# Production Lending Overview

## Who We Are

- Production Lending is a private lender focused on smaller transactions in the energy space.

- Since 2016, 19 debt transactions have been closed and more than $50 million of credit has been extended.
  - 2019 average transaction of $6 million.

- Business is owned and operated by two energy professionals.
  - Former energy investment bankers.
  - $50+ billion in closed transaction volume.
  - Equity investors in several projects.

## Target Transactions

- $2-15 million in transaction size.
- First lien security.
  - Collateral of production, leases and minerals.
- Unique situations that are not bankable.
  - Size.
  - Minerals.
  - Concentration.
The Cure for Low Prices is Low Prices

Commodity Price Lifecycle

2010-2014
Money rushes back into the sector and production increases

2012-2014
Supply increases to meet and eventually exceed demand

2014-2017
Prices fall below production cost due to oversupply

2017-2019
Investment in new projects falls as no investors are making money

2019-2020?
Shortages emerge as production from existing projects declines

2020-2022?
Prices rise as a result of the demand/supply imbalance
The industry's heavy focus on shale has resulted in large increases to US production.

Source: EIA.
Note: Natural gas represents marketed production.
US shale oil and gas wells drilled in 2014 have underperformed expectations by ~15% on average.
Energy Capital is Rotating away from Oil and Gas to Renewables

Questions around US shale economics and a focus on green energy have led many investors to move capital away from traditional oil and gas investments.

Source: Bloomberg, public filings.
Note: Data shown through 9/30/19.
The Shale Revolution saw companies outspend cash flow by billions of dollars every year; Has newfound capital disciple finally been instilled in 2019?

Source: EIA, Spears Drilling and Production Report, Baker Hughes.
Note: Does not include acquisitions or divestments.
As acquisition prices decline, PDP value becomes highly discounted; Desperation to sell or are buyer’s not accounting for cost and P&A properly?

Note: Data represents 2019 transactions evaluated by PL where an LOI or other agreement was in place to purchase assets.
Case Study: Development Loan

- Project consisted of a non-operated interest located in the Uintah Basin
- Management identified and negotiated the transaction in December 2018 when oil prices were ~$45/bbl
- Management raised ~30% equity for the purchase, but still required a debt lender to fund the remaining 70%
- Borrower had a short fuse on the PSA
- Production Lending was able to negotiate, close and fund the transaction within 10 days
- Transaction was structured to give Borrower the flexibility to refinance with conventional bank debt at any time

<table>
<thead>
<tr>
<th>Structure:</th>
<th>Development Loan</th>
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</thead>
<tbody>
<tr>
<td>Facility Size:</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>Loan Repayment:</td>
<td>CF Sweep + Bullet Payment</td>
</tr>
<tr>
<td>Tenor:</td>
<td>1 year</td>
</tr>
<tr>
<td>Lender MOIC:</td>
<td>~1.1x + ORRI</td>
</tr>
</tbody>
</table>

Value Gain ($000’s)

<table>
<thead>
<tr>
<th>Purchase Price</th>
<th>PDP PV-10</th>
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<tbody>
<tr>
<td>3,000</td>
<td>12,000</td>
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102%
Case Study: Minerals Acquisition Loan (Currently Outstanding)

- $7.5 million acquisition facility to expand company’s existing mineral interest portfolio
  - $4 million drawn within one month of close
- Management contributed $10 million in existing mineral assets
  - Focus areas are Permian Basin and Eagle Ford
- Loan is secured by all assets of the borrower
- Once fully drawn, the Facility will help the company to grow more than 70% without any need to raise additional equity capital

<table>
<thead>
<tr>
<th>Structure</th>
<th>Acquisition Loan</th>
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<tr>
<td>Facility Size</td>
<td>$7,500,000</td>
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<td>Loan Repayment</td>
<td>Bullet at Maturity</td>
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<tr>
<td>Tenor</td>
<td>6 months</td>
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<tr>
<td>Lender MOIC</td>
<td>~1.1x</td>
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**Minerals Market Opportunity**

- 86% Unnatural Holders
- 14% Long-Term Holders
Case Study: PDP Acquisition

- Operator approached Production Lending to help finance a $3.5 million PDP acquisition
  - Operator had $1 million in equity to contribute
  - Timing of effective date and closing acted as a reduction in purchase price
  - Needed $1.3 million in debt to complete acquisition
- Since taking over the asset, the operator has completed the following projects:
  - Reduction in monthly LOE
  - Restoring production on one well
  - Installation of artificial lift to arrest decline
- Current run-rate free cash flow is ~$3 million

<table>
<thead>
<tr>
<th>Structure:</th>
<th>Acquisition Term Loan</th>
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<tbody>
<tr>
<td>Facility Size:</td>
<td>$1,350,000</td>
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<td>Loan Repayment:</td>
<td>Fully Amortizing</td>
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<td>Tenor:</td>
<td>2 years</td>
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<td>Lender MOIC:</td>
<td>~1.3x</td>
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Monthly Cash Flow ($000’s)

![Bar chart showing monthly cash flow](chart]

- At Transaction Close: $225,000
- Current: $300,000

22% increase from At Transaction Close to Current
What Makes a Strong Borrower?

- The challenge of this space is trying to partner with the right people on the right projects.

- This is what we look for:
  - Industry experts; knowledge of oil and gas; track record of success
  - Good reputation and references
  - Borrowers who invest their own capital with us
    - Alignment of risk is essential
  - Projects that make sense
    - Achievable upside
    - Contiguous positions
    - Healthy operating margins
  - Updated data, financials & development plans
    - Borrowers who are organized
Contact Information

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