed them in Chapter 11 since they are not 'debt' obligations**

- An obligation of the offshore operator not necessarily limited to the existing operator
- The Government must be satisfied at all times (cash, bonding, exempt)
- Liabilities can go with assets in a §363 sale or reorganization

## Recent E&P Restructurings

- Energy Partners Limited (now known as EPL Oil & Gas) filed chapter 11 in Houston in 2009 to implement a debt to equity swap whereby the major bondholders (Wexler) became the primary stockholder and the balance sheet was cleaned up to allow focus on drilling and acquiring more gas properties.
- Dune Energy in late 2011 completed out-of-court exchange offer. Swapped most bond debt for equity. Again goal was to free up liquidity – in this case getting rid of quarterly bond dividend payments and increase ability to borrow – to allow for more drilling and development.

## Recent E&P Restructuring

- Reveille Resources. Reveille filed chapter 11 in Houston to effect secured debt holder swap to equity. Guggenheim was secured creditor and plan proponent.
- Branta Petroleum. Guggenheim foreclosed on oil and gas properties outside of bankruptcy to effectively become owner of oil and gas assets.
- Cano Petroleum. Cano filed chapter 11 in Dallas to effect a sale of its equity to stalking horse buyer with consent of secured creditors.

## Venue

- Texas?
- Delaware?
- SDNY?
- Unlike other complex bankruptcies is an E&P company more likely to choose Texas as its filing jurisdiction?

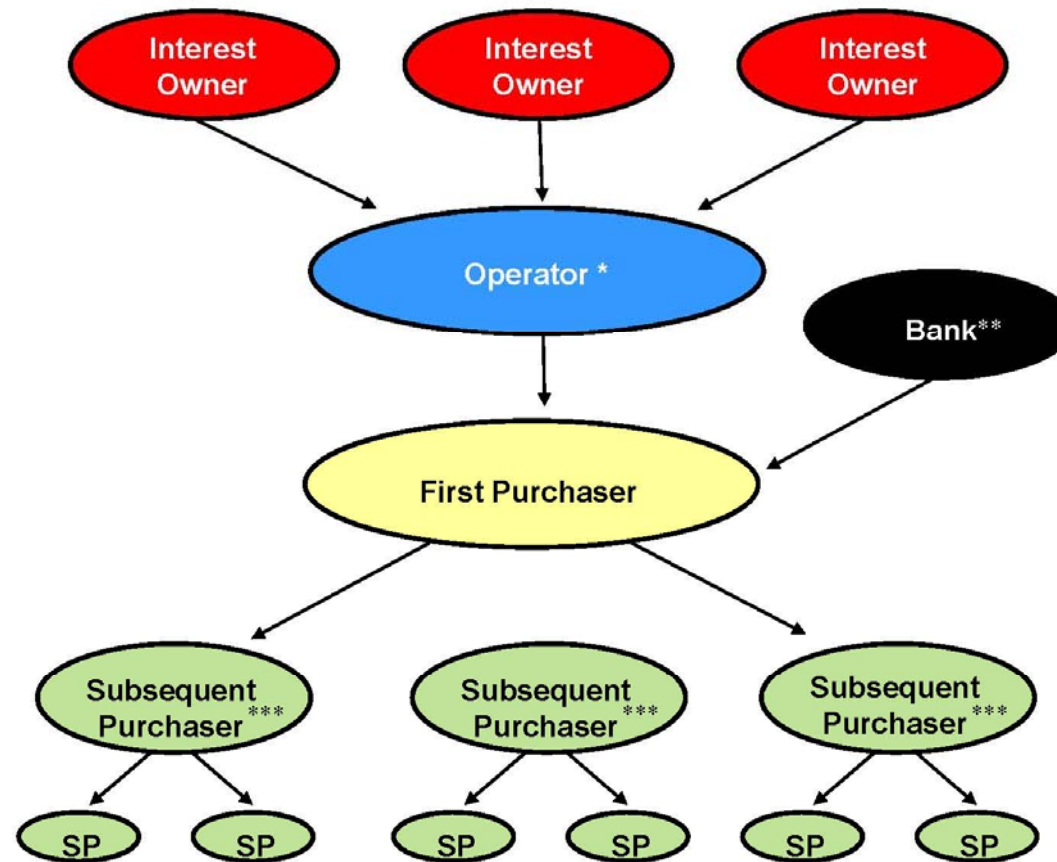
## Acquisition Opportunities

- Section 363 sales are common given nature of collateral
- Stalking horse advantages
- Online auctions
- Consideration may include Net Profit Interest in future wells for creditors rather than cash

## Ebay for O&G

- Oil and Gas Asset Clearinghouse Houston, Texas
- Oil and gas marketing services firm supported by internet and digital data delivery system
- Server based internet sales and live auctions
- Sold with or without Operating Agreement
- Must be accredited investors/parties “knowledgeable and sophisticated” who are actively engaged in the oil and gas business on an ongoing basis

# Typical Oil and Gas Marketing Model



\* May also be an Interest Owner.

\*\* Normally has a security interest in oil and gas purchased and proceeds therefrom

\*\*\*Subsequent Purchaser ("SP") includes: (1) Refineries; (2) Manufacturers using oil and gas as feedstock; (3) Marketing Companies.

