Production Lending, LLC

IPAA Private Capital Conference

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Production Lending Overview

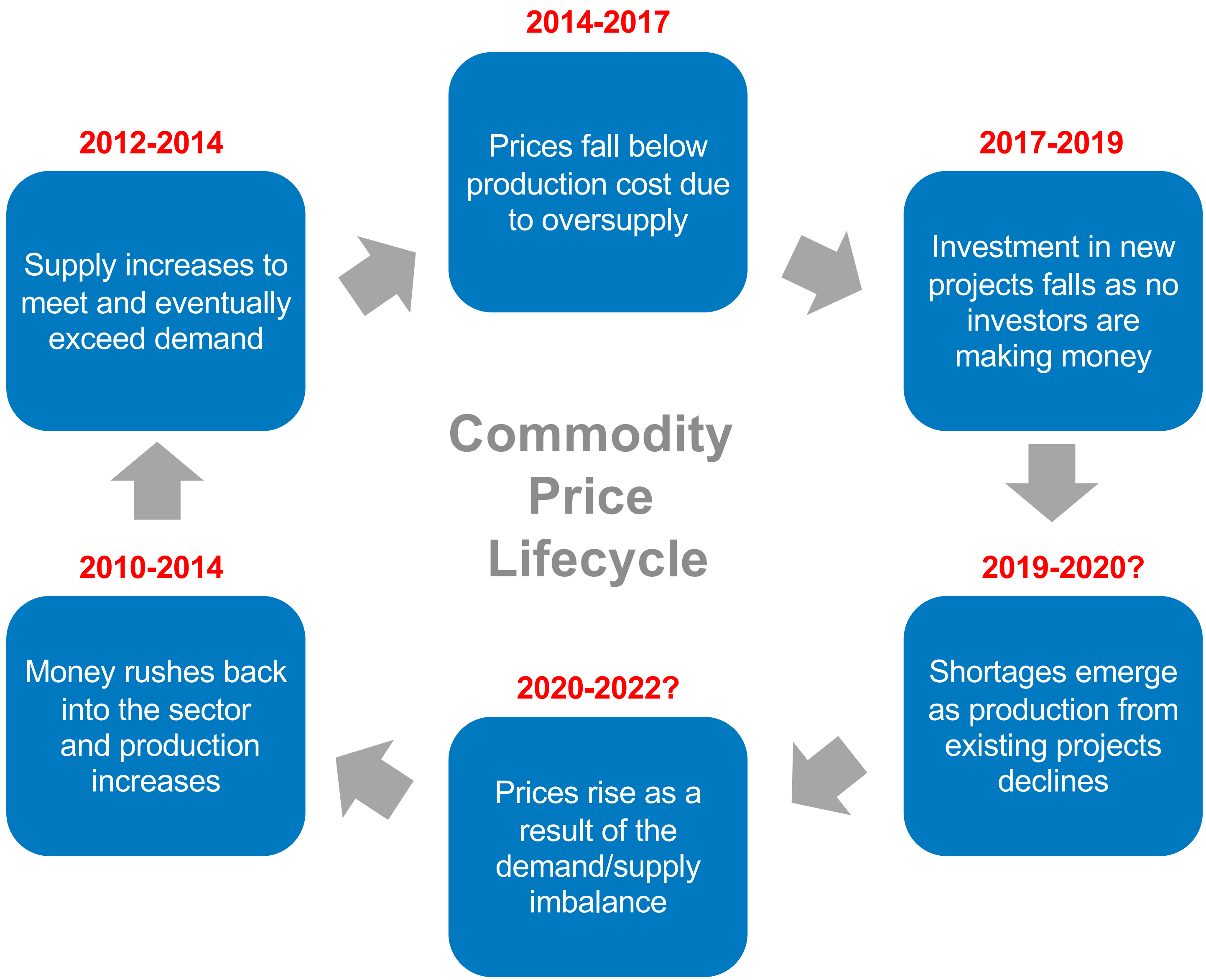
Who We Are

- 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

