

# PULSE

ISSUE X



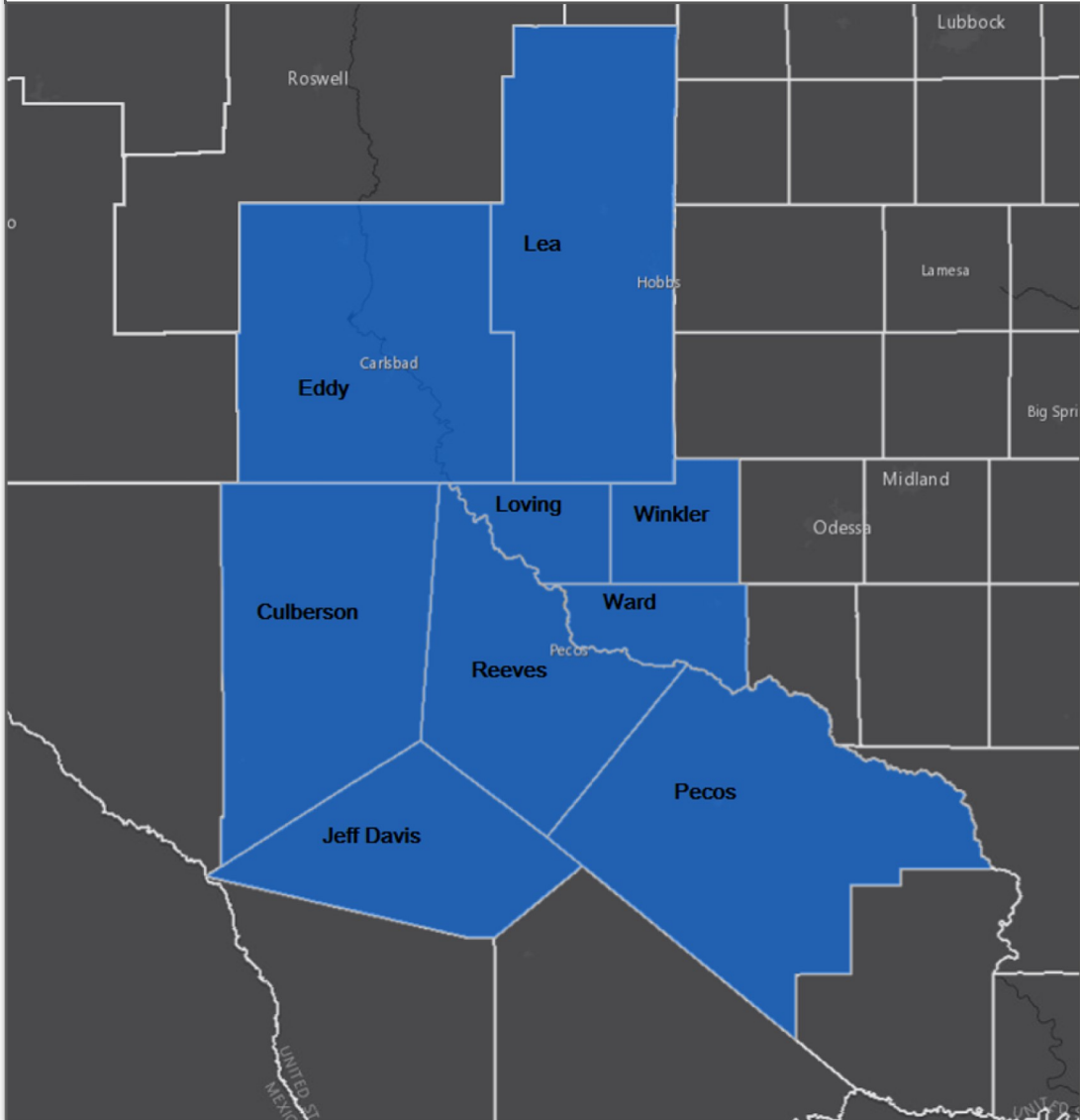






DELAWARE BASIN EDITION

MARCH 30, 2020



# INTRODUCTION

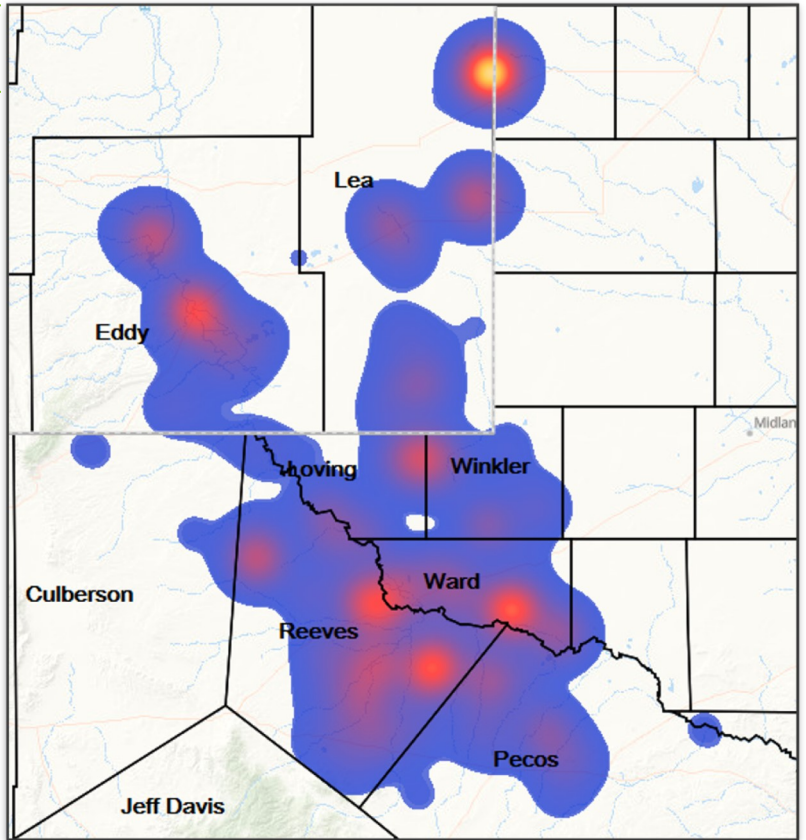
Welcome to latest edition of the Pulse! Our tenth issue revisits the industrious Delaware Basin. We are in the midst of a once in a lifetime state of affairs. Marked by international price wars, low commodity prices, and a virus wreaking havoc on both lives and our economy. Winston Churchill said, “The pessimist sees difficulty in every opportunity. The optimist sees opportunity in every difficulty.” Probus Energy Services has uncovered some interesting opportunities in this issue; found in new Delaware oil plays, minerals and merger opportunities. This issue analyzes activity over the past six months and relates that analysis to the previous Delaware Basin Pulse in order to spotlight evolving trends. As always, we will examine the basin in different stages of development, beginning with leasing and permitting, moving to completions, productivity and minerals. We conclude this issue with acquisitions & divestitures and a special section on the effects of market conditions on plans for 2020.

THE DELAWARE BASIN	WHAT'S INSIDE
	 <b>LEASE ACTIVITY</b>
	 <b>PERMIT ACTIVITY</b>
	 <b>COMPLETIONS</b>
	 <b>PRODUCTION</b>
	 <b>MINERALS</b>
	 <b>A&amp;D LOOK</b>
<b>SPECIAL SECTION</b> <b>MARKET</b> <b>CONDITIONS</b>	

