Proposed Financial Assurance Criteria

Bureau of Ocean Energy Management
U.S. Department of the Interior
Houston, TX, October 9, 2015

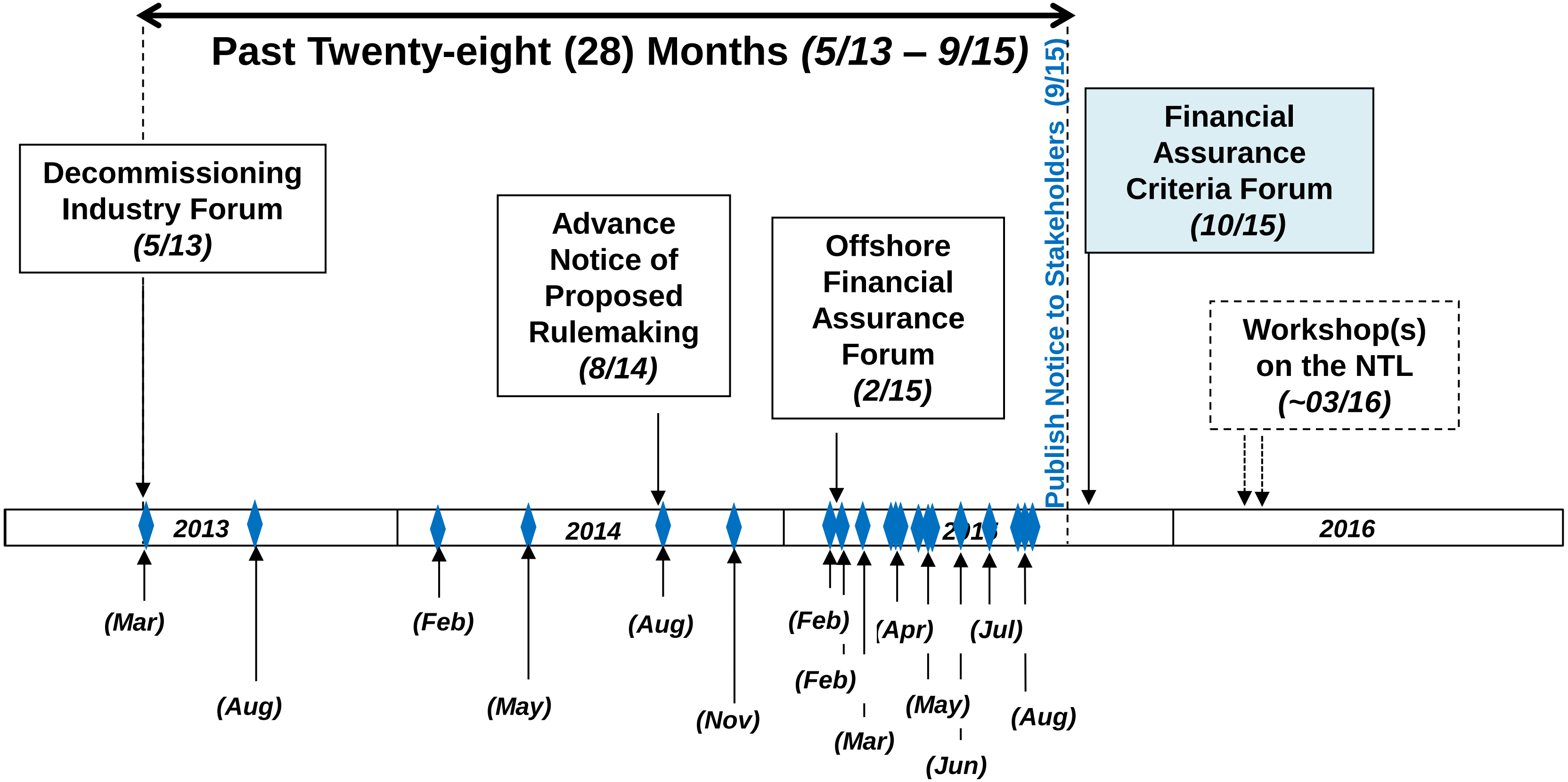
Why are we here today?