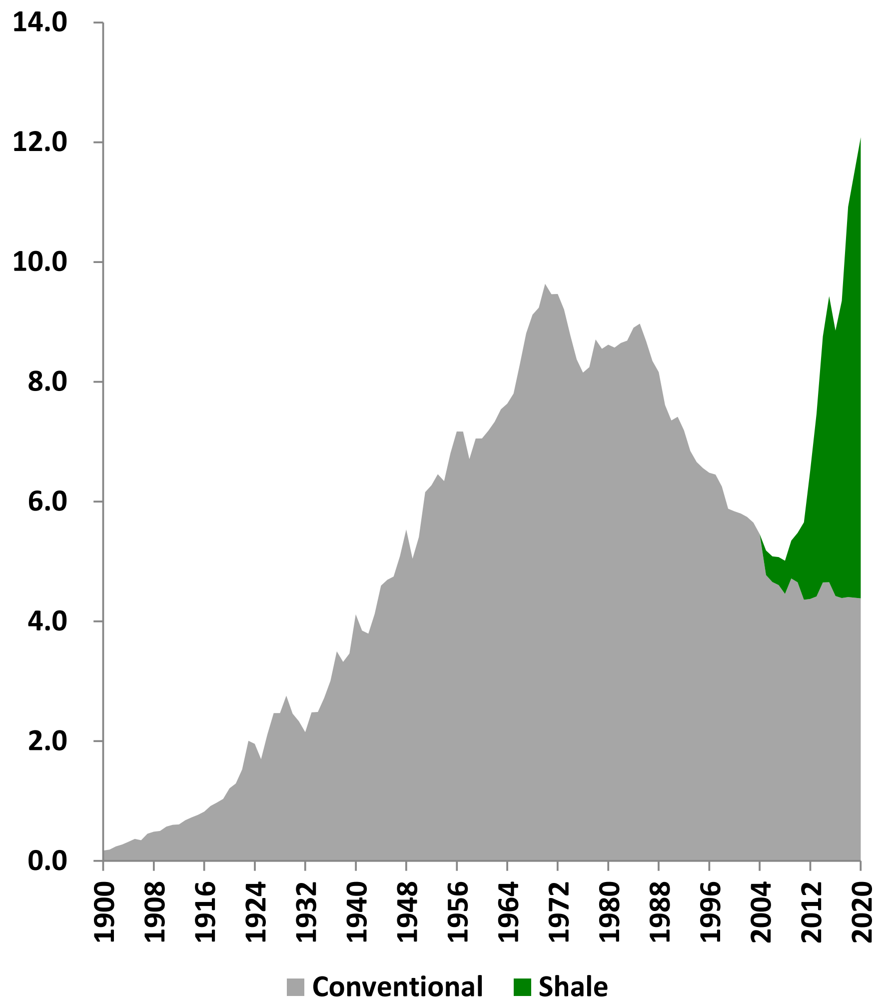
- $2-15 million in transaction size
- First lien security
  - Collateral of production, leases and minerals
- Unique situations that are not bankable
  - Size
  - Minerals
  - Concentration