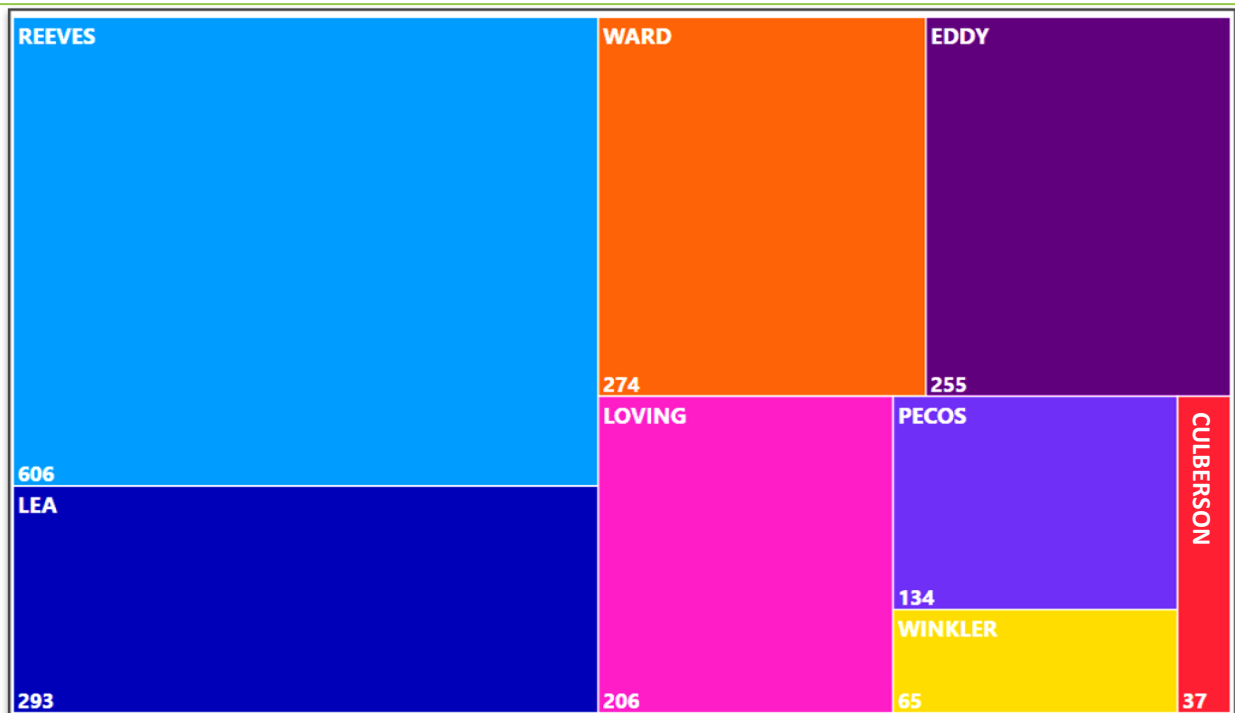
# LEASE ACTIVITY

## WHERE IS THE LEASING?

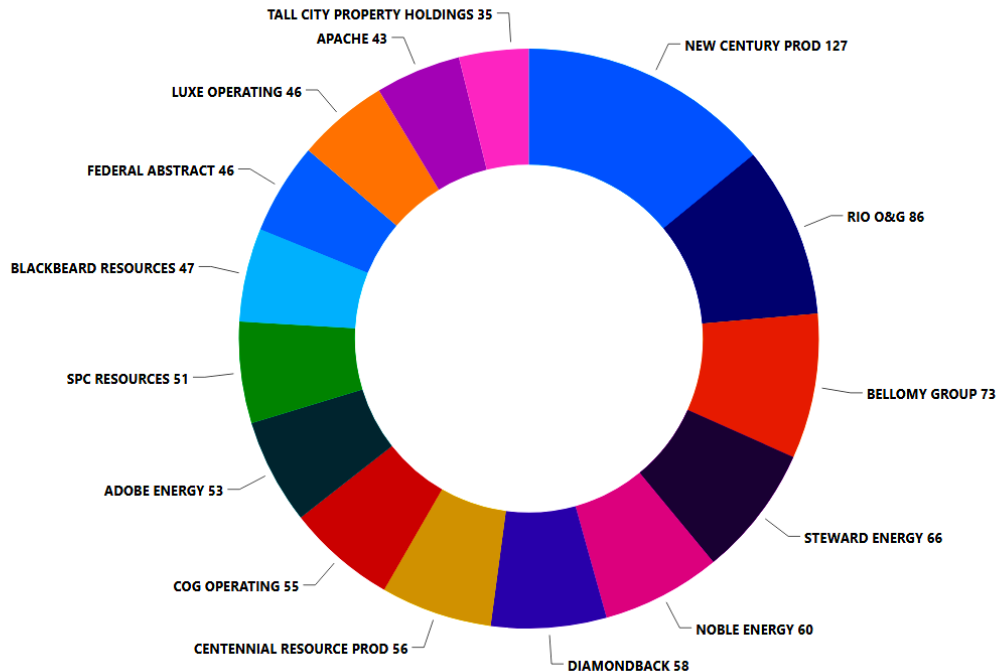
In this edition of the Pulse, we tracked leasing activity over the past six months. The heat map shows the areas with the highest concentration of activity. The hot spots are visible throughout Reeves County as well as Ward County, Lea County and Eddy County. Activity levels were consistent across Loving, Winkler and Ward with activity throughout those counties. The activity follows a similar “V shaped” pattern that we commonly see in the Delaware Basin. Interestingly, with oil under \$60/Bbl during the past six months, leasing activity was higher than usual across the Delaware Basin. Reeves County remains on top with 606 new leases. Next, comes Lea County, with 293 leases, a sharp 308% increase compared to our previous Delaware Basin Pulse. Third, comes Ward (274), followed by Eddy (255) and Loving (206).



