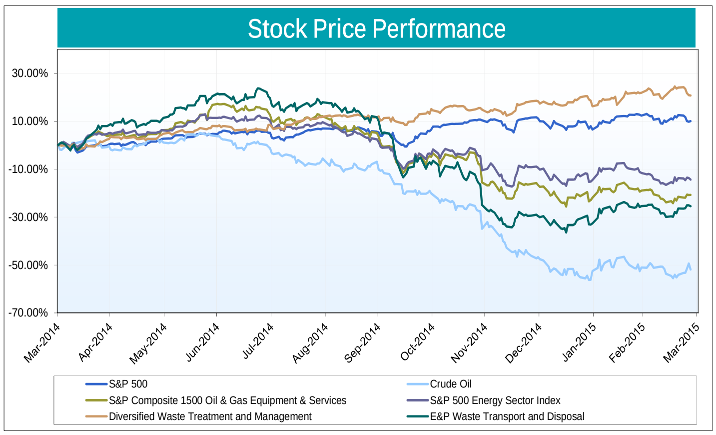
Planning for the Current Environment

Transaction Opportunities. Volatility in oil and gas markets has switched the status of many operations from rapid expansion to wait-and-see mode. As operations downstream of E&P companies adjust on the fly, including those providing waste and disposal services, managing liquidity needs and covenant requirements demands attention. For well-prepared operations, shrewd management may suffice. Unfortunately, for companies that have leveraged themselves to expand their asset base and revenues, servicing that debt may become an issue. For those locked into high-cost contracts no longer economically viable at current oil prices, default may be the most practical option. Most companies, however, are casting glances elsewhere for a solution. For many, this solution comes in the form of a transaction, on the back of a strategy founded upon playing defense, right-sizing, and survival.



Source: Capital IQ

Mergers and Acquisitions (M&A) as a Strategy. The recent fall in oil prices has seen many companies react defensively, reducing capital expenditures and cutting costs. For those with strong balance sheets and room in their debt covenants, weathering the storm may be the best strategy; however, they may also look for opportunity in companies in worse financial condition or in breach of debt covenants. For struggling companies at risk of breaching debt covenants or unable to service debt or raise new debt, a lifeline in the form of a merger becomes a possibility.

Many currently distressed companies have an attractive asset base, but were caught on the wrong side of financial security when the bottom fell out of oil prices. Some have made their case to lenders and have successfully suspended enforcement of debt covenants, generally for six months to one year. Other companies are temporarily suspending dividends to maintain balance sheet strength. For those who still find themselves in difficulty after exhausting all conventional options, M&A may offer a variety of benefits to both acquirers and sellers. For the acquirer, expansion of customer base, economies of scale, operational synergies, and diversification are some of the motives. Payment via stock swap rather than cash helps maintain balance sheet strength and provides the seller an upside in the new company.

E&P Waste Market Snapshot

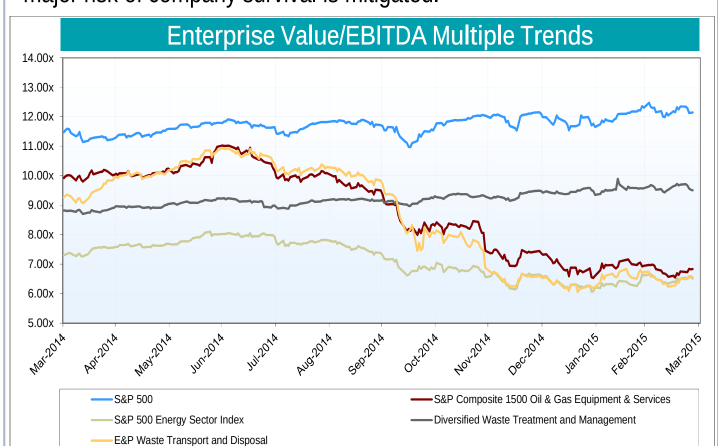
Global E&P waste market size: $14 billion
▪ Estimated to grow between 6-12% annually long term
Global drilling waste management market: $4.9 billion in 2013
▪ Estimated to grow at a rate of 10.5% annually through 2020
▪ 2020 projected market size: $9.8 billion
▪ 29 million cubic yards of solid drilling waste is generated annually in the United States

Source: MarketsandMarkets report

Distressed PE Prepares for Favorable Environment. The trend in the oil and gas industry has been low default rates paired with abundant, cheap credit. That story has recently changed, as the spread between high-yield energy debt and U.S. Treasury Bonds doubled from 4% to more than 8% in 2014. The dramatic increase in the cost of debt means companies, especially smaller operations, will be faced by challenges when trying to roll over or raise new debt. Driven by promises of high returns on the tide of rising oil prices in the future, distressed investors seem poised and ready to acquire relatively inexpensive E&P debt.

With the high yield debt markets becoming an unattainable or expensive source of capital, distressed buyout firms appear ready to fill the void. Major PE firms such as Blackstone, Apollo, and KKR have raised new funds or are in the fundraising process, but sources of capital of all sizes are preparing to take advantage of the current opportunity. While the exact timing of distressed opportunities coming to market is uncertain, these funds are signaling readiness to act quickly when the window of opportunity opens.