The Cure for Low Prices is Low Prices

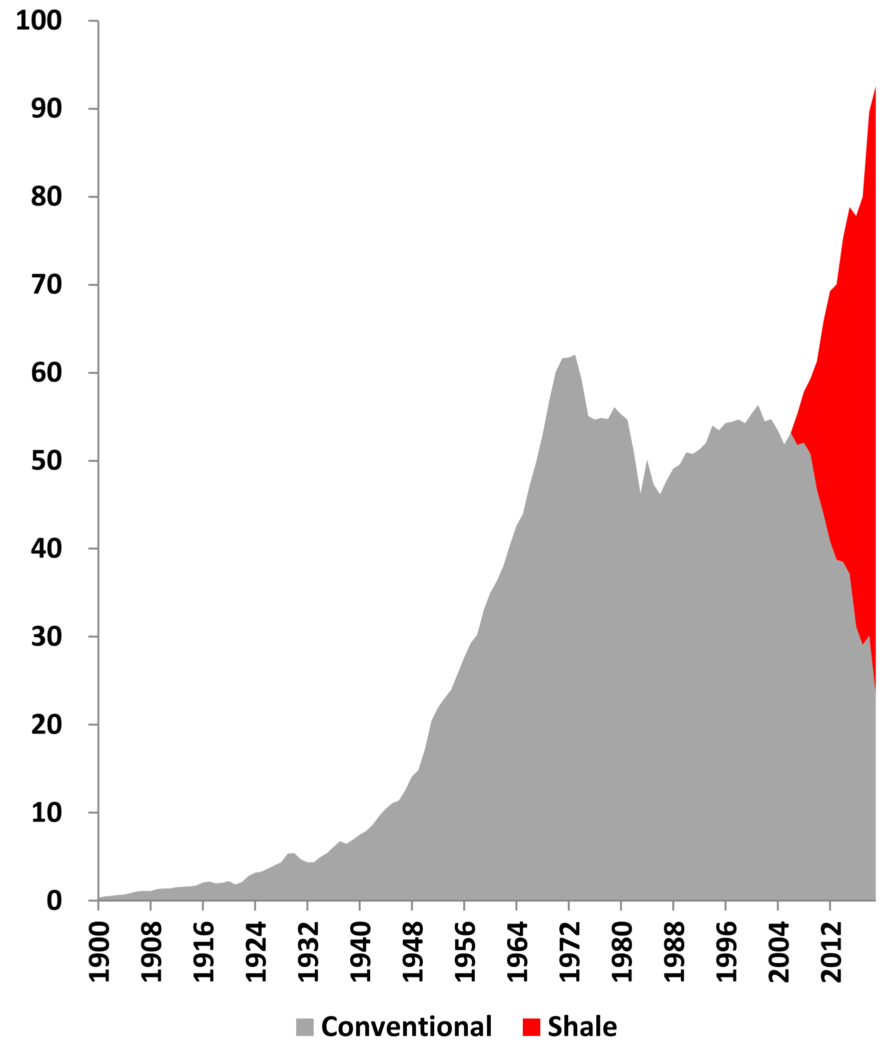


US Crude Oil and Natural Gas Historical Production

US Crude Oil Production (mmbbl/d)