## Lingering SemCrude Issues

### *Producers v. Banks*

- Delaware ruled for Banks over unpaid producers
- Disregarded Texas and Oklahoma liens favoring producers
- Would Texas or Oklahoma have ruled differently?

## Set off and Netting are Critical to Oil & Gas Industry

- Industry relies heavily on netting b/c not enough credit to support otherwise
- SemCrude and the lingering triangular set off issue
- Lyondell and the regulated pipeline issue
- Vendors/Counterparties are becoming more savvy at assessing creditworthiness

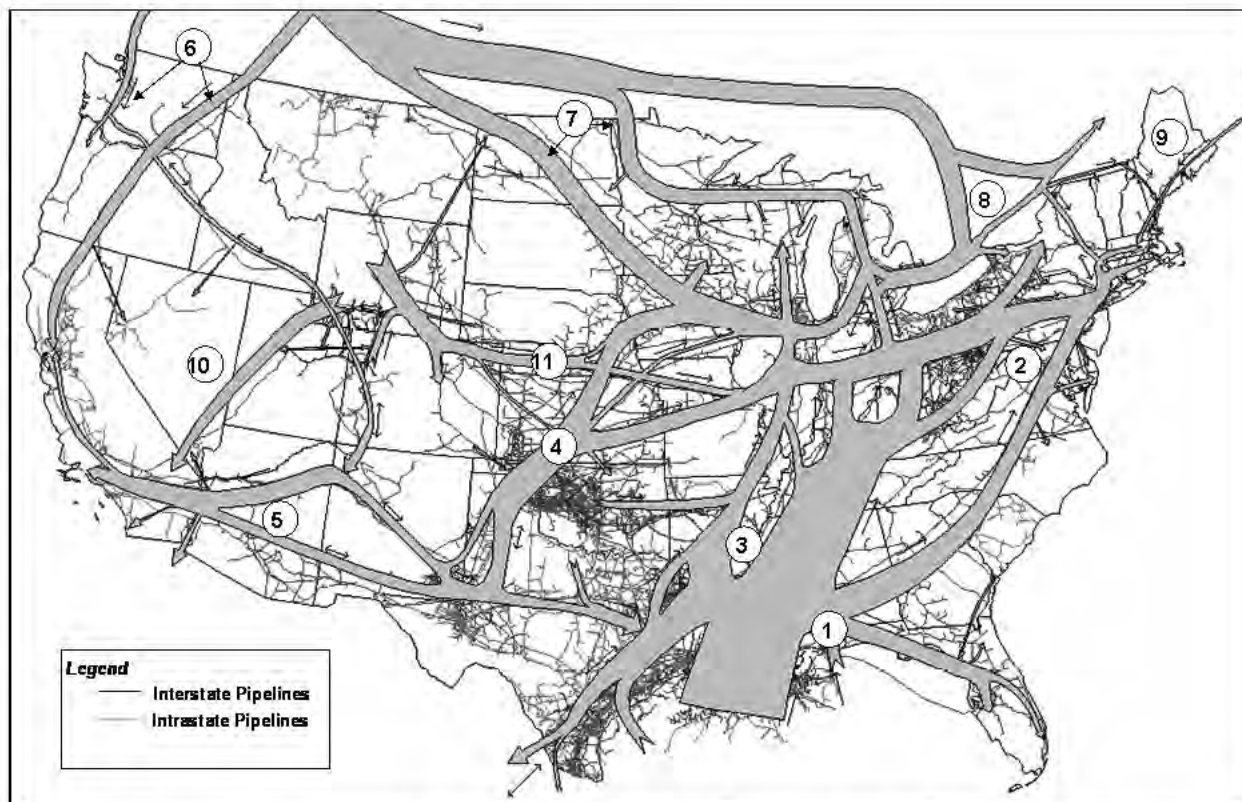


Source: Energy Information Administration based on data from various published studies.  
Updated: May 9, 2011

## U.S. Natural Gas Shale Basins Align with Pipeline Grid



Source: EIA, EIC Market Data Database



Source: Energy Information Administration, Office of Oil and Gas, Natural Gas Division, GasTran Gas Transportation Information System.

## Coal – - A long term opportunity?

- 1/3 of U.S. electricity fueled by coal / 2/3 in China
- Warm weather, heavy regulation and cheaper natural gas lead to steep decline
- Patriot Coal –
  - Failed spin off
  - Filed in SDNY July 9, 2012

# Marine Transportation a/k/a Shipping

- November 14, 2012 Overseas Shipholding Group filed Chapter 11 in Delaware
- Excel Maritime in restructuring talks with lenders
- October 2, 2012 Torm A/S restructures \$1.8 billion debt
- October 10, 2012 Deilemar Shipping (Italy) declared bankrupt
- November 16, 2011 = Trailer Bridge Inc. files Chapter 11
- November 17, 2011 = General Maritime Corp. files Chapter 11
- March 14, 2011 Units of PT Berlian Lape Tanker files Chapter 15
- May 3, 2011 Italian Shipping Co Deilemar declared bankrupt
- May 30, 2011 B&H Ocean Carriers Ltd filed Chapter 11
- July 2, 2011 Sanko Steam Ship files bankruptcy (Japan)
- July 8, 2011 Omega Navigation files Chapter 11
- July 29, 2011 Marco Polo Seatrade BV files Chapter 11
- August 9, 2011 Stephenson Clarke Shipping Ltd (Britain's oldest shipping firm) goes into liquidation after 300 years of today)