IPAA Private Capital Conference

January 23, 2020

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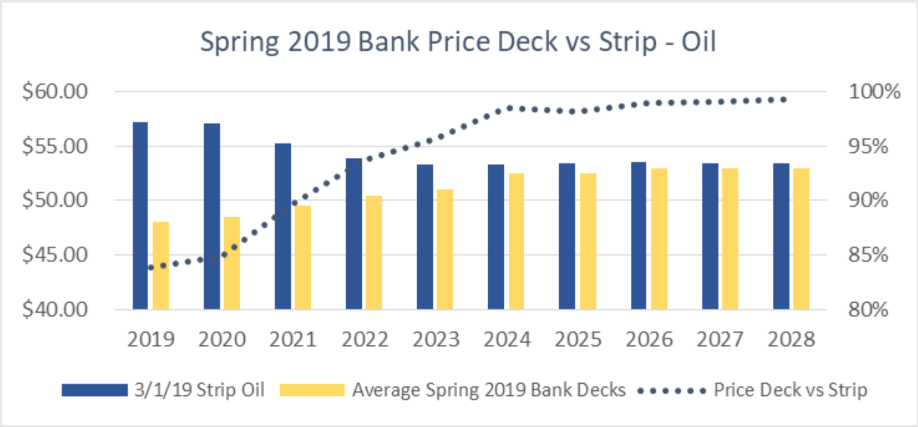
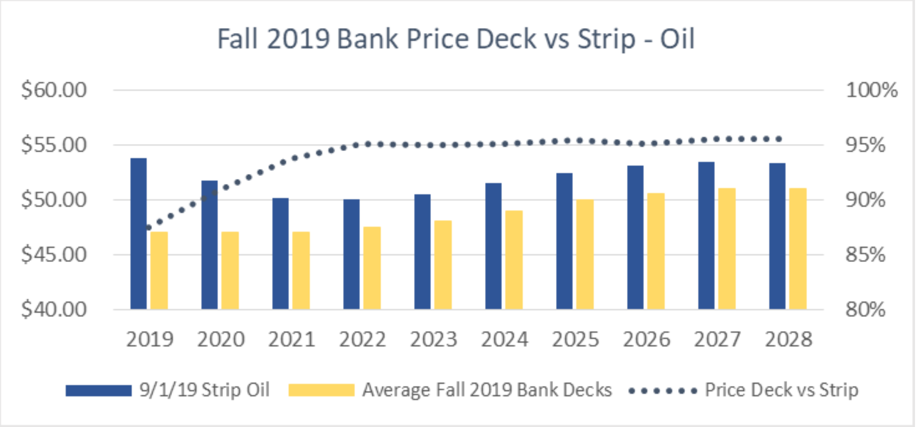
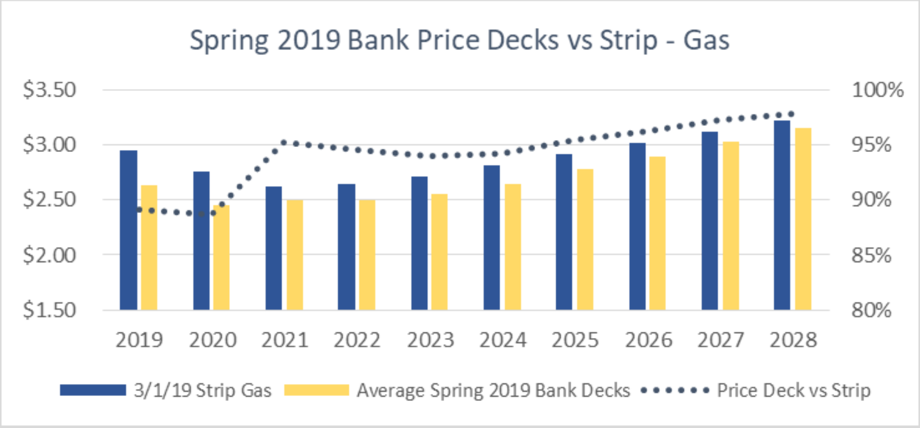
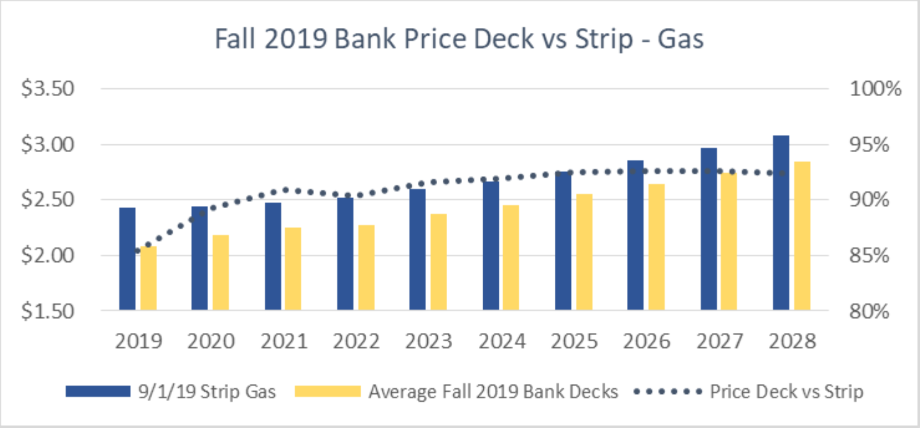
Bank Price Decks

