WORKING IN THE ENERGY INDUSTRY FOR OVER A CENTURY

Our integrated energy team helps debtors, creditors and investors get deals done. With decades of experience in both in and out-of-court restructurings, acquisitions and divestitures in the energy industry, we have both the bankruptcy and energy experience to help minimize risks and maximize opportunities in distressed situations. For more information about how we can help you, visit **andrewskurth.com**.

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STRAIGHT TALK IS GOOD BUSINESS.®

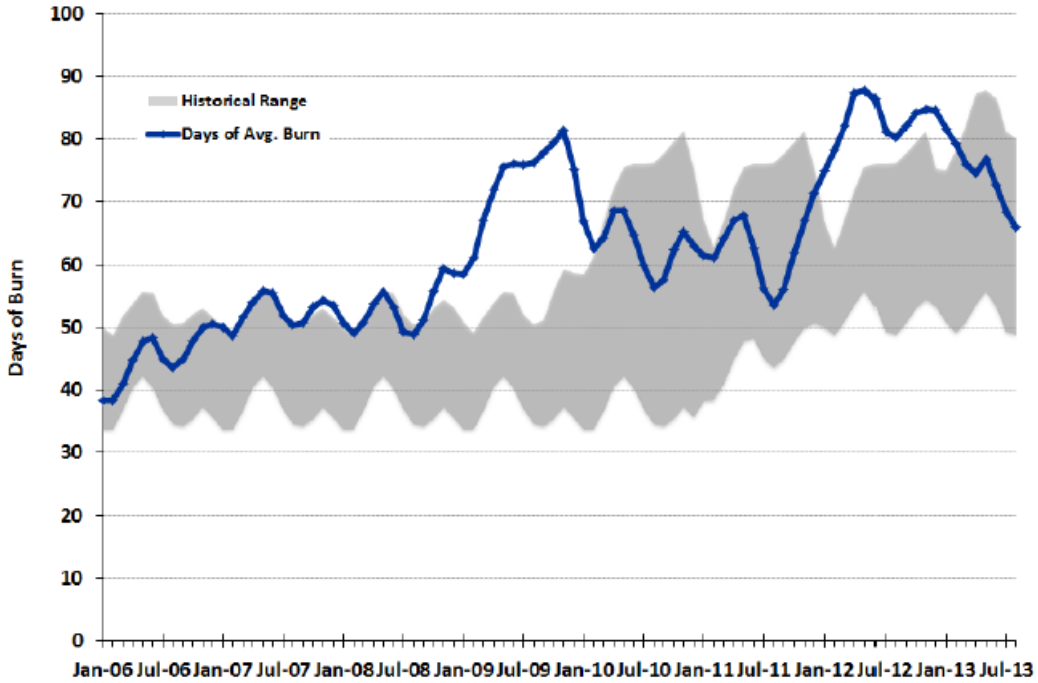
2013 Distressed Investing Conference

Key Issues for the US Coal Industry

- Decline in demand by domestic power sector is permanent
  - Competition of lower-cost natural gas combined cycle plants displaces some existing coal generation and ends outlook for new coal-fired plant development
  - New EPA rules on existing coal-fired power plants require capital investment to keep operating, 36 GW of retirements announced 2013 – 2016
    - MATS rule is the major cause of retirements; also regional haze rule and NSR lawsuits
  - Future power demand likely to be 800 – 900 mm tpy, not +1.0 billion
- Export markets are uncertain and volatile
  - Swing in currency exchange rates drives world prices in US dollars
  - Met coal exports affected by growth in Australia, Mongolia and Mozambique
  - Atlantic Basin is over-supplied with steam coal; need Pacific ports
- Supply rationalization is slow and painful
  - Restructuring to smaller market takes time
  - Cost of leaving business is high
  - Excess supply has depressed pricing

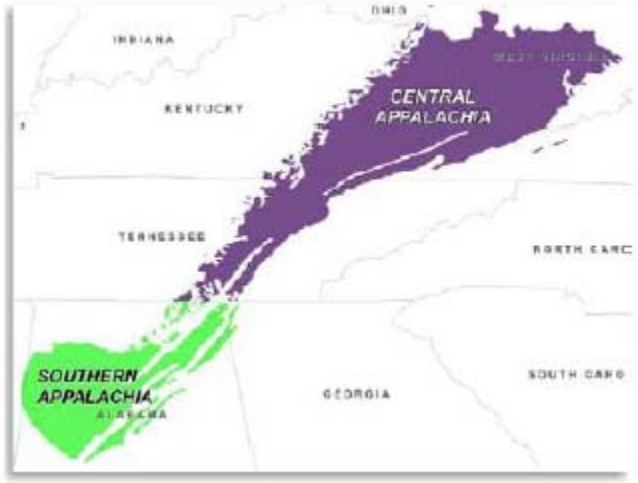
Short-Term Issue: Power Sector Coal Stockpiles

- Mild winter of '11-'12 caused huge jump in coal inventories
  - 53 days of average burn in Aug 2011 soared to 88 days in May 2012
    - Added 64 mm tons to customer inventories
  - Cuts in purchases and increased burn bring stocks down to 66 days in Aug 2013
    - Positive sign for 2014 coal prices as purchases will increase to maintain stocks



