PARTICIPANTS

Corporate Participants

Stephen K. Gardner – President & Chief Executive Officer, NGP Capital Resources Co.
L. Scott Biar – Chief Financial Officer, Secretary & Treasurer, NGP Capital Resources Co.

Other Participants

Troy L. Ward – Analyst, Keefe, Bruyette & Woods, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to your NGP Capital Resources Company Second Quarter 2014 Earnings Call. At this time, all lines are in listen-only-mode with the Q&A session to follow. [Operator Instructions] As a reminder, this conversation is being recorded. Now I would like to turn the call over to your host, NGP's President and CEO, Steve Gardner.

Stephen K. Gardner, President & Chief Executive Officer

Thank you, Sam, and thank all of you for joining us this morning.

With me on today's call is Scott Biar, our Chief Financial Officer. I'll make some opening remarks, after which Scott will provide some details regarding our financial results for the quarter. Then I'll discuss our investment portfolio and open it up for questions.

First, I want to remind everyone that our remarks today may include comments which would be considered or could be considered forward-looking statements, and such statements are subject to many factors that can cause actual results to differ materially from our expectations as expressed in those forward-looking statements. Those factors are described in more detail in our SEC filings and I refer you to our website or to the SEC's website to review those filings. We undertake no obligation to publicly update or revise any forward-looking statements which speak only as of today's date.

So I want to remind everyone that a couple of weeks ago, we entered into an agreement whereby Oak Hill Advisors, L.P. will replace NGP Investment Advisor, L.P. as the Company's investment manager, subject to stockholder approval. This transaction is the culmination of our process to evaluate strategic alternatives to enhance stockholder value which we began last September. We have filed preliminary proxy materials with the SEC which cover the stockholder approval process and our Annual Meeting. These preliminary proxy materials are available on our website and on the SEC's website and I refer you to those sources for more information on the proposed transactions with Oak Hill Advisors.

Now on to the quarterly results: For the second quarter of 2014, we reported total investment income of $5.5 million and net investment income of $1.5 million or $0.07 per share which included $0.04 per share of costs incurred during the quarter in connection with the strategic evaluation process and our shelf registration statement which expired in April.

In April, we sold our $13 million face amount of Midstates Petroleum 10.75% Senior Subordinated Notes at an average price of 108.1 which resulted in a capital gain of $700,000, or $0.03 per share, and achieved an internal rate of return of 14.6%.

In June, we sold $3 million of our face amount of our Talos Production 9.75% Senior Unsecured Notes at an average price of 105.8, resulting in a capital gain of $200,000, or $0.01 per share, and an internal rate of return of 15.2%.

At quarter end, our investment portfolio was valued at $184 million, which is 94% of cost, and the weighted average yield on our portfolio investments was 10.6%.

In July, we received full repayment from Crossroads Energy Development on its $9 million Senior Secured Term Loan. Crossroads also repurchased our overriding royalty interest and warrants in Crossroads for combined $1.4 million, resulting in a $1 million capital gain. The Crossroads investment was outstanding for just a bit over a year, and generated an internal rate of return of 31%.

I'll now turn the call over to Scott Biar, our CFO, to discuss the details of the quarterly performance.

L. Scott Biar, Chief Financial Officer, Secretary & Treasurer

Thank you, Steve, and good morning, everyone.

As Steve mentioned, for the second quarter of 2014, total investment income was $5.5 million, or $0.27 per share, compared to $9.6 million, or $0.46 per share in the second quarter of 2013 and $5.9 million, or $0.29 per share in the first quarter of 2014. The second quarter of 2013 included $2.5 million, or $0.12 per share of "make whole" interest income from the early repayments of two loans during that quarter. The remaining year-over-year decrease and the sequential decrease in investment income was primarily attributable to a lower average portfolio balance in the second quarter of 2014 relative to the comparable periods, as a result of net repayments that have occurred in the portfolio.

The weighted average yield on the portfolio was slightly higher in the second quarter of 2014, improving to 10.6% as of June 30, 2014, compared to 10.4% as of March 31, 2014, and 9.9% at June 30, 2013, primarily because the Midstates and Talos notes that were sold during the quarter were on the lower end of the yield spectrum compared to the rest of our portfolio.