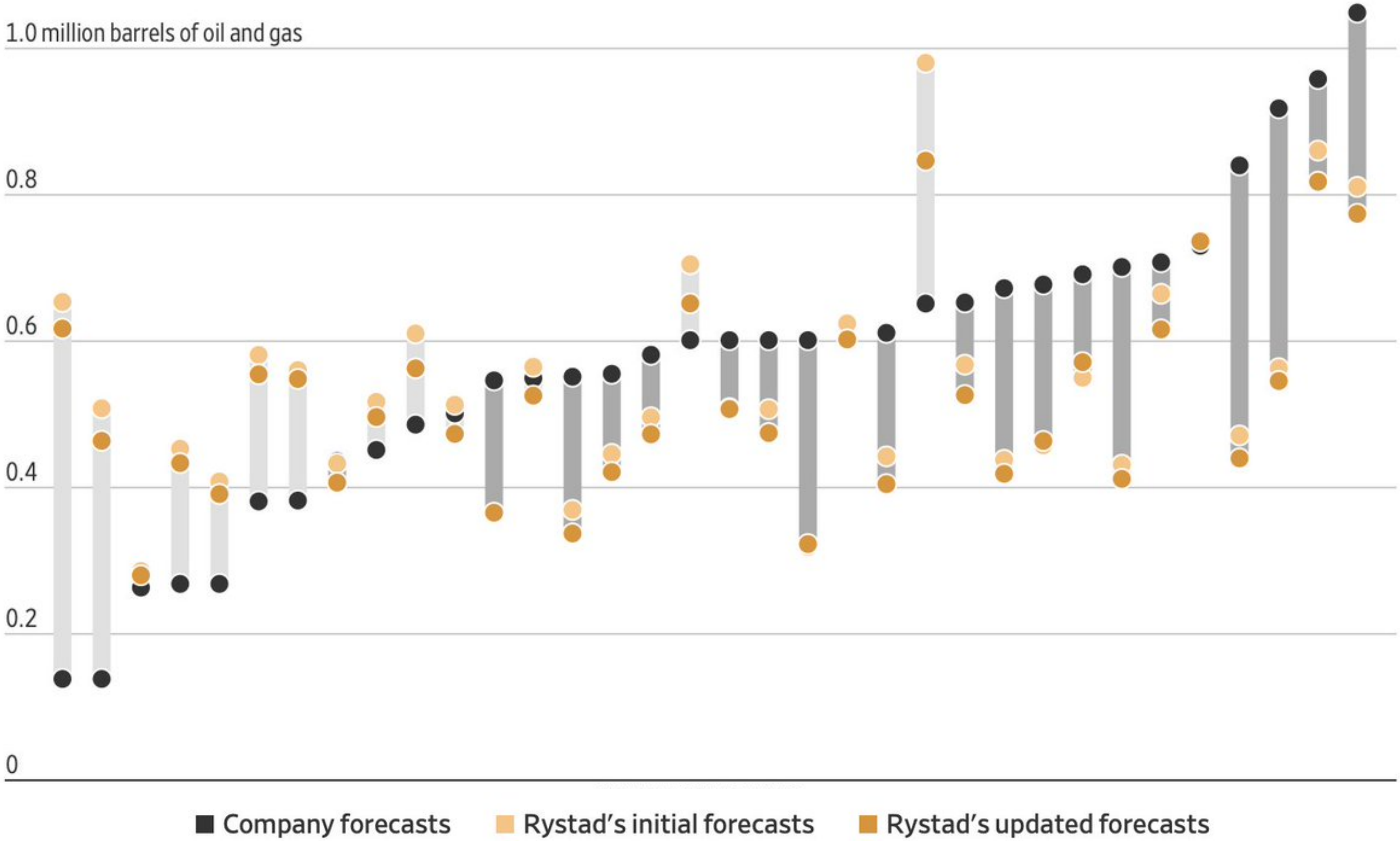
US Natural Gas Production (Bcf/d)



The industry's heavy focus on shale has resulted in large increases to US production

Source: EIA.
Note: Natural gas represents marketed production.