Central Appalachia Overview

- Once-largest basin is facing severe decline
  - Domestic power market loss to scrubbed high-sulfur coal and natural gas CCGT
  - Export steam unlikely to be cost competitive in Atlantic Basin
  - Metallurgical demand will largely be sustained, but under pressure in Asia
  - Another round of massive mine closures is underway



(Million Tons)	2008	2009	2010	2011	2012	2013	2014	2015	2016
CENTRAL APPALACHIA									
Total Production	**233.4**	**194.6**	**184.2**	**182.7**	**147.2**	**130.6**	**118.3**	**97.6**	**90.5**
Electric Power Receipts	150.7	130.0	111.4	99.2	61.3	45.5	44.4	31.1	25.7
Electric Burn	*154.0*	*119.5*	*119.3*	*95.3*	*59.6*	*53.6*	*51.9*	*31.1*	*25.7*
Stockpile Change	*(3.3)*	*10.5*	*(7.9)*	*3.8*	*1.7*	*(8.1)*	*(7.4)*	*0.0*	*0.0*
Coke Ovens	17.3	11.7	15.9	16.2	15.0	15.1	15.2	15.3	15.2
Commercial/Industrial	16.5	12.4	14.1	12.3	10.1	10.3	9.9	9.5	9.2
Domestic Receipts	**184.6**	**154.1**	**141.4**	**127.7**	**86.4**	**71.0**	**69.5**	**55.9**	**50.1**
Export Metallurgical	27.3	23.9	33.8	43.1	43.1	40.4	35.3	33.2	32.8
Export Steam	5.6	5.4	3.3	8.8	16.4	18.5	13.5	8.5	7.6
Total Exports	**32.8**	**29.3**	**37.1**	**51.9**	**59.5**	**58.9**	**48.8**	**41.7**	**40.4**

Northern Appalachia Overview

- Modest growth with balanced S&D
  - Power sector gains displacing CAPP in SE
    - Low CAPP prices could slow growth
  - Surprise closure of FE Hatfields Ferry negative
  - New longwall mines increase supply at low cost
    - CNX BMX expansion
    - ACI Leer met coal
    - ARLP Tunnel Ridge
  - Export market supported by lower costs

(Million Tons)	2010	2011	2012	2013	2014	2015	2016
NORTHERN APPALACHIA							
Total Production	**129.1**	**131.2**	**124.8**	**126.8**	**139.5**	**141.6**	**138.7**
Electric Power Receipts	106.8	99.5	93.0	100.7	112.3	113.2	110.6
Electric Burn	*110.4*	*102.7*	*94.9*	*103.7*	*112.3*	*113.2*	*110.6*
Stockpile Change	*(3.7)*	*(3.2)*	*(1.9)*	*(3.0)*	*(0.0)*	*0.0*	*0.0*
Coke Ovens	2.6	3.4	3.4	3.4	3.4	3.4	3.4
Commercial/Industrial	4.8	5.3	4.6	4.6	4.4	4.2	4.1
Domestic Receipts	**114.2**	**108.3**	**101.0**	**108.7**	**120.1**	**120.9**	**118.1**
Export Metallurgical	11.8	15.4	14.4	13.4	14.6	15.7	15.5
Export Steam	2.1	4.4	6.3	4.7	4.8	5.0	5.2
Total Exports	**13.8**	**19.8**	**20.7**	**18.1**	**19.4**	**20.7**	**20.7**

Illinois Basin Overview

- Robust growth in domestic power market
  - Displacing CAPP in SE and PRB in Midwest
  - Lower delivered price supports generation v gas
  - New longwall mines increase supply at low cost
    - Foresight Sugar Camp B mine
    - White Oak
  - Export price discounted for high sulfur
  - Lower cost access to exports through New Orleans
  - Hope for growth to Asia through expanded Canal

(Million Tons)	2010	2011	2012	2013	2014	2015	2016
ILLINOIS BASIN							
Total Production	**105.1**	**115.8**	**126.9**	**135.0**	**138.3**	**142.7**	**145.9**
Electric Power Receipts	95.9	100.1	102.1	114.0	119.7	124.5	126.6
Electric Burn	*97.2*	*101.6*	*100.4*	*113.3*	*122.6*	*124.5*	*126.6*
Stockpile Change	*(1.3)*	*(1.6)*	*1.7*	*0.7*	*(2.8)*	*0.0*	*0.0*
Coke Ovens	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial/Industrial	8.3	8.2	6.8	6.7	6.4	6.1	5.9
Domestic Receipts	**104.2**	**108.3**	**108.9**	**120.6**	**126.1**	**130.7**	**132.5**
Export Metallurgical	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Steam	6.4	9.8	15.3	12.3	12.2	12.0	13.4
Total Exports	**6.4**	**9.8**	**15.3**	**12.3**	**12.2**	**12.0**	**13.4**

Powder River Basin Overview

- Rebound expected in domestic power market
  - Huge stockpile burn depressing 2013 demand
  - Lower delivered price supports generation v gas
  - Plant closures due to Regional Haze and MATS
  - Higher prices needed to restore lost production
- Export market growth to Asia
  - Can compete with Indonesia and Australia
  - New US port capacity could unlock market