Operating expenses for the second quarter of 2014 totaled $4.0 million, decreasing approximately $100,000 compared to the second quarter of 2013 and increasing $100,000 compared to the first quarter of 2014. Expenses in the second quarter of 2014 included $600,000, or $0.03 per share of cost incurred in connection with our shelf registration statement which went effective in early 2013 and expired in April 2014, and $200,000, or $0.01 per share of legal fees and other third-party costs incurred during the quarter in connection with our strategic review process. This compares with $460,000 of third-party costs associated with the strategic review process incurred in the first quarter of 2014. Year-over-year, the $800,000 of charges in the 2014 second quarter related to the shelf registration statement and the strategic review process were offset by lower interest cost and lower management fees, due to the reduced size of the investment portfolio compared to the second quarter of 2013. The second quarter of 2013 also included incentive fees of $400,000 payable to our manager resulting from our pre-incentive fee net investment income exceeding the quarterly hurdle rate of 2% in that quarter.

Our net investment income for the second quarter of 2014 totaled $1.5 million or $0.07 per share compared to $5.5 million, or $0.26 per share, in the second quarter of 2013 and $1.9 million, or $0.09 per share, during the first quarter of 2014. The year-over-year decrease is largely attributable to the higher investment income in 2013 resulting from the larger portfolio balance and the "make whole" interest income from the two early repayments that occurred in that quarter and due to the $0.04 per share of costs incurred in 2014 related to our expired shelf registration statement and the strategic alternatives review process. The sequential decrease is primarily attributable to lower investment income due to the smaller investment portfolio balance and a higher level of unusual costs in the second quarter.

We recorded net realized capital gains of $500,000, or $0.03 per share, during the second quarter of 2014, primarily resulting from the sales of our Midstates Notes and a portion of our Talos Notes, partially offset by adjustments to previously recorded liabilities to satisfy obligations related to investments disposed of in prior years.

We recorded net unrealized depreciation of $2.0 million in the second quarter of 2014, including decreases in the estimated fair value of our investments in Spirit Resources of $3.2 million, and the reversals due to realizations of previously recorded unrealized gains on the Midstates Notes of $700,000. Partially offsetting these unrealized losses, we recorded increases in the estimated fair value of our investments in OCI Holdings Subordinated Notes and Preferred Units of $800,000, reflecting OCI's improved operating results and cash flows and Castex 2005 Preferred Units of $500,000 and net increases in the value of remaining investments of $600,000.

Our net unrealized losses on investments substantially offset our net investment income and realized gains recorded during the quarter, so we essentially had no change in net assets resulting from operations during the second quarter of 2014, and we declared dividends of $0.16 per share in the quarter, decreasing our net asset value to $8.57 per share at June 30, 2014.

At the end of the quarter, we had cash and cash equivalents of $35 million and we had borrowed $42 million under our Investment Facility. Our long-term debt-to-capitalization ratio at the end of June was 19% and our net-debt-to-capitalization ratio was 3%. In July, we repaid the entire $42 million of the debt outstanding under the Investment Facility with cash on hand and with proceeds from the settlement of our Crossroads investments. So we currently have no debt outstanding, and $72 million currently available under the Investment Facility.

With that, I will turn the call back over to Steve.

Stephen K. Gardner, President & Chief Executive Officer

Thanks, Scott.

As Scott mentioned, our net asset value per share has declined from $9.20 at the end of last year to $8.57 as of June 30, 2014. That is a decrease of $0.63 per share or 7% since yearend 2013, and I'd like to walk you through the primary components of that decline. $0.32 of the decline in net asset value per share, or slightly over half of the total decline, is due to the reduction in estimated fair value of our investments in Spirit Resources. We reduced the fair value of our Spirit investments by $3.4 million in the first quarter when Spirit decided to pursue the sale of the properties, since projects completed by Spirit during the first quarter of 2014 did not meaningfully and sustainably increase production. During the second quarter, Spirit entered into negotiations with a third party regarding the sale of such properties, and we further reduced the estimated fair value by $3.2 million, reflecting the status of such negotiations. We believe that the Spirit properties have meaningful proved reserves, which is one indicator of value, but converting Spirits proved reserves to sustainable production has been challenging, negatively impacting our investment's potential value in the A&D market.

$0.11 of the decline is due to the reduction in the fair value of our limited term overriding royalty interest in properties formally operated by ATP, currently operated by Bennu Oil & Gas, which was recorded in the first quarter.

$0.05 of the decline is due to the reduction in the fair value of our investments in OCI, which conducts business as Care Options for Kids, a leading juvenile home health provider in the State of

Texas. We actually reduced the fair value of our investments in OCI by $0.09 in the first quarter and increased the fair value estimate by $0.04 in the second quarter, reflecting positive trends and improving operating results of the company.

