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.....

<table>
<thead>
<tr>
<th>Buckets</th>
<th>Basins</th>
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<tbody>
<tr>
<td>Bucket 1: Distressed debt [X]</td>
<td>Bakken Shale: [X]</td>
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<tr>
<td>✴ Distressed for a reason</td>
<td>▪ Deals too large and PDP heavy for OEP Model</td>
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<td>✴ Hard to make PE returns</td>
<td>▪ Needed to take price or geologic risk</td>
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<td>✴ If mgmt. and bank toss you the keys you likely don’t want it</td>
<td>▪ Eagle Ford Shale: [X]</td>
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<td>Bucket 2: JV development [X]</td>
<td>▪ Competitively priced so too expensive to enter for OEP</td>
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<td>✴ Control: I want to operate, you want to operate</td>
<td>▪ Fragmented, hard to see path to operator</td>
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<td>✴ Value: I don’t want to JV my baby.....</td>
<td>▪ New Mexico Delaware: Put it together and sell (Traditional PE)</td>
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<td>Bucket 3: Put it together and sell (Traditional PE)</td>
<td>▪ Had been derisked but somewhat unloved by small to mid caps and private equity – likely due to state and fed lease element</td>
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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)
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