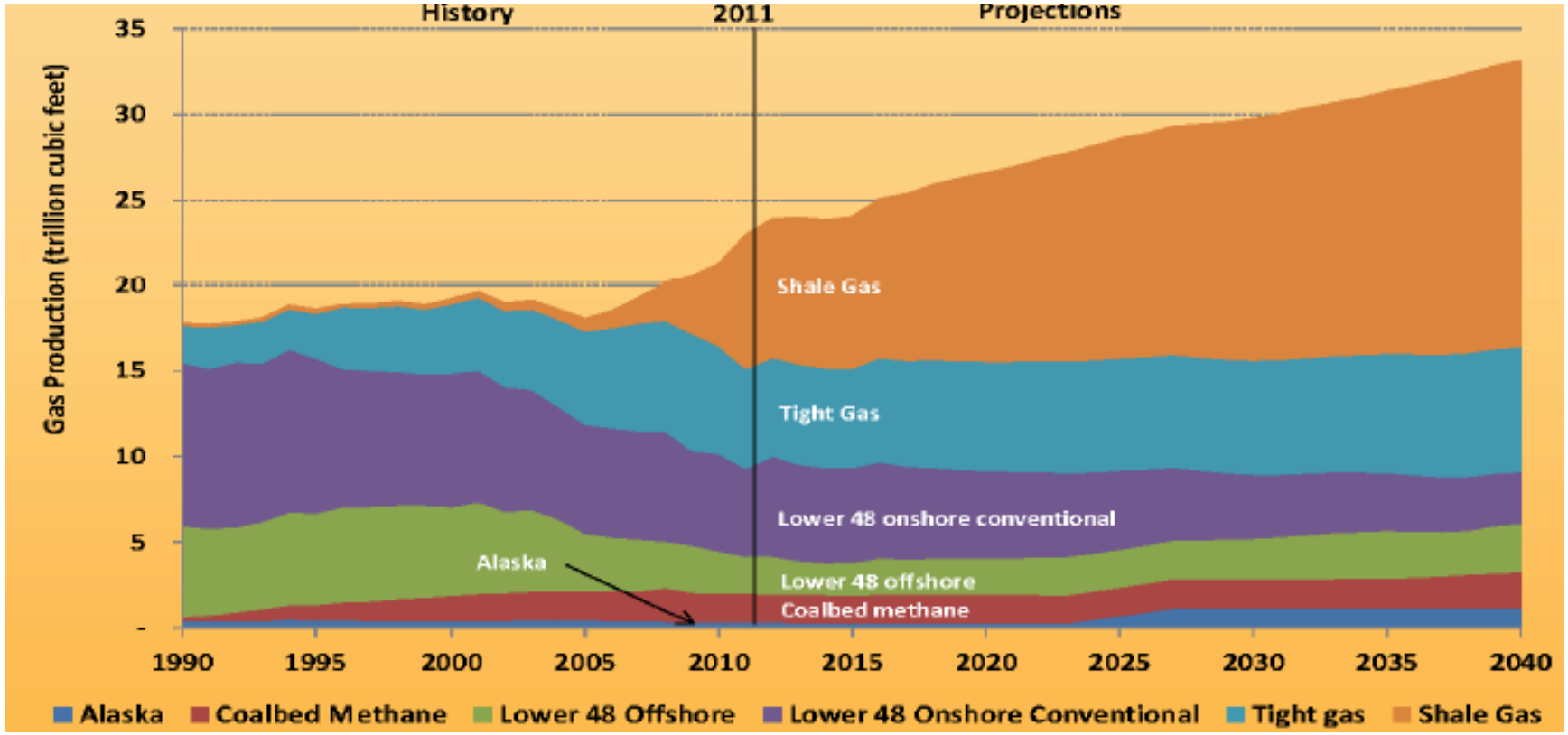
(Million Tons)	2010	2011	2012	2013	2014	2015	2016
POWDER RIVER BASIN							
Total Production	**468.4**	**462.6**	**419.1**	**413.0**	**442.0**	**433.1**	**435.8**
Electric Power Receipts	449.1	446.3	404.7	397.8	424.7	413.7	413.0
Electric Burn	*457.2*	*448.6*	*397.8*	*429.0*	*424.7*	*413.7*	*413.0*
Stockpile Change	*(8.1)*	*(2.4)*	*6.9*	*(31.2)*	*0.0*	*0.0*	*0.0*
Coke Ovens	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial/Industrial	9.1	9.2	7.4	8.0	7.7	7.4	7.2
Domestic Receipts	**458.2**	**455.5**	**412.0**	**405.9**	**432.4**	**421.1**	**420.2**
Export Metallurgical	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export Steam	10.1	8.2	7.7	7.1	9.6	12.0	15.6
Total Exports	**10.1**	**8.2**	**7.7**	**7.1**	**9.6**	**12.0**	**15.6**

Rockies Overview

- Losing demand in domestic power market
  - Eastern markets will close or switch back to local coal
  - Local market threatened by Regional Haze
- Export market needed to absorb excess supply
  - Limited port capacity on West Coast
  - Better rail rates needed to new port in Houston to compete in the Atlantic Basin market