## LEASE ACTIVITY

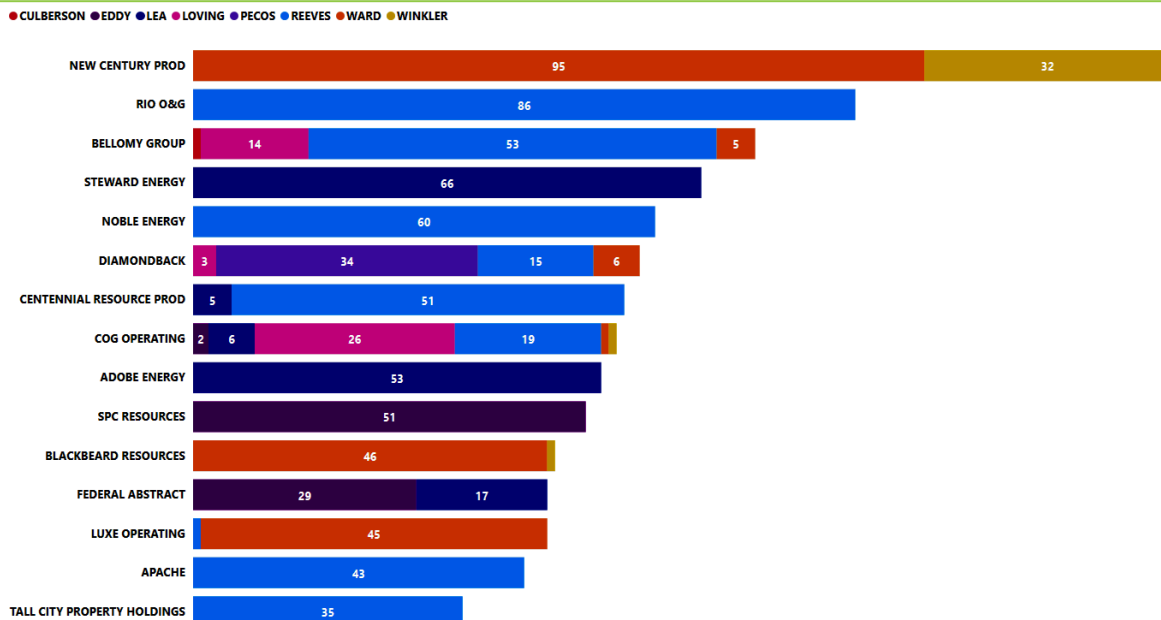


# WHO LEASED THE MOST



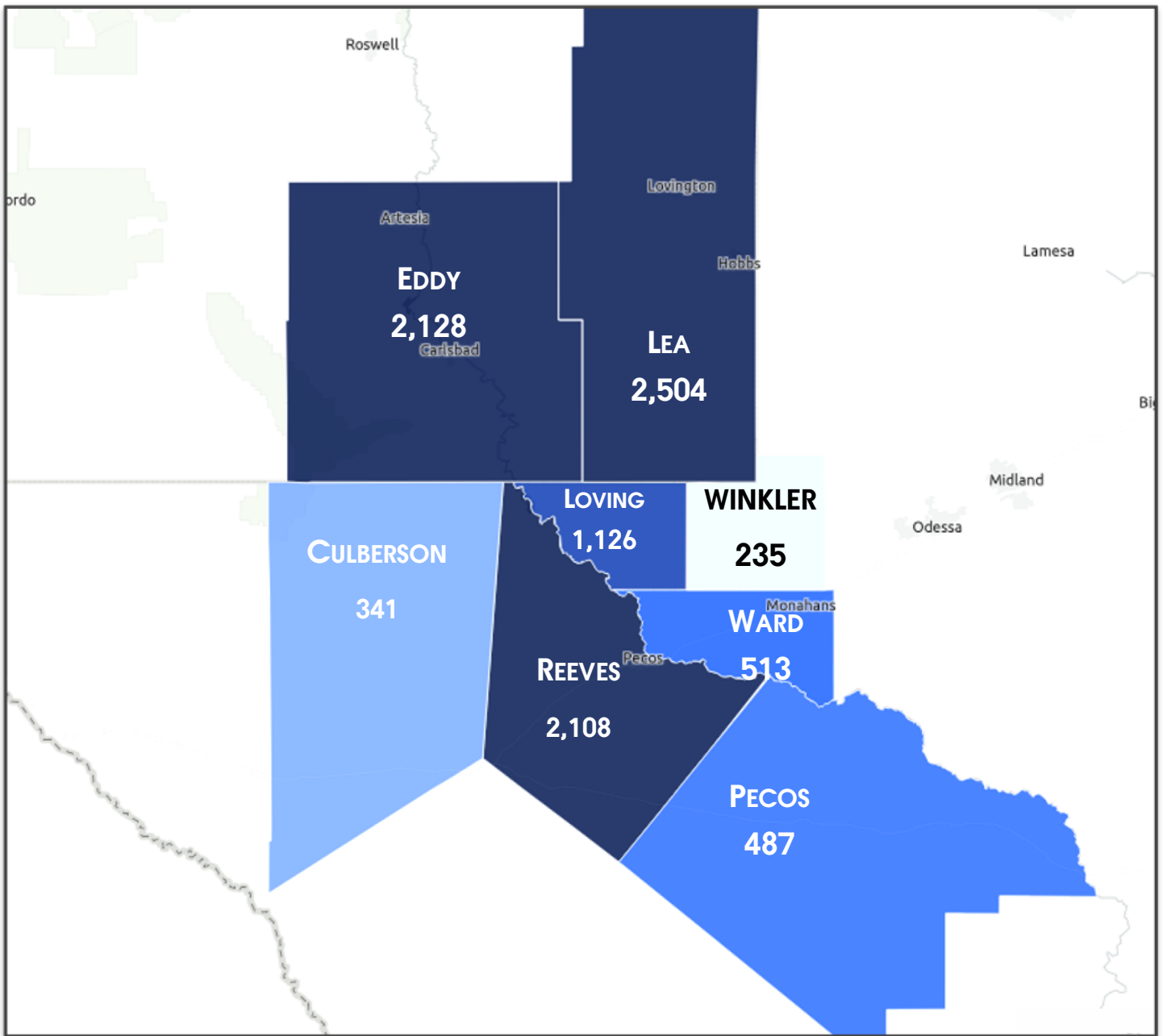
We identified the most active lessees, (calculated by number of leases, not acreage), in the past six months, and also where these companies leased. Leasing activity is one of the most fluid measures we analyze, with new companies and areas constantly appearing. New Century Production, a subsidiary of Dudley Land Company, emerged as the top company with 127 new leases. The majority of their leases were in Ward County (95) with the remainder in Winkler (32). So far, there is not an assignment of record to determine who is behind this surge in activity but our best guess based on claims of 20K acres in a “new oil play” derived from organic leasing is Marathon Oil Company. Rio Oil & Gas was second with 86 new leases all in Reeves County, up from fifth in our last edition. Next, comes Bellomy Group (73), Steward Energy (66) and Noble Energy (60). Once again, we see focused efforts with seven of these top 15 companies active in only one county. Reeves County was the target of choice for four of those companies. Noticeably absent from this list was Uplift Energy, who was the most active leasing company in our previous Delaware Basin Edition. It appears they have slowed their efforts, with only 16 new leases over the past six months.