Due to weaker commodity prices, bank price decks were moderately lower in the Fall 2019 Redetermination Season vs Spring 2019:







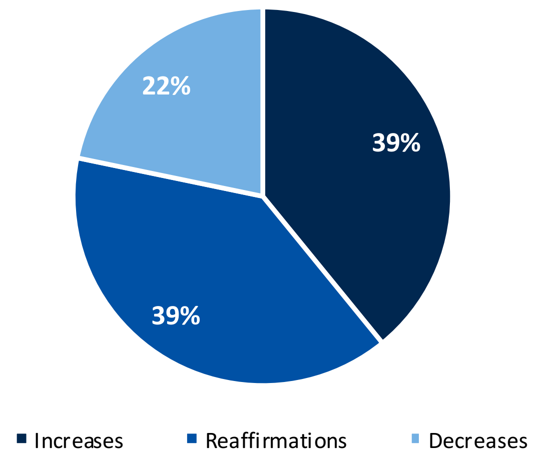


Spring 2020 decks are likely to follow the 2019 trend with a discount to strip of 80-85% over the first 12 months and increase to 90-95% thereafter

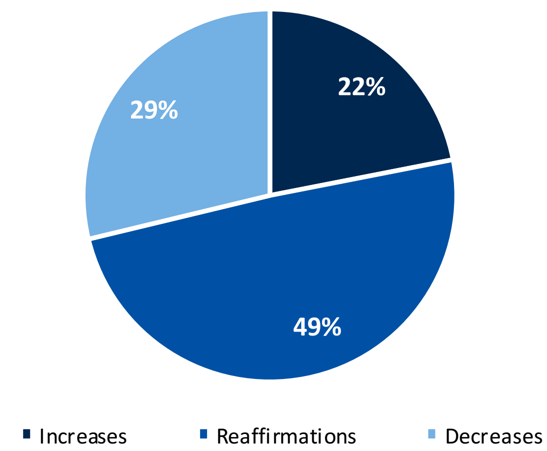
Sample of 2019 Borrowing Base Results

Spring 2019 vs. Fall 2019

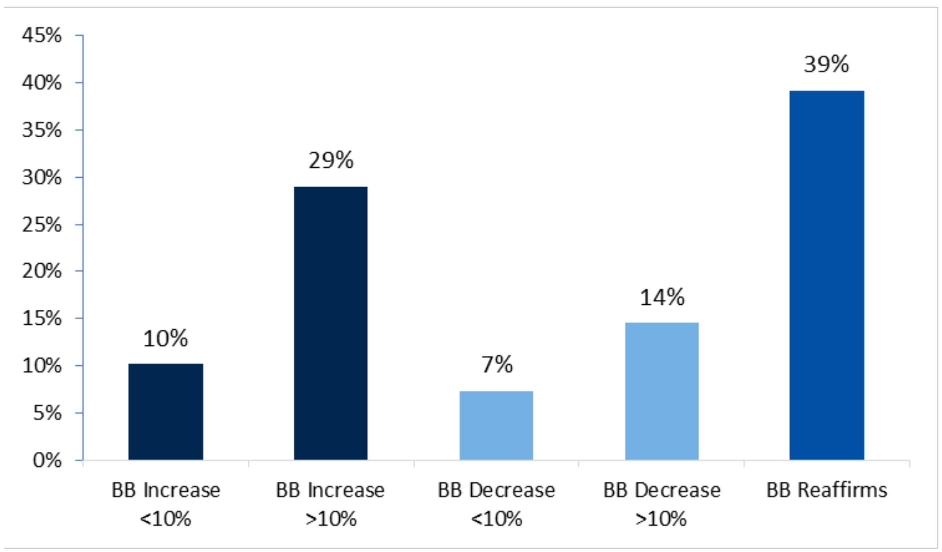
Spring 2019



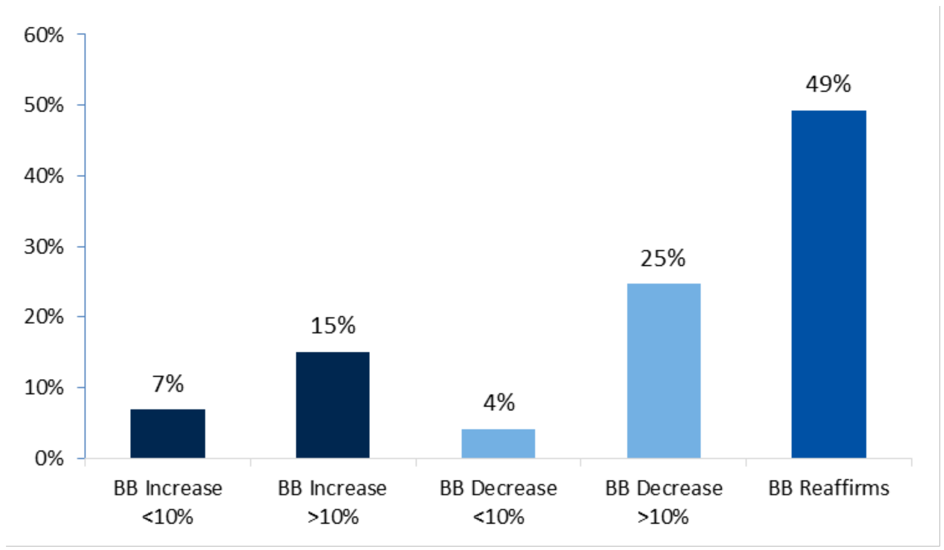
Fall 2019



Spring 2019 Change Summary



Fall 2019 Change Summary



Reserve Base Loan Market Overview

Banks have become more selective in deploying new capital to Borrowers, but the RBL market has been constructive for Borrowers with the following attributes:

Asset Quality	▪ Reserve bases that can be maintained or grown while living within cash flow is positive ▪ PDP only strategies will be supported with a hedge strategy, manageable leverage and ample cash flow to service debt
Collateral Coverage	▪ Borrowing base metrics need to be middle of the fairway to get banks working on the transaction ▪ Bank engineers may make conservative adjustments to ensure no surprises, which could result in materially different values between banks
Management / Equity Sponsor	▪ Previous track record of good performance and treating the banks well is important ▪ Relationship with management / equity sponsor is vital as a strong relationship angle can pull a bank over the finish line
Leverage	▪ Banks are very sensitive to total leverage, particularly when committing to new transactions ▪ While covenant packages may include a 3.5x Debt / EBITDA ratio, new transactions with initial leverage > 2.5x at close become more difficult
Liquidity	▪ Given current state of the capital markets, banks must ensure liquidity is sufficient to execute the company's strategy ▪ Availability at close needs to be 15-20%, but more could be required if needed to fund a drilling program
Cash Flow Profile	▪ Drilling programs that result in a cash flow outspend are scrutinized, but acceptable by the banks if the program has predictable well results and good well economics in today's price environment ▪ Lenders are willing to allow distribution strategies if leverage and liquidity are at appropriate levels
Hedge Profile	▪ Lenders want to see a base layer of hedging in new transactions, but the level varies based upon the quality of the credit ▪ Higher leveraged transactions likely require 3+ years of hedging (50%-75% of volumes) to support the borrowing base and ensure the company's leverage/liquidity is manageable in a weaker commodity price environment
Economic Incentives	▪ The economic package offered on a new transaction must meet internal return hurdles to begin the conversation ▪ Lenders are most interested in transactions with incremental economic incentives (Arranger Fees, etc) and/or good opportunities to earn other fees over time (hedging, capital markets, treasury, M&A, etc)