$0.06 of the decline includes third party costs incurred in the strategic review process and the expensing of costs associated with our 2013 shelf registration statement. Since we issued no securities under the shelf, we were required by accounting rules to expense these costs when the shelf expired in April of this year.

The remaining $0.09 of the decline in NAV per share for the year is a result of our net investment income for the first six months not covering our total dividends declared for the year of $0.32 per share.

As we've discussed in the past, our ability to originate new investments in the midst of this extended process of reviewing strategic alternatives has been hindered. Consequently, the size of our investment portfolio has gradually declined from a cost basis of $228 million in September 2013 to $186 million currently, reflecting the recent repayment of our Crossroads investment, and our quarterly investment income has declined accordingly.

Each quarter, our board determines the amount of dividends to distribute, typically based on projected estimates of earnings for the full year considering forecasted developments in the portfolio as well as other factors. Earlier in the year, we believed that it was likely that one of our larger investments with a significant make-whole provision would be repaid during 2014. It now appears unlikely that such repayment will occur until 2015 at the earliest. Given our current expectations regarding portfolio turnover and additional charges we expect to incur in the third quarter related to the strategic alternative process, including legal fees, investment banking fees, proxy solicitation costs and some portion of employee retention costs, we expect that were we to maintain a $0.16 per share quarterly dividend for the balance of 2014, it would likely entail some return of capital.

With respect to portfolio credit quality, as you're aware, we rate all of our investments from one to seven, with one being the highest credit quality. At the end of the second quarter, our average portfolio rating on a dollar weighted fair market value basis was 3.5, compared to 3.7 at the end of 2013. Of the 24 rated investments in 14 portfolio companies as of June 30, 2014, compared to December 31, 2013, three investments improved in rating, four investments declined in rating and 17 investments retained the same rating during the first six months of 2014.

We continue to seek opportunities to expand the portfolio with quality investments to provide increased investment income for our stockholders, and we are also moving forward the process of seeking stockholder approval to approve the change in investment manager.

I'll now turn the call back over to Sam to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Troy Ward with KBW. Your line is now open.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Good morning, and thanks for taking my question. Steve, just a question on kind of the – when the new entity is going to shareholders, kind of what's going to be talked about from a management fee arrangement.

You guys had your IPO back in 2004, and at the time, the going market – kind of the expectations from the market was that the incentive fee did not have a total return hurdle. And you guys really bucked the trend because you didn't even have a catch-up which was very shareholder friendly.

And then with the new management as it's been outlined some changes are going to be made to the external management agreement adds that shareholder – the catch-up on the incentive fee – which we understand, actually, that's market and quite honestly everybody else has that.

But I would say from 2010 to-date, by my count – I could be off by one or two – I think there's been 23 new BDC IPOs, and of those only four, maybe five, depending on if I'm counting right, don't have a total return hurdle on the NOI incentive fee. And I'd say one of those that didn't was Horizon and they announced today that they changed their external management agreement to add a total return hurdle on the NOI incentive fee.

So to me from what I saw proposed on the release from Oak Hill, the new management contract would be off market. Has there been any discussion about this topic that I brought up on the last call with Oak Hill? And do you think there's any chance that they would put in a total return hurdle on the incentive fee?

<A – Scott Biar – NGP Capital Resources Co.>: Troy, this is Scott. There's been no discussions that I'm aware of on that point. This isn't an IPO. This was really a change in manager. And so I think the basis of comparison was more with respect to the existing investment advisory agreement, and that Oak Hill offered their terms in comparison to that, as opposed to current market. But I'll let Steve comment further.

<A – Steve Gardner – NGP Capital Resources Co.>: Yeah, Troy, there were a lot of discussions leading up to the execution of these agreements. Obviously, the agreements are still subject to shareholder approval. But all of the terms were, I would say, hotly negotiated in the process. And at the end of the day, our board determined that with the – what Oak Hill is bringing to the table that on balance when you look across the entire fee structure that they thought that this was reasonable and fair and it was what it would take to get Oak Hill to the table.

So I guess there haven't been discussions since we had our last call. But during the run-up to the execution agreements, there was a lot of discussion about all of the aspects of the investment advisory and administration agreements.

<Q – Troy Ward – Keefe, Bruyette & Woods, Inc.>: Understood. Great. Thanks.

Operator: [Operator Instructions] And I am showing no further questions at this time. I would like to turn the call back over to management for further remarks.

Stephen K. Gardner, President & Chief Executive Officer

Thank you, Sam. We appreciate your time this morning, and we'll look forward to speaking to you soon. Thanks very much.

Operator: Ladies and gentlemen, thank you for your participation in today's program. You may all disconnect.