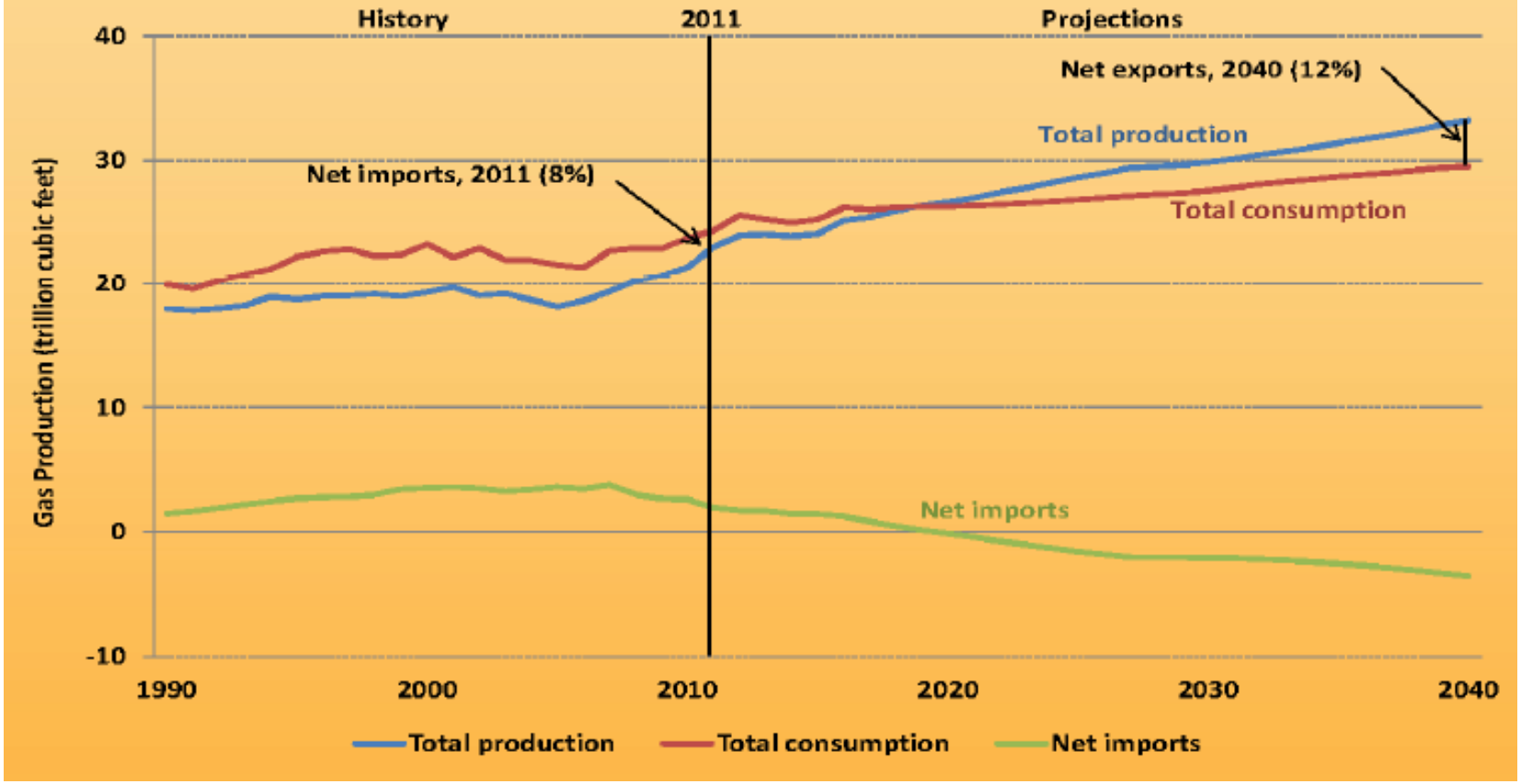
(Million Tons)	2010	2011	2012	2013	2014	2015	2016
ROCKIES							
Total Production	**70.8**	**74.5**	**74.1**	**68.8**	**68.9**	**68.7**	**68.1**
Electric Power Receipts	58.9	57.8	52.5	50.1	49.8	48.4	47.8
Electric Burn	*61.7*	*56.8*	*52.2*	*52.9*	*50.9*	*48.4*	*47.8*
Stockpile Change	*(2.8)*	*1.0*	*0.3*	*(2.8)*	*(1.1)*	*0.0*	*0.0*
Coke Ovens	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial/Industrial	4.9	4.9	6.4	5.8	5.3	5.1	5.0
Domestic Receipts	**63.8**	**62.8**	**58.9**	**55.9**	**55.2**	**53.5**	**52.7**
Export Metallurgical	0.3	0.6	0.1	0.2	0.2	0.2	0.2
Export Steam	5.5	10.4	15.9	12.0	13.5	15.0	15.2
Total Exports	**5.9**	**11.0**	**15.9**	**12.2**	**13.7**	**15.2**	**15.4**