Amid the countless over leveraged oil and gas companies, there exists an opportunity in solid waste operators whose greatest need is an infusion of capital. Answering the going concern question through a capital raise or refinancing could potentially save a company and also deliver an enhanced return for the investor as the basic question and major risk of company survival is mitigated.



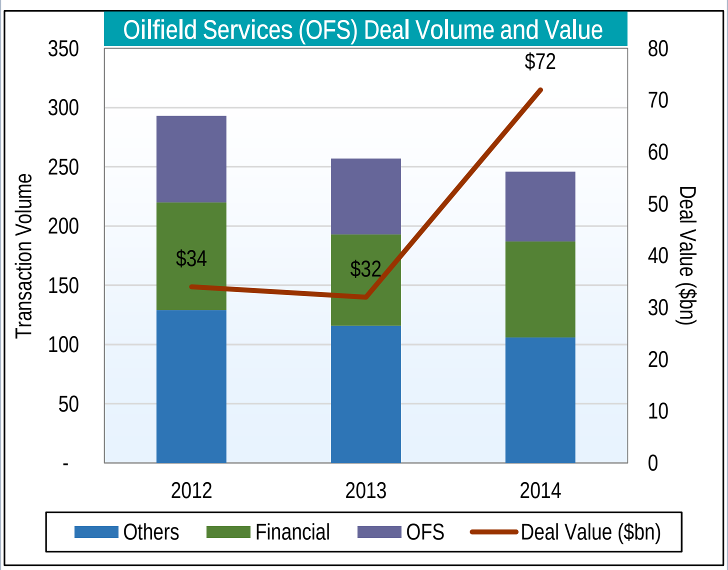
Source: Capital IQ

E&P Waste Management: Competing for a Share of the Oil and Gas Market

Closing Loopholes and Ending Arbitrary and Needless Evasion of Regulations Act of 2013 (CLEANER Act). When Congress enacted the Solid Waste Disposal Act Amendments of 1980, "drilling fluids, produced waters, and other wastes associated with the exploration, development, and production of crude oil or natural gas" were given a temporary exemption from treatment as a hazardous substance. Pursuant to a requisite follow-on government study published later that decade, the EPA determined oil and natural gas drilling (E&P) waste would be treated as nonhazardous, exempting the waste from RCRA Subtitle C, a regulation addressing hazardous waste.

As the shale boom has increased oil and gas production in North America, a lag in technology, infrastructure, and treatment of the resulting waste byproducts has come under renewed scrutiny. The safety and long-term ramifications of current E&P waste treatment is one of the most hotly contested topics, as there is public concern over toxins released during the process, as well as concern over the potential for soil and water table contamination if the waste were to breach containment boundaries. In reaction to public concern, Representative Matt Cartwright of Pennsylvania, a member of the House Committee on Natural Resources, has penned the CLEANER Act, which proposes reclassification of E&P waste as toxic, accompanied by strict regulation on tracking and disposal. Opponents of the Act refute the necessity of treating E&P waste the same as hazardous waste. Compliance with this requirement would also be accompanied by significantly higher waste treatment and disposal costs.

Although the CLEANER Act is unlikely to be passed as currently written, the spirit of the Act represents growing public concern. The demand for enhanced accountability from the oil and gas industry as a whole within the realm of environmental sustentation continues to occupy the forefront of political debate. As the E&P waste disposal industry continues to improve and refine the techniques and services used for treatment, an opportunity arises for the development of new technologies and infrastructure in an antiquated sub-sector that has not kept pace with the technology or scale of the North American oil and gas industry as a whole.



Source: Dealogic and Thompson

Merger Musings

Deal Snapshot	
Announced Date	December 19, 2014
Transaction Size	$485 million
Method of Financing	Cash
Target LTM Revenue	~$150 million
Implied Enterprise Value / Revenue	3.2x
Acquirer	Republic Services
Target	Tervita, U.S. Operations

On December 19, 2014, Tervita, a Calgary-based environmental and energy services company, sold its U.S. operations to Republic Services for $485 million in cash. Republic, a large, diversified waste management operation, provides non-hazardous solid waste collection, transfer, and recycling and disposal services for commercial, industrial, municipal, and residential customers in the U.S. Republic intends to use the acquisition as a platform to establish a significant presence in the E&P waste management sector.

The assets acquired span seven key basins across the U.S.; these basins account for approximately 62% of drilling activity in the country. In addition to operational assets, Republic also acquired a robust customer base. The Tervita platform will be supplemented with additional planned investment in infrastructure, heavily front-loaded over the first two years post-acquisition. Republic anticipates integration expenses and infrastructure development costs will be offset by incremental contribution from the Tervita operations.

As a result of the acquisition, Republic's annual E&P revenue is anticipated to increase from $40 million to $190 million. Post-merger, Republic expects an EBITDA margin of 35%-40% and a free cash flow margin of 15%-20% of revenue.