Reserve Based Loan Market Terms - Indicative

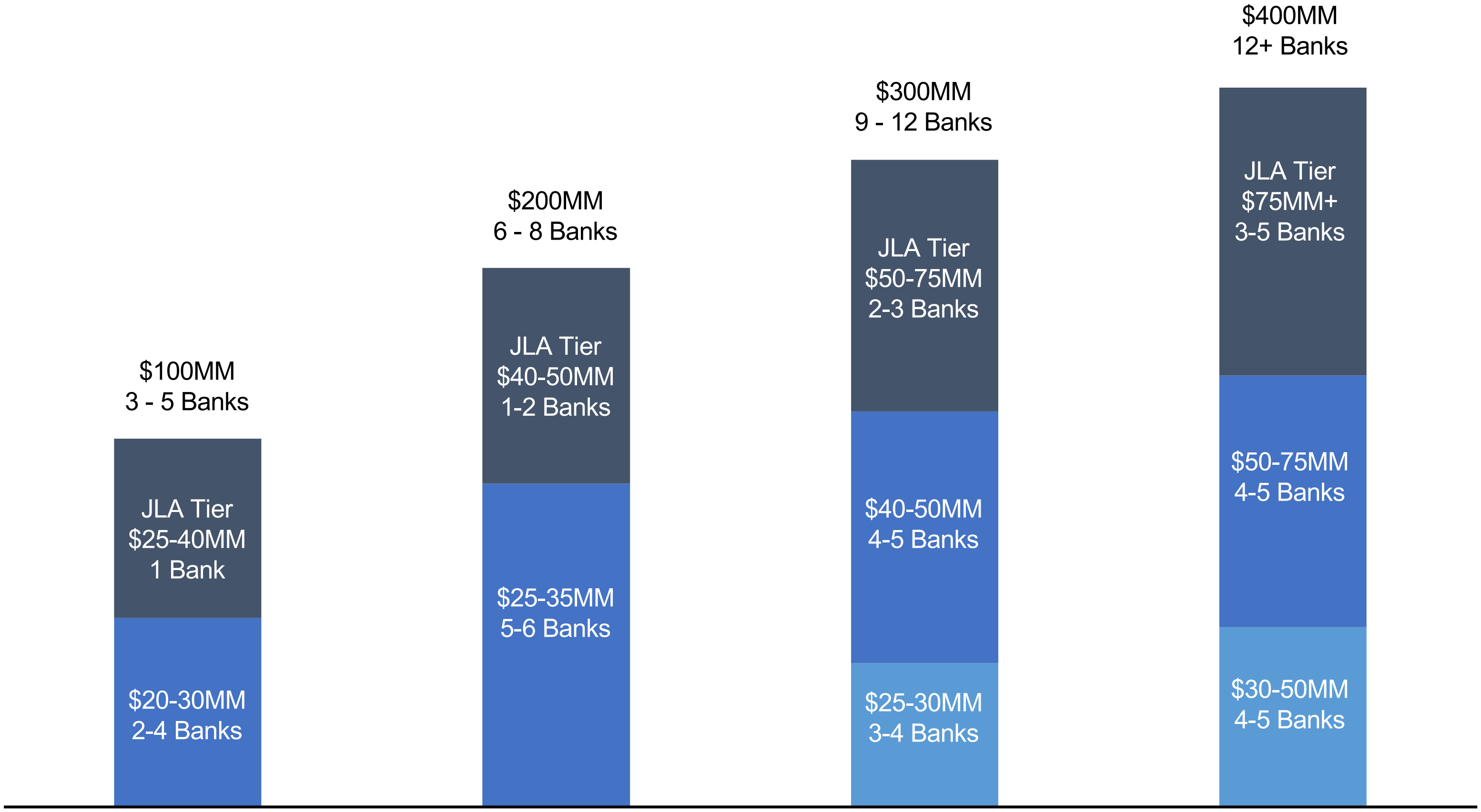
In an effort to ensure successful syndications, multiple transactions were launched in Q4 2019 with tighter structures than have historically been required in the RBL market. Material structural enhancements seen in the RBL market to date are outlined below:

	Previous "Market" Terms	2020 Indicative "Market" Terms
Tenor	▪ Up to 5 years	▪ Unchanged
Utilization Based Pricing Grid	▪ Spread ranging from L + 200 – 300 bps ▪ Undrawn fees ranging from 37.5 to 50.0 bps	▪ Spread likely to increase 25-50 bps across all tiers ▪ Undrawn fees of 50 bps across all tiers
Liquidity Required at Close	▪ 10%+ depending on development plan	▪ 15%+ depending on development plan
Financial Covenants	▪ Total Net Debt / EBITDA of 4.0x ▪ Current Ratio of 1.0x	▪ Total Net Debt / EBITDA of 3.5x ▪ Current Ratio of 1.0x
Restricted Payments	▪ No Event of Default; ▪ Pro Forma leverage of $\leq$ 3.0x; and ▪ Pro Forma borrowing base availability of $\geq$ 10%	▪ No Event of Default; ▪ Pro Forma leverage of $\leq$ 2.5x; and ▪ Pro Forma borrowing base availability of $\geq$ 20%
Front End Fees	▪ Upfront fees of ~10 bps per year of tenor	▪ Upfront fees of ~15 bps per year of tenor

Further tightening of the loan structure and/or improved pricing in 2020 may be required to ensure a successful syndication

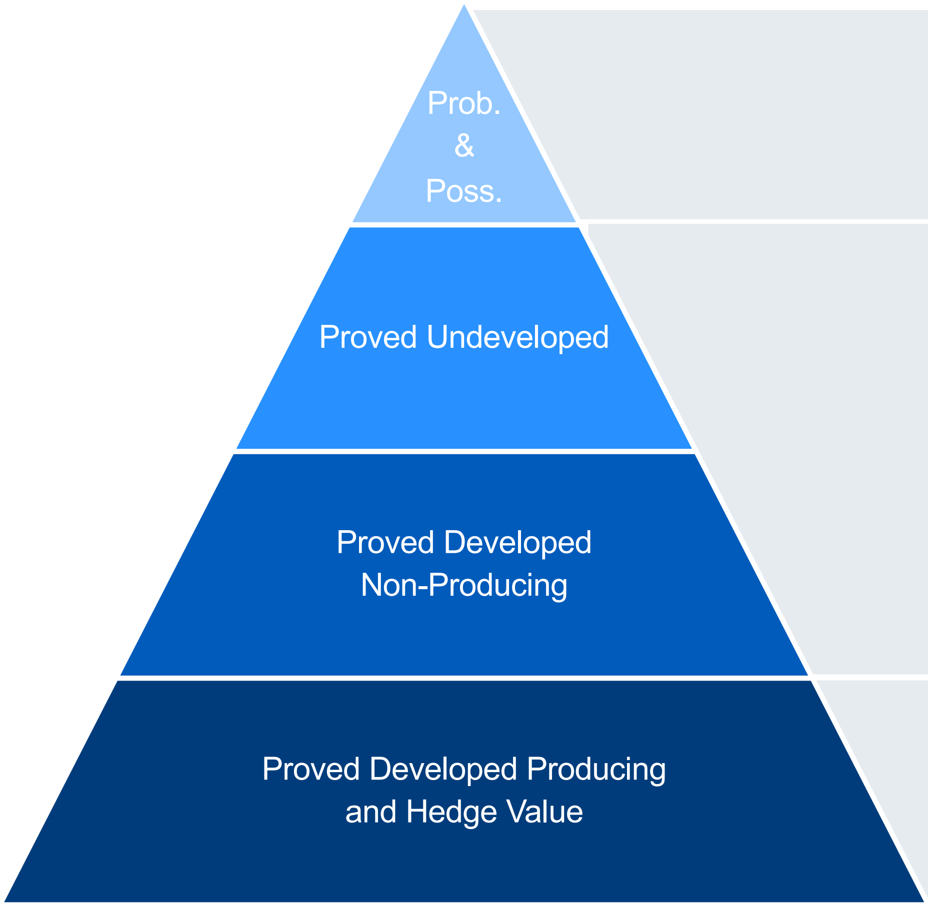
Bank Selection and Sizing Discussion

The number and selection of participant banks is influenced by a variety of factors, including: historic relationships, exposure appetite and each institution's capabilities to deliver other services.