Shale Gas Provides Largest Source of Growth in U.S. Natural Gas Supply



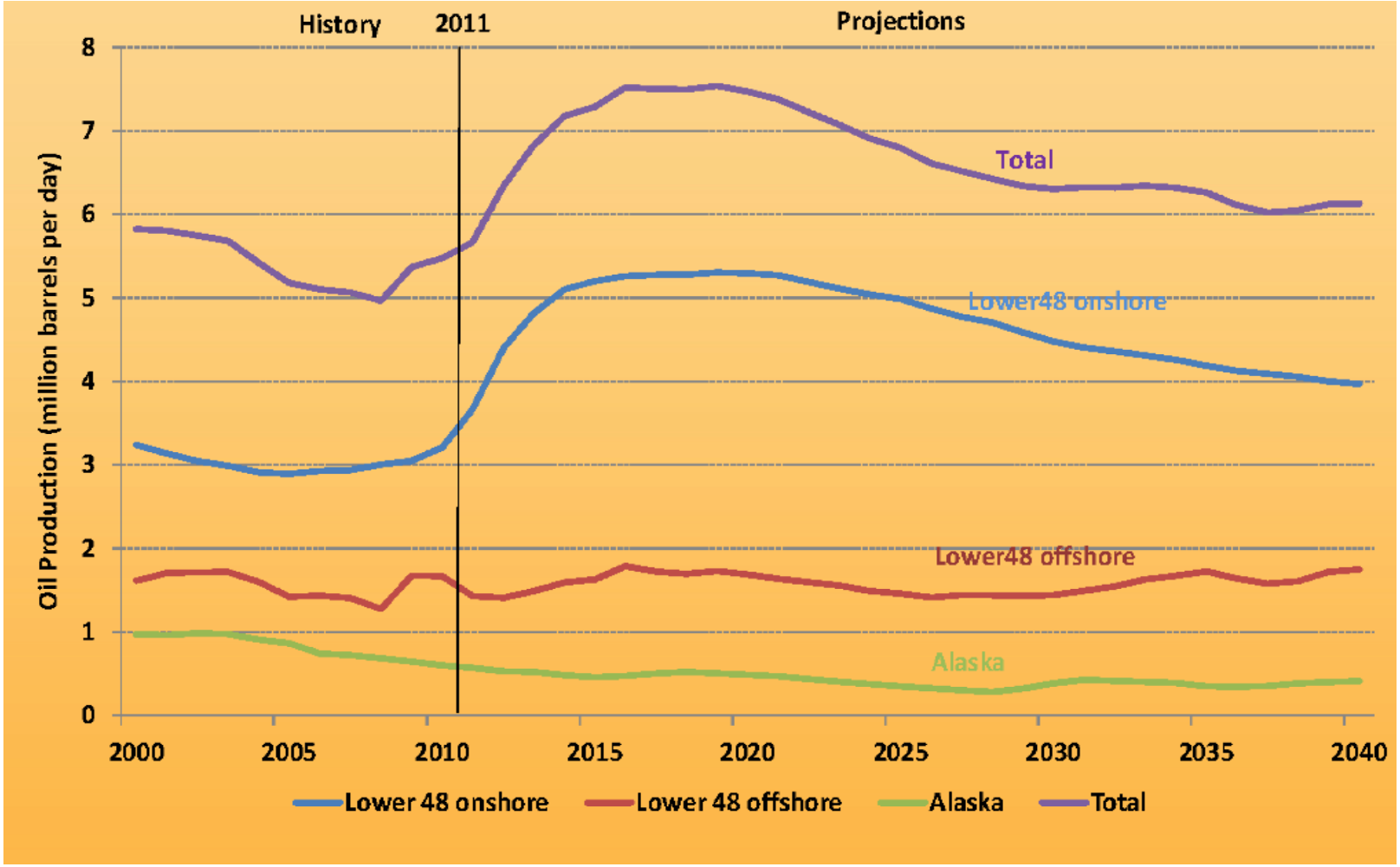
Source: U.S. Energy Information Administration