This is the most recent transaction in which a large, diversified waste management operation has expanded into the growing E&P waste sector through acquisition. In line with this trend, data on Oilfield Services M&A suggests greater than 75% of acquirers in the sector operate in a separate sector. The strategy allows acquirers to leverage their expertise and existing assets to grow and streamline target operations, providing a strategic platform for market entry and organizational growth. Another example of this type of transaction is Waste Connection's acquisition of R360 Environmental Solutions for approximately $1.4 billion in September 2012.

Public Company Valuation and Performance

Company	Ticker	Share Price	Market Cap	Enterprise Value	LTM Enterprise Value/ Revenue	LTM Enterprise Value/ EBITDA
Diversified Solid Waste Treatment and Management						
Waste Management, Inc.	NYSE: WM	$53.40	$24,435	$32,586	2.3 x	9.3 x
Republic Services, Inc.	NYSE:RSG	40.17	14,182	21,171	2.4	9.4
Waste Connections Inc.	NYSE: WCN	47.96	5,946	7,939	3.8	11.1
Progressive Waste Solutions Ltd.	TSX:BIN	36.96	4,241	6,024	2.6	10.1
Casella Waste Systems Inc.	NasdaqGS:CWST	5.20	211	745	1.3	7.8
				Mean	**2.5 x**	**9.5 x**
				Median	**2.4 x**	**9.4 x**
E&P Waste Transport, Treatment, and Disposal						
Halliburton Company	NYSE: HAL	$43.26	$36,757	$42,281	1.3 x	6.0 x
Weatherford International plc	NYSE: WFT	12.35	9,562	16,688	1.1	6.6
Clean Harbors, Inc.	NYSE: CLH	56.85	3,349	4,498	1.3	8.8
Superior Energy Services, Inc.	NYSE: SPN	22.06	3,304	4,560	1.0	3.8
Gibson Energy Inc.	TSX: GEI	26.34	3,290	4,323	0.5	10.2
Covanta Holding Corporation	NYSE: CVA	21.51	2,861	4,992	3.0	11.4
Secure Energy Services Inc.	TSX: SES	15.99	2,139	2,554	1.1	13.0
Mullen Group Ltd.	TSX: MTL	20.53	1,882	2,261	1.6	7.9
US Ecology, Inc.	NasdaqGS: ECOL	49.00	1,060	1,435	3.2	12.6
Newalta Corporation	TSX: NAL	14.70	826	1,276	2.6	10.4
Key Energy Services Inc.	NYSE: KEG	1.85	289	1,010	0.7	8.5
Heritage-Crystal Clean, Inc	NasdaqGS:HCCI	11.44	255	313	0.9	19.8
Nuverra Environmental	NYSE: NES	3.32	93	677	1.3	7.3
Vertex Energy, Inc.	NasdaqCM: VTNR	3.50	89	131	0.5	20.5
Petrowest Corporation	TSX: PRW	0.37	65	145	0.5	4.3
				Mean	**1.4 x**	**10.1 x**
				Median	**1.1 x**	**8.8 x**

Source: Capital IQ as of 3/27/2015. Amounts in millions USD, except share price

Select E&P Waste Mergers and Acquisitions Activity

Date	Target	Acquirer	Enterprise Value	Enterprise Value/ Rev.	Enterprise Value/ EBITDA	Description
E&P Waste Transport, Treatment, and Disposal						
Dec-14	Newalta Corp., Industrial Div.	Birch Hill Equity	$300	NA	NA	Non-hazardous solid waste
Dec-14	Tervita Waste Processing, LLC	Republic Services	485	NA	NA	Petroleum by-products processing
Dec-14	AES Environmental LLC	Clean Earth	17	0.7 x	NA	Waste management services
Oct-14	FCC Environmental LLC and International Petroleum Corp.	Heritage Crystal Clean	90	NA	NA	Industrial waste and recycling
Aug-14	Clean Earth Holdings, Inc.	Compass Holdings	243	1.6	8.3 x	Environmental remediation services
Jul-14	Wheelabrator Technologies	Granite Acquisition	1,940	2.3	NA	Waste to energy
May-14	Sable Environmental and Sable Environmental SWD 2	Ferrelgas Partners	125	NA	NA	Salt water disposal facilities
Apr-14	PSC Environmental Services	Stericycle, Inc.	314	NA	NA	Recycling, environmental services
Apr-14	Environmental Quality Co.	US Ecology, Inc.	470	1.3	8.7	Integrated environmental services
Feb-14	Newpark Environmental Services	Offshore Cleaning (nka:Ecoserv, LLC)	100	NA	NA	Integrated environmental services

Source: Capital IQ, amounts in millions USD

Advising on mergers, acquisitions, divestitures, sales, and private placement financings, Cronus is an independent investment banking firm that provides financial advisory and other investment banking services. Winner of the New York Association for Corporate Growth's Boutique Investment Bank of the Year Award, the firm has significant experience in advising both public and private companies that can benefit from middle-market transactions. Cronus serves the oil and gas industry and other industrial-based sectors including environmental services, specialty manufacturing, and business-to-business services.

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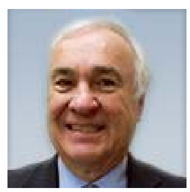

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