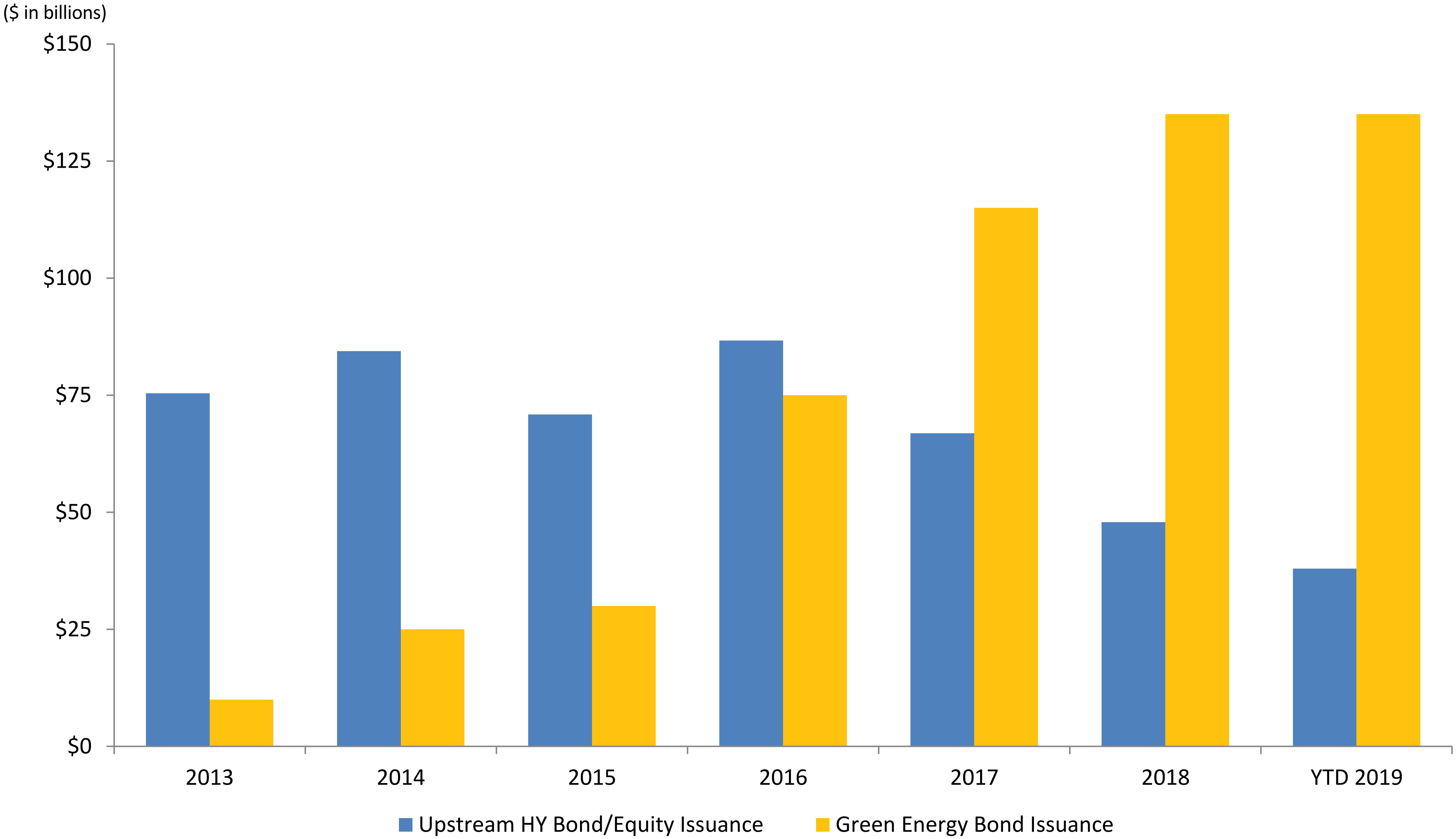
2014 Well Productivity Forecast Results



US shale oil and gas wells drilled in 2014 have underperformed expectations by ~15% on average

Source: Rystad Energy.