# WHERE THEY LEASED



# PERMIT ACTIVITY

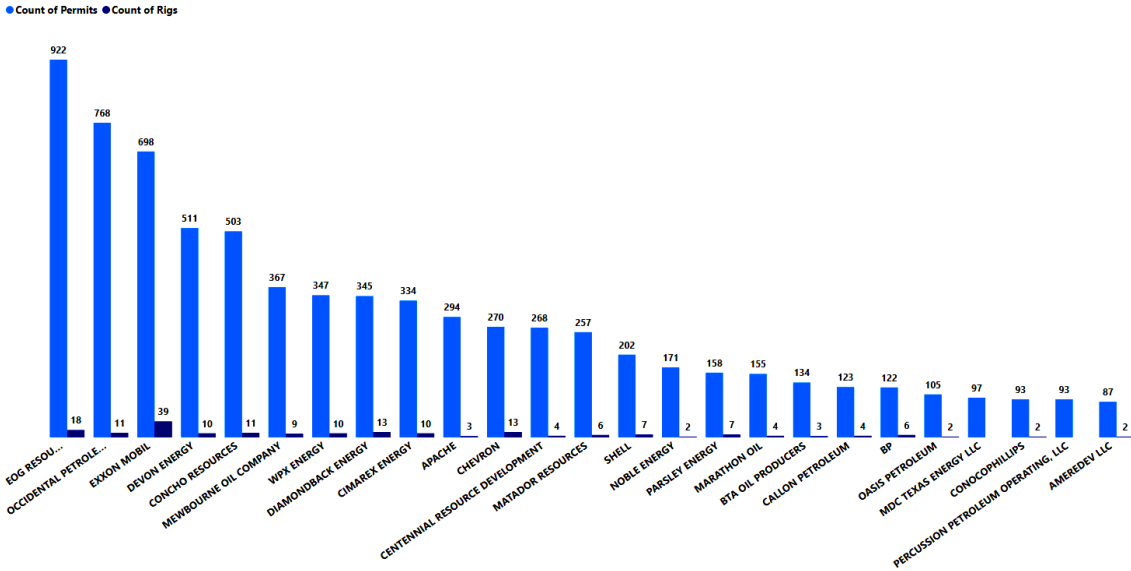
## WHERE ARE THE PERMITS?



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Following leasing activity, permits have also increased in the basin. Lea County remains the permit giant with 2,504 active permits. Eddy County rose to second with 2,128 followed closely by Reeves with 2,108. Notwithstanding an extension related to COVID-19, 41% of these active permits will expire this year. We predict a record number of permit expirations and lower conversions because of the newly emerging revised CAPEX and drilling plans for 2020. Turn to our Special Section on Page 13 for an update on those revisions to 2020 spending.