Syndicated Bank Market Borrowing Base Methodology

The U.S. Reserve Based Loan Market focuses on Proved Categories, but Lender's are also focused on recent asset valuation markers in today's climate, particular for acquisition financings:



No Lending Value Assigned

Advance rates are typically in the 35-50% range with NPV discount rates in the 9% range.

Historically, banks will limit Proved Developed Non-Producing and Proved Undeveloped reserve value to an aggregate of 25% of the total Borrowing Base.

Banks are taking a closer look at each transaction (particularly in an acquisition financing) to determine if the calculated borrowing base values on non-producing reserves is appropriate given recent valuations in the A&D market.

PDP and hedges must contribute 75% of the Borrowing Base value after a 65-70% Advance Rate is applied. Discount Rates are typically in the 9% range.

Lenders may check the PDP PV15-20% value of the reserves as well for a point of reference.

Additional Considerations

- Asset Concentrations – Limitations on any single well representing > 10–15% of the Borrowing Base value.
- Technical and Risk Adjustments – Expert judgment applied by bank engineer to adjust items such as LOE, new production volumes, well history, basis differentials, etc.
- Hedge Profile – Minimum / maximum hedge considerations. Typically given same advance rate as PDP.
- Subordinated Debt / Preferred Equity – May cause a "haircut" to the Borrowing Base and has an impact on OCC repayment metrics.

OCC Loan Rating Guidance

Per the OCC March 2016 Guidelines, regulatory rating decisions are not a perfect science. A classification should apply judgement and reasonableness; each Borrower is unique.

	PASS	"NON-PASS" SPECIAL MENTION	"NON-PASS" SUBSTANDARD
Funded Debt / EBITDAX	< 3.5x	3.5x – 4.0x	> 4.0x
Funded Debt / Total Capitalization	< 50%	50 – 60%	> 60%
Repayment of Fully Drawn RBL	< 60% Reserve Life	< 60 - 75% Reserve Life	> 75% Reserve Life
Repayment of Total Secured Debt	< 75% Reserve Life	< 75-90% Reserve Life	> 90% Reserve Life
Committed Debt / Total FNR	< 65%	65 – 75%	> 75%

Defined Terms

- Funded Debt = Current Outstanding RBL (or Elected Commitment Amount) + Other Secured Debt + Unsecured Debt
- Committed Debt = Fully Funded RBL (or Elected Commitment Amount) + Other Secured Debt + Unsecured Debt
- Future Net Revenue ("FNR") = Revenue from production + hedges – production expenses – capex (as per total proved reserve report).
- Repayment is calculated as FNR – G&A – interest expense (all debt; assuming fully funded RBL) = cash available for debt repayment. Repayment is across the life of the reserves (not limited to the Loan tenor). Repayment is net of cash on the balance sheet.

RBL Market Considerations for 2020

1. The RBL market has historically had ~50 Lenders that were active in the space to varying degrees. Based on feedback from recent syndications, RBC believes there are 25-30 Lenders open to adding new transactions under the right circumstances while an additional 10-15 banks are focusing on supporting existing clients only. Finally, there are a small number of banks working to actively reduce their RBL exposure if the opportunity is available.

2. Further consolidations in the E&P space will likely result in material RBL exposure reductions absent any new deal flow from asset financings.

3. Currently, new loan syndications are being carried by larger commitments from top tier banks as commitment interest from participant banks have been weak over the past ~6 months. Ultimately, the health of the RBL market will depend on material commitments from retail participants.

4. Developments that would have a positive impact on the RBL space in 2020 include:

   - Improvement to the A&D market to help support asset values underpinning the RBLs;
   - Improvement in the debt and equity capital markets to support new capital raises and/or required refinancings;
   - Continued tightening of structural terms in the RBLs to better align with current market dynamics; and
   - Better loan economics to help attract participant banks to new transactions (higher spreads and/or upfront fees).

5. Developments that could have a negative impact on the RBL space in 2020 include:

   - A significant number of new bankruptcies, particularly by companies formed over the last five years;
   - Negative surprises from basins previously thought “safe” that lead to potential credit losses; and
   - Further weakening of natural gas prices.

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