Energy Capital is Rotating away from from Oil and Gas to Renewables

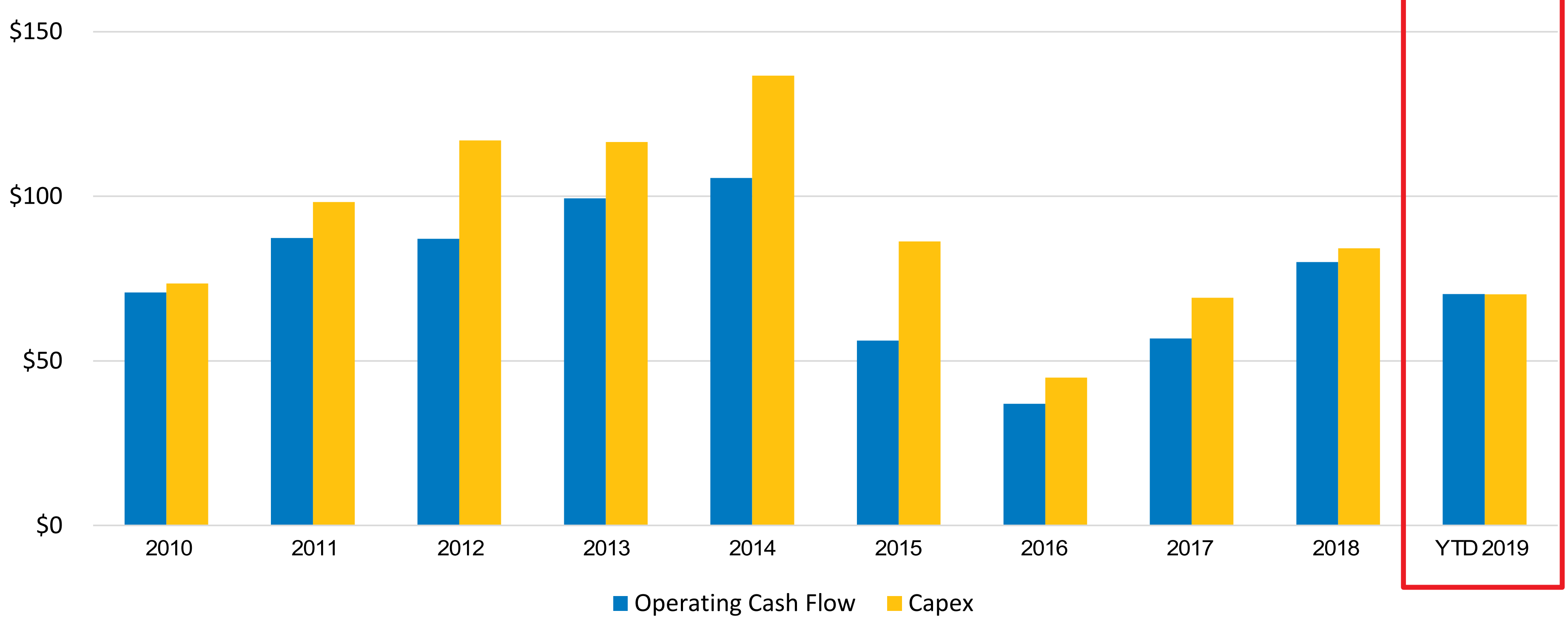


Questions around US shale economics and a focus on green energy
have led many investors to move capital away from traditional oil and gas investments

Source: Bloomberg, public filings.
Note: Data shown through 9/30/19.