Over the past 2 years BOEM has reached out to industry regarding the Bureau's financial assurance and loss prevention program.

In February, 2015 BOEM discussed its intent to update its financial assurance criteria.

BOEM also committed to share these proposed financial criteria with industry.

BOEM's On-going Outreach Efforts



BOEM continues its outreach efforts with this industry Forum

- Indicates speech or presentation by BOEM's Director or Deputy Director where Risk Management was addressed

Industry Feedback

The use of industry standard metrics to determine financial ability to carry out obligations

Eliminate the concept of other exempt partners in the lease

To self-insure while at the same time employing non-size biased criteria

Use the net liability for each company as opposed to 100% of the liability

Provide for the timely release of bonds

Avoid double-bonding or “redundant bonding”

Increase the number of financial instruments that can be used to provide financial assurance

Although industry’s concerns vary depending mainly on the size of the company, there are some common themes.

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BOEM Process to Develop Financial Criteria

Deloitte.

Engaged Deloitte for expert advice in developing financial criteria that is not size biased and employs industry standards and best practices

Surveyed industry best practices, identified a peer group of Integrated and Independent E&P Companies

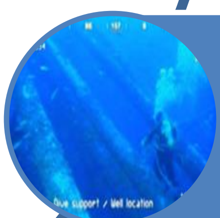
Developed a set of financial criteria tailored for each group and scoring process to assess level of self-insurance

Integrated vs Independent E&P Companies

E&P companies are those engaged in exploring for, acquiring, developing and producing oil and natural gas assets.

An integrated E&P company is one that has operations ranging from upstream (exploration and production) to downstream (refining and marketing) and in some cases midstream (pipelines and transportation, including LNG and oil shipping) and chemicals.

An independent E&P company is one that engages in upstream exploration and production and is not integrated or involved in downstream activities such as refining or marketing.



For companies that do not fall into either of the two categories noted above (i.e. pure pipeline and transport companies, financial/insurance companies, etc.), BOEM will review on a case-by-case basis.

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Financial Ability to Carry Out Obligations

Financial Ability will continue to be determined using the following criteria:

Financial Capacity	• Based on the most recent (not more than 12 months old) independently audited financials.
Projected Strength	• Estimated value of existing OCS lease production and proven reserves of future production.
Business Stability	• Five years of continuous operation and production on the OCS or onshore.
Reliability	• Must be rated by Moody's, Standard and Poor's or Dun and Bradstreet.
Record of Compliance	• Based on record of compliance with laws, regulation and lease terms including but not limited to: • Civil penalties • Revocation of Ownership • Debarment • Cancelation of Leases • Non-payment/under-payment

The criteria cited above are established in 30 CFR § 556.53(d).

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Proposed Independent Company Metrics

Independent Companies	Top Quartile	Bottom Quartile
Performance		
▪ EBITDA Margin (EBITDA/Revenue), [Ratio]	**0.85**	**0.56**
▪ Return on Assets (Net income/Total Assets), [%]	**8.10**	**3.20**
▪ Cash Flow from Operations/CAPEX, [Ratio]	**0.88**	**0.66**
Leverage		
▪ Total Debt/Capital, [Ratio]	**0.25**	**0.43**
▪ Times Interest Earned (EBIT/Interest), [Ratio]	**16.00**	**5.70**
▪ Total Debt/Average Daily Production Value, [Ratio]	**125**	**172**
▪ Total Debt/Proven Reserves Value, [Ratio]	**0.06**	**0.10**
▪ Total Proved Reserves Value/Asset Retirement Obligations, [Ratio]	**188**	**64**
Liquidity		
▪ Current Ratio (Current Assets/Current Liabilities), [Ratio]	**1.49**	**0.78**
▪ Cash Flow from Operations/Current Liabilities, [Ratio]	**1.68**	**1.00**

