

Overview of OneEnergy Partners, LLC

IPAA Private Capital Conference



OneEnergy Partners, LLC (“OEP”) Overview

- Formed in March 2016 with an equity commitment from Carnelian Energy Capital Management, L.P. (“Carnelian”)
- Founders blended financial/investment and technical/operational experience across most major US basins
- Didn’t have a specific geographic focus and had flexibility in deal type
 - Bucket 1: Buy distressed debt with goal of owning the asset
 - Bucket 2: Joint development with companies that were asset heavy, capital light
 - Bucket 3: Traditional private equity (“PE”) – “put it together and sell it”
- Aggregated over 12,000 net acres in the Delaware Basin in New Mexico
- Engaged Jefferies and exited during early and late 2018 through three transactions

The Early Days Were Tough.....

Buckets

- Bucket 1: Distressed debt [X]
 - Distressed for a reason
 - Hard to make PE returns
 - If mgmt. and bank toss you the keys you likely don't want it
- Bucket 2: JV development [X]
 - Control: I want to operate, you want to operate
 - Value: I don't want to JV my baby.....
- Bucket 3: Put it together and sell (Traditional PE)
 - Competitive so needed to find an area where we could compete

Basins

- Bakken Shale: [X]
 - Deals too large and PDP heavy for OEP Model
 - Needed to take price or geologic risk
- Eagle Ford Shale: [X]
 - Competitively priced so too expensive to enter for OEP
 - Fragmented, hard to see path to operator
- New Mexico Delaware: Put it together and sell (Traditional PE)
 - Had been derisked but somewhat unloved by small to mid caps and private equity – likely due to state and fed lease element

Why New Mexico Delaware Was Interesting for OEP.....

- Joint bid (bucket #2) a large fed sale in August 2016 and lost!
- But at that time we realized we had found what we wanted to chase
 - **Rock quality was excellent** – 5 zones offsetting fed sale had 100 Bbl/ft EURs
 - **Disconnect between acquisition value and Net Asset Value** – pre-fed sale, highest print in New Mexico was \$25k per acre which was well below values seen on Texas side of Delaware
 - **High NRI not being recognized** – state leases were 80% - 81.25% NRI and fed leases were 87.5% NRI
 - **Opportunity rich with limited competition (*at the time*)** – New Mexico had the largest of operators who really only focused on acreage they were going to drill

How We Attacked It.....

■ **Step 1, Technical Evaluation:**

- Declined all of the horizontal wells in the basin to create an EUR/ft map which helped us zone in on areas we wanted to be in and values we could pay