Public E&P Company Cash Flows vs Capex

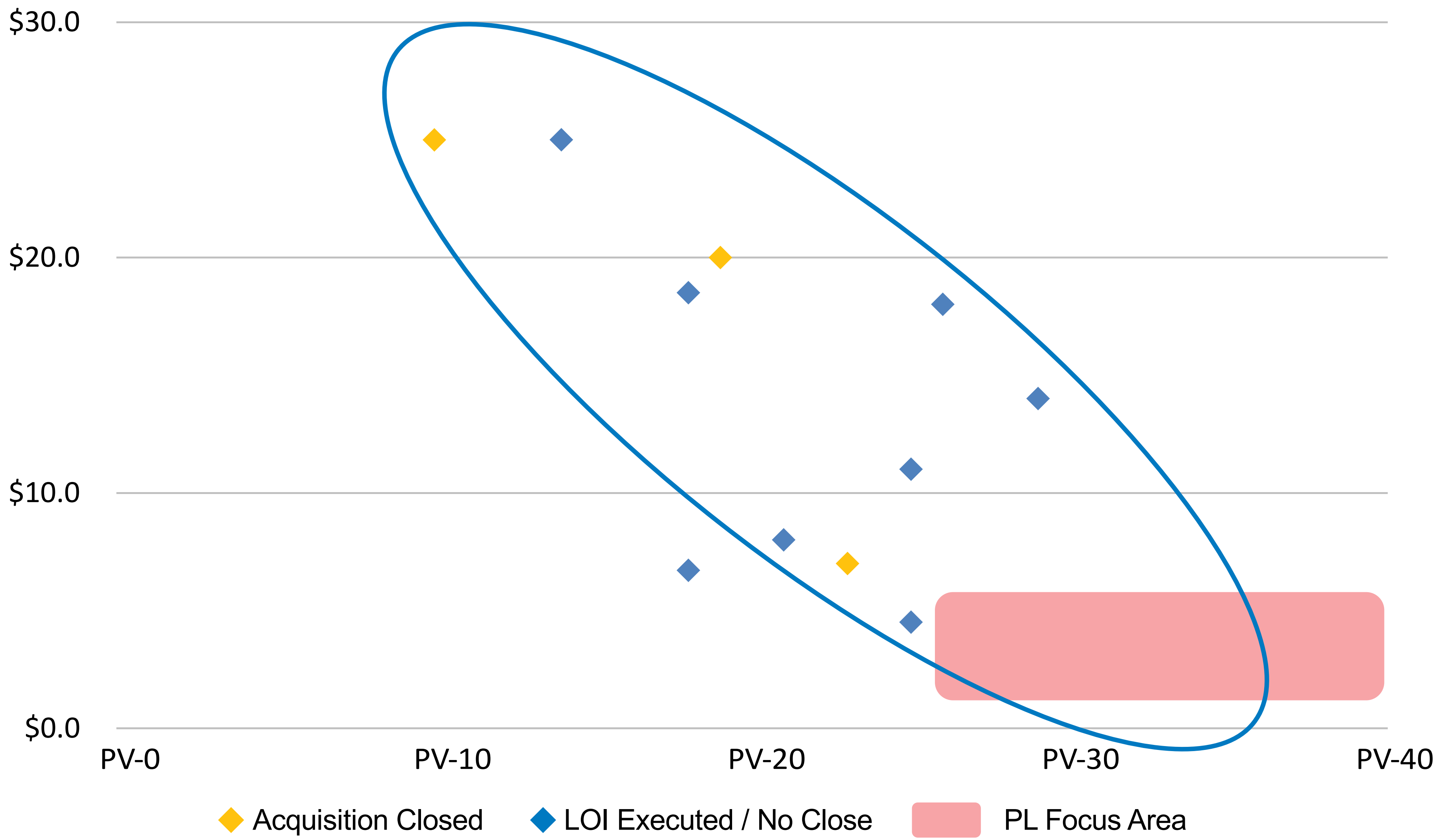
	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD 2019
Outspend (%)	*4%*	*12%*	*34%*	*17%*	*29%*	*53%*	*21%*	*22%*	*5%*	*0%*
Outspend (billions)	*$3*	*$11*	*$30*	*$17*	*$31*	*$30*	*$8*	*$12*	*$4*	*$0*



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.

Acquisition Price vs PDP PV



As acquisition prices decline, PDP value becomes highly discounted;
Desperation to sell or are buyer's not accounting for cost and P&A properly?

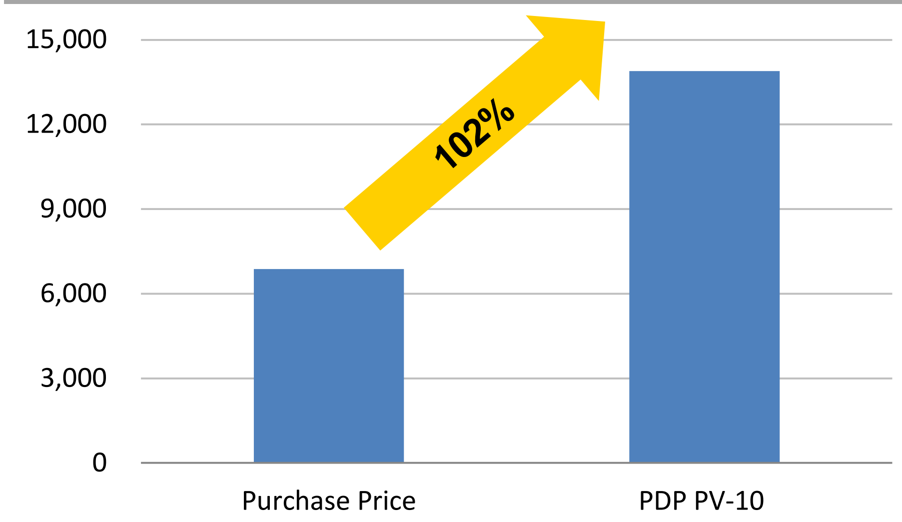
Note: Data represents 2019 transactions evaluated by PL where an LOI or other agreement was in place to purchase assets.