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MARCH 3, 1849

Proposed Integrated Company Metrics

Integrated Companies	Top Quartile	Bottom Quartile
Performance		
▪ Total Revenue, [$ Million]	**$282,800**	**$25,500**
▪ Total Equity, [$ Million]	**$108,000**	**$23,400**
▪ Return on Capital,[%]	**9.3**	**4.7**
▪ Intangible Assets/Revenue, [Ratio]	**0.01**	**0.08**
▪ Gross Margin (Gross Profit/Revenue), [%]	**40.5**	**18.5**
Leverage		
▪ EBITDA Interest Coverage, [Ratio]	**44.00**	**12.75**
▪ Net Debt to EBITDA, [Ratio]	**0.66**	**1.33**
Liquidity		
▪ Basic Defense Interval (Current Assets/Daily Operational Expense), [Days]	**156**	**34**
▪ Asset Turnover, [Ratio]	**1.04**	**0.57**
▪ Payables/Receivables, [Ratio]	**1.54**	**1.06**

Change to Worth Calculations

Current Calculation Method

Net Worth = Total Assets - Total Liabilities

Revised Calculation Method

Tangible Net Worth = Total Assets – Total Liabilities – Intangible Assets[1]

Total Assets	Total Liabilities	Intangible Assets
✓ Cash and cash equivalents ✓ Investments ✓ Real property	✓ Secured liabilities - Debt backed or secured by collateral to reduce the risk associated with lending ✓ Unsecured liabilities – debt or general obligation that is not collateralized	✓ Goodwill ✓ Patents ✓ Trademarks ✓ Intellectual property ✓ Other IP

[1] Intangible assets include: patent rights, intellectual property rights and any goodwill being kept in the balance sheet. The idea is to measure only assets that are fungible that can be liquidated easily to pay off creditors in the case of insolvency.

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Key Proposed Changes

Waiver	• Lessees will no longer be granted waivers for their supplemental bond obligations.
Minimum Net Worth	• Lessees will be able to apply for self-insurance ***regardless*** of their Net Worth.
Self-Insurance	• Will change from 50%of ***Net Worth*** to a maximum of 10% of ***Tangible Net Worth.*** • If eligible, the amount of self-insurance will range from 1% to 10% of Tangible Net Worth, based in part, on its financial strength as assessed from the proposed financial criteria.
Decommissioning Liabilities	• BOEM will consider 100% of each lessee's decommissioning liability for every lease, ROW and RUE in which the lessee holds an interest.

Key Proposed Changes (cont'd)

Co-lessees

- No longer consider the combined financial strength of co-lessees when determining a lessee's ability to meet its decommissioning liability financial assurance requirements.
- With multiple co-lessees, it will be up to the co-lessees to determine how best to fulfill BOEM's requirement for 100% assurance of OCS decommissioning liabilities.

Redundant Bonding

- It is not the Bureau's intent to double bond.
- We will work with lessees on solutions to "Redundant Bonding" through mechanisms such as "Multi Party" bonds.

Tailored Plans

- BOEM may consider alternative forms of financial assurance to provide additional flexibility.

Phased-in Approach

- There will be a phase-in period for compliance.

Next Steps – NTL Issuance

BOEM has posted its proposed financial criteria on its webpage (45 days)

BOEM continues its outreach with events such as this forum

BOEM will finalize the Supplemental NTL over next few months

BOEM anticipates issuing the revised NTL in late 2015 or early 2016

Next Steps – NTL Implementation

BOEM anticipates a lag in implementation of 90-120 days from date of issuance

BOEM will conduct a workshop(s) to instruct lessees on its process and details associated with the phased implementation

BOEM invites lessees who have questions to contact its Risk Management Operation Group

Financial Assurance in the OCS