■ **Step 2, Business Development Mode:**

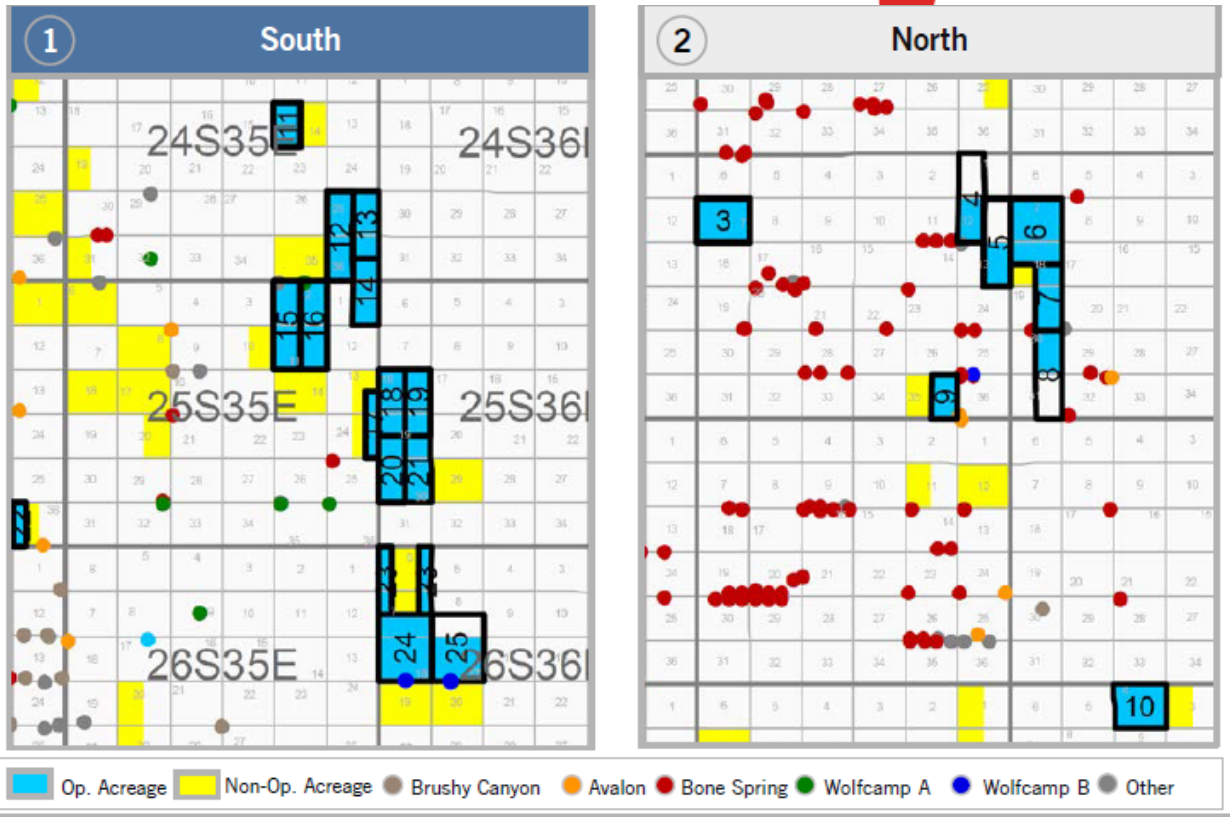
- Called every private operator with vertical operated wells
- Called every historical fed and state sale winner

■ **Step 3, Get Granular:**

- Built a township map book in MS Excel with every state and fed record title holder by section which included fee areas
- Downloaded the entire County Abstract records to find all leasing and term assignments by section in Lea and Eddy counties

Resulted in.....

- **12,000 acres (8,500 acres operated)**
 - Established two core operated areas in Lea County
 - Both were 1-3 miles east of 100 bbl/ft wells
 - Only marketed deals won were three state sale tracts over an 12-month period that saw prices rise from \$3k per acre to \$18k per acre
- After our position was established play moved even farther east
- Drilled and participated in the most eastern hz wells in Lea County (at the time)



Land Overview by Development Focus Area			
	South	North	Total Operated
Net Operated Acres	4,765	3,654	8,419
Gross Operated Locations	245	196	441
Net Operated Locations	142	110	252
Operated WI%	67%	61%	64%
8/8 th NRI	75%	75%	75%
Years of Inventory ⁽¹⁾	7 years	5 years	12 years

How We Exited.....

- **Engaged advisor to market position in October 2017**
 - OEP and offset wells had 3-6 months of production
- **Realized market was soft for large packages so allowed for global and individual bids**
 - Ended up selling North package to Centennial – was offset their recent entry acquisition so they were the logical buyer
 - Ended up selling Southeast package to Lilis – they farmed in to part of the acreage initially and drilled two Wolfcamp B wells (logical buyer)
- **Retained our core southern position of 4,200 acres and drilled another well to meet an expiry and allow time to pass to allow bidders more time to analyze well results**
- **Marketed final package in July 2018 in advance of a massive fed lease sale offsetting OEP's position**
 - Winning bidder was Franklin Mountain Energy who won fed sale auction around OEP

Takeaways....

- **Strategy, strategy and strategy**

- Know what your team is good at and be honest about it..
- Know what it makes money (and enough money for your investors that you make money) – this is the work backwards from sale view (who buys me, how do they buy me valuation-wise, what do I have to do to the asset)

- **Be Flexible and Honest**

- Remove the management team blinders and be open to needing to pivot from an original idea as the market does change

- **Be Patient**

- Yes you have a clock but the clock is more expensive once you've made a bad decision!
- It only takes ONE opportunity
- Can't send it back once you've bought it