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

Structure:	Development Loan
Facility Size:	$7,000,000
Loan Repayment:	CF Sweep + Bullet Payment
Tenor:	1 year
Lender MOIC:	~1.1x + ORRI

Value Gain ($000's)

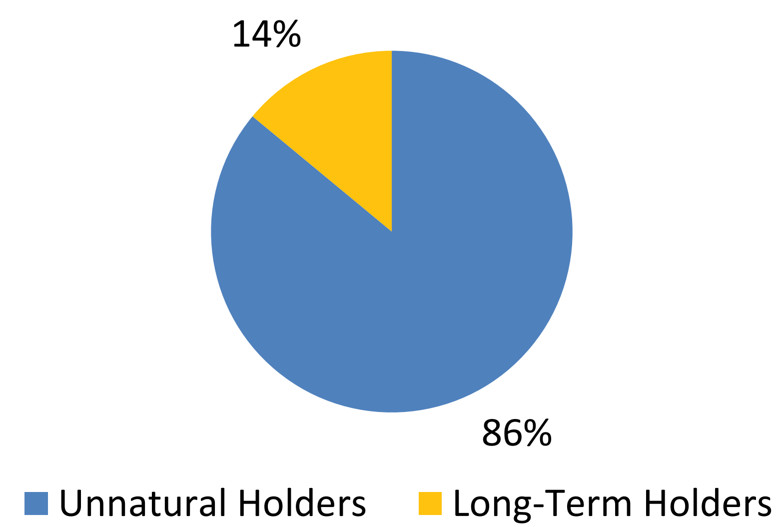


Case Study: Minerals Acquisition Loan (Currently Outstanding)

- $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

Structure:	Acquisition Loan
Facility Size:	$7,500,000
Loan Repayment:	Bullet at Maturity
Tenor:	6 months
Lender MOIC:	~1.1x

Minerals Market Opportunity

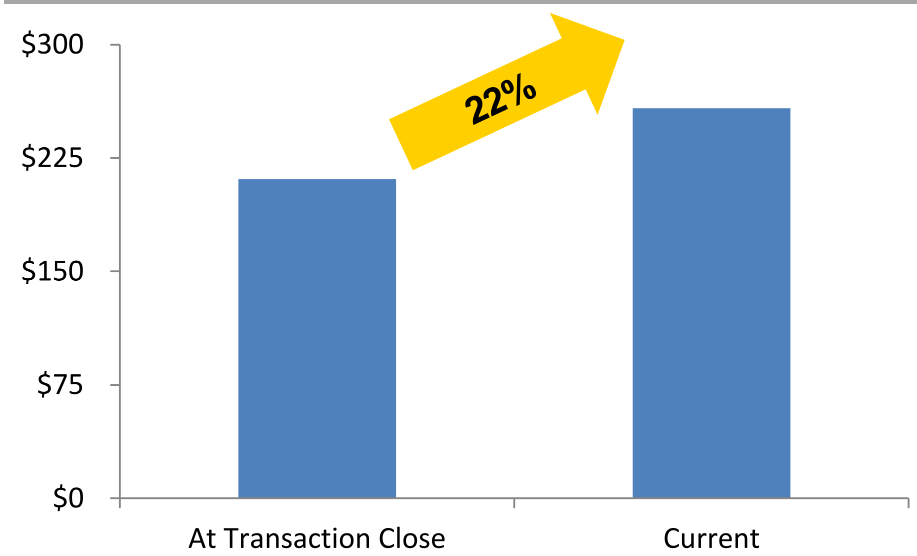


Case Study: PDP Acquisition

- 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

Structure:	Acquisition Term Loan
Facility Size:	$1,350,000
Loan Repayment:	Fully Amortizing
Tenor:	2 years
Lender MOIC:	~1.3x

Monthly Cash Flow ($000's)



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

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