U.S. Exports of Natural Gas Exceed Imports



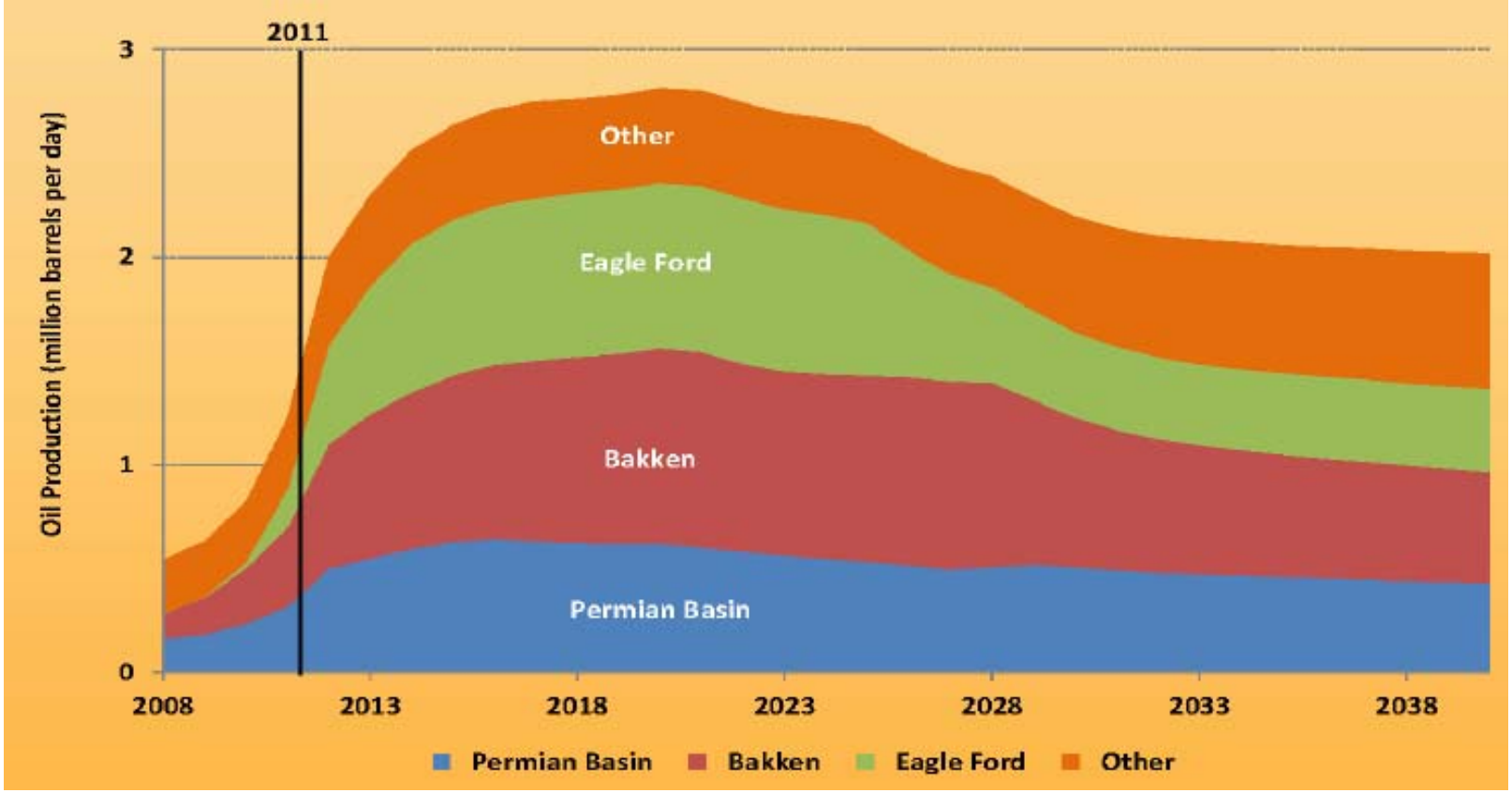
Source: U.S. Energy Information Administration

Tight Oil Development Spurs Increase in U.S. Crude Oil Production



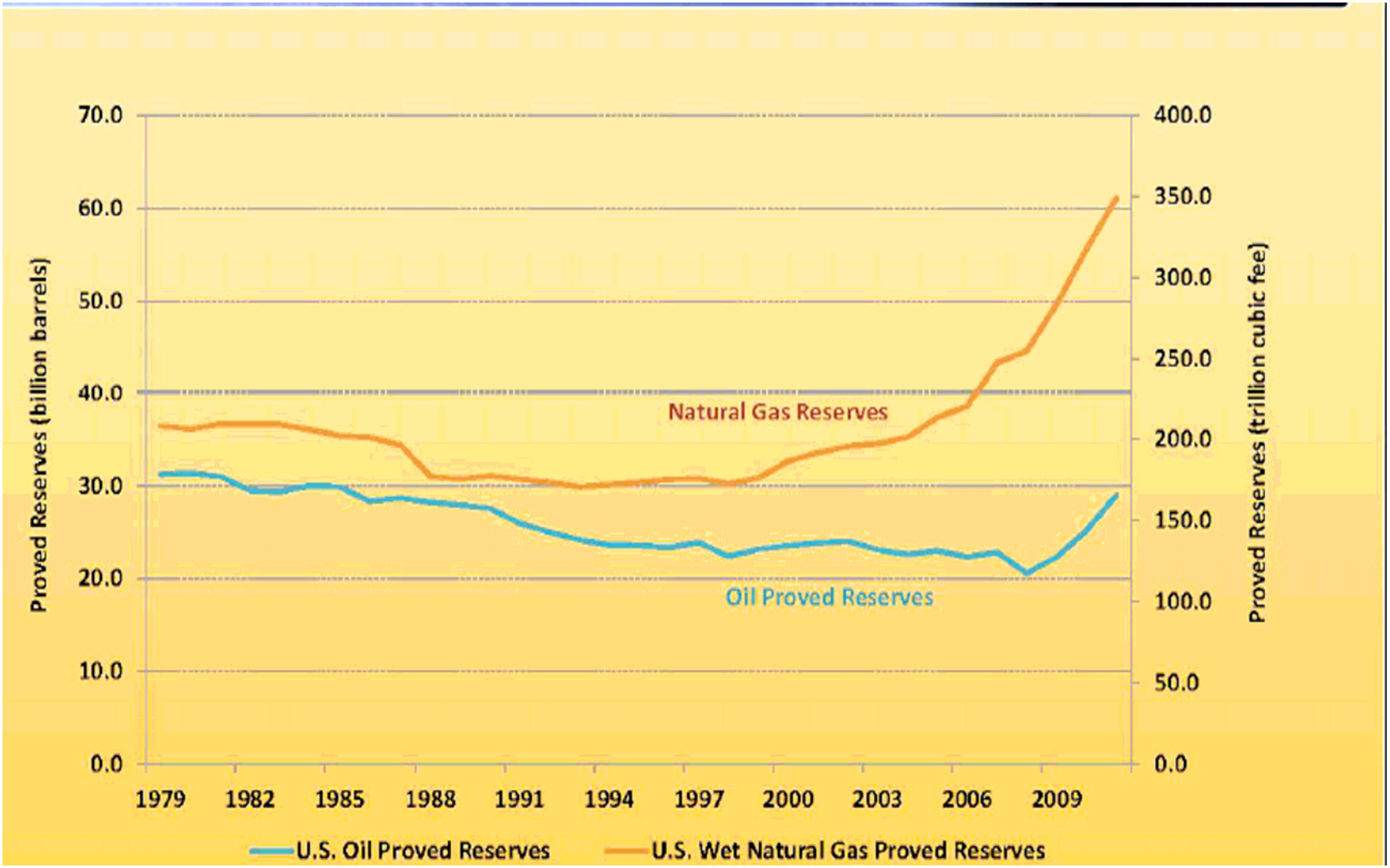
Source: U.S. Energy Information Administration

Tight Oil Formations Account for Significant Portions of Total U.S. Production



Source: U.S. Energy Information Administration

U.S. Oil and Natural Gas Proved Reserves



Source: U.S. Energy Information Administration

Unique Challenges to Distressed E&P Loans

Recent Energy Filings

Sector in Context: E&P and Energy Services Filings in the Past 18 Months

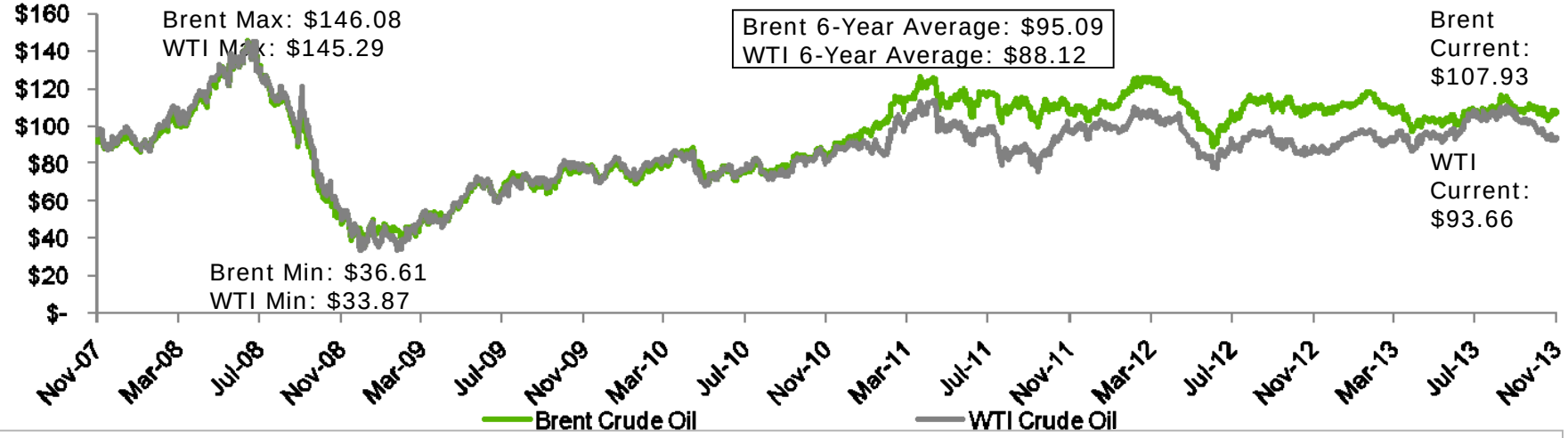
Company	Business	Liabilities ($ Millions)	Filing Type	Filing date	DIP?
OGX Petroleo e Gas Participacoes SA	E&P	$ 4,734.6	Non U.S.	10/30/2013	No
Green Field Energy Services Inc.	Services	412.1	Chapter 11	10/27/2013	Yes
Lone Pine Resources Inc.	E&P	424.0	CCAA (Companies' Creditors Arrangement Act)	9/25/2013	Yes
Poseidon Concepts Corp.	Services	50.0	Chapter 15	4/12/2013	Yes
Poseidon Concepts Corp.	Services	95.8	CCAA	4/9/2013	Yes
GMX Resources Inc.	E&P	458.5	Chapter 11	4/1/2013	Yes
VPR Operating LLC	E&P	97.8	Chapter 11	3/29/2013	Yes
Cosalt plc	Services	118.9	Administration	2/17/2013	No
China Natural Gas Inc.	Services	89.9	Chapter 11	2/8/2013	No
Metro Fuel Oil Corp.	Services	69.3	Chapter 11	9/27/2012	Yes
ATP Oil & Gas Corp.	E&P	3,485.8	Chapter 11	8/17/2012	Yes
Fayetteville-Floyd Gas Co.	E&P	87.9	Chapter 11	5/24/2012	No

Source: The Deal Pipeline.

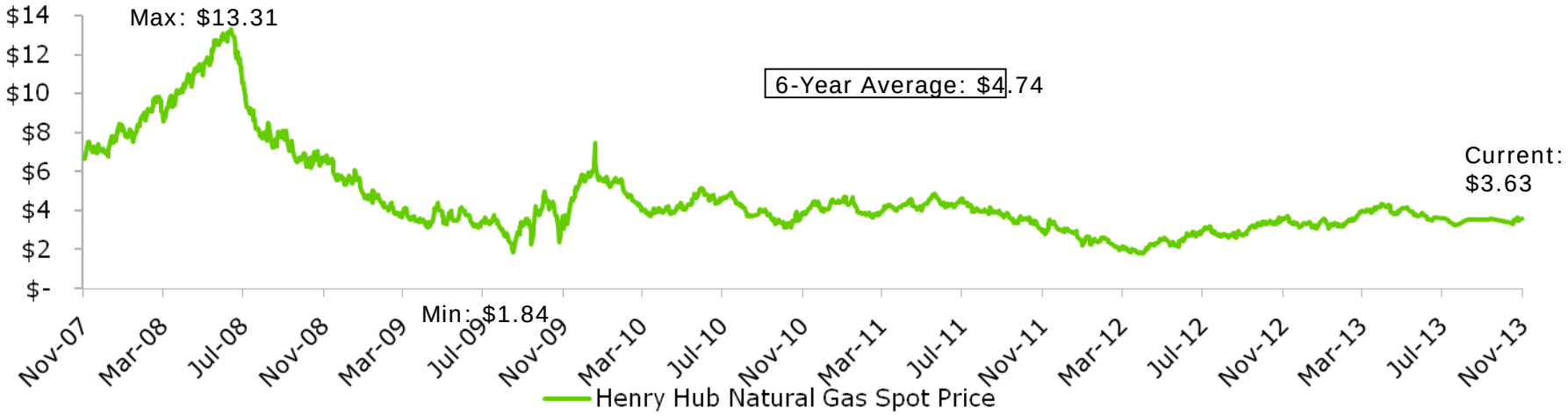
Unique Challenges to Distressed E&P Loans

Crude Oil and Natural Gas Pricing: 2007 - Present

Crude Oil



Henry Hub Natural Gas



Source: Bloomberg.

Unique Challenges to Distressed E&P Loans

Financial and Legal Analysis

Assessing Collateral Coverage Within the E&P Context – Is My Claim Really Senior?

- **ORRIs (overriding royalty interests) – Impact on Cash Flows and Collateral Position**
- **NPIs (net profit interests) – Impact on Cash Flows**
- **M&M Lien Claims – Impact on Collateral Position and Repayments**
- **Asset Retirement Obligations / P&A liability claims – Impact on Repayments**

Unique Challenges to Distressed E&P Loans

Financial and Legal Analysis

Assessing Collateral Coverage Within the E&P Context – Does Collateral Today Equal Collateral Tomorrow?

- **Impact of Production on Reserves - Daily Diminution to Collateral Value**
- **Lease Expirations - Diminishing Acreage Coverage**
- **Potential Loss of Leases – Risks to Future Production / Reserves**
- **Bans on Fracking / Drilling – Elimination of Production / Reserves**

Unique Challenges to Distressed E&P Loans

Financial and Legal Analysis

Assessing Collateral Coverage Within the E&P Context – Assessing Third Party / Operational Risk

- **Costs and Risks of Converting PUDs to PDP**
- **Potential Challenges to Working with JV partners**
- **Potential Perils of Acting as a Non-Operator**
- **Reserves Without Infrastructure**

Unique Challenges to Distressed E&P Loans

Issues with E&P Assets

- **Seismic Data**
  - **Transferability**
  - **Exclusivity**
- **Leases –**
  - **Expiration dates**
  - **Landman and other contracts**
    - **ORRI's**
    - **Participation interests**
    - **Back-in interest**
    - **Reversionary interests**
    - **Remarketing rights**
  - **Drilling obligations**
  - **What is HBP – definition of a unit**
  - **Are they in default of any JOA obligations and, if so, what are the ramifications**
  - **Defaulting partners increasing the cost of drilling (i.e., are you backstopping others)**

Unique Challenges to Distressed E&P Loans

Financial and Legal Analysis

Relationship between the owner and the operator

- **Most common scenario, private equity hires a management team as operator**
  - **Separate entity or entity controlled by private equity**
    - **Do not want operator-type liability**
  - **If separate entity, will have separate books and records;**
    - **Need audit rights and an awareness of competing loyalties**
    - **Incorporation of an AMI**

- **Ownership of leases/drilling prospects**
  - **Who owns the lease – the operator entity or the Newco [better be the latter]**
  - **Are there partners (other Joint Interest Owners?)**
  - **If so, then**
    - **How does funding work?**
    - **What happens if a JIO defaults – who picks up the funding?**
    - **What if a JIO opts out – how is the funding deficit allocated?**
    - **What does it take to remove the operator? Need to review the JOA carefully**

- **Cash flow**
  - **Who receives the cash flow from the first purchaser**
  - **Often it is the "controlled" operator – a problem if you want to terminate the operator**
  - **What happens if the operator goes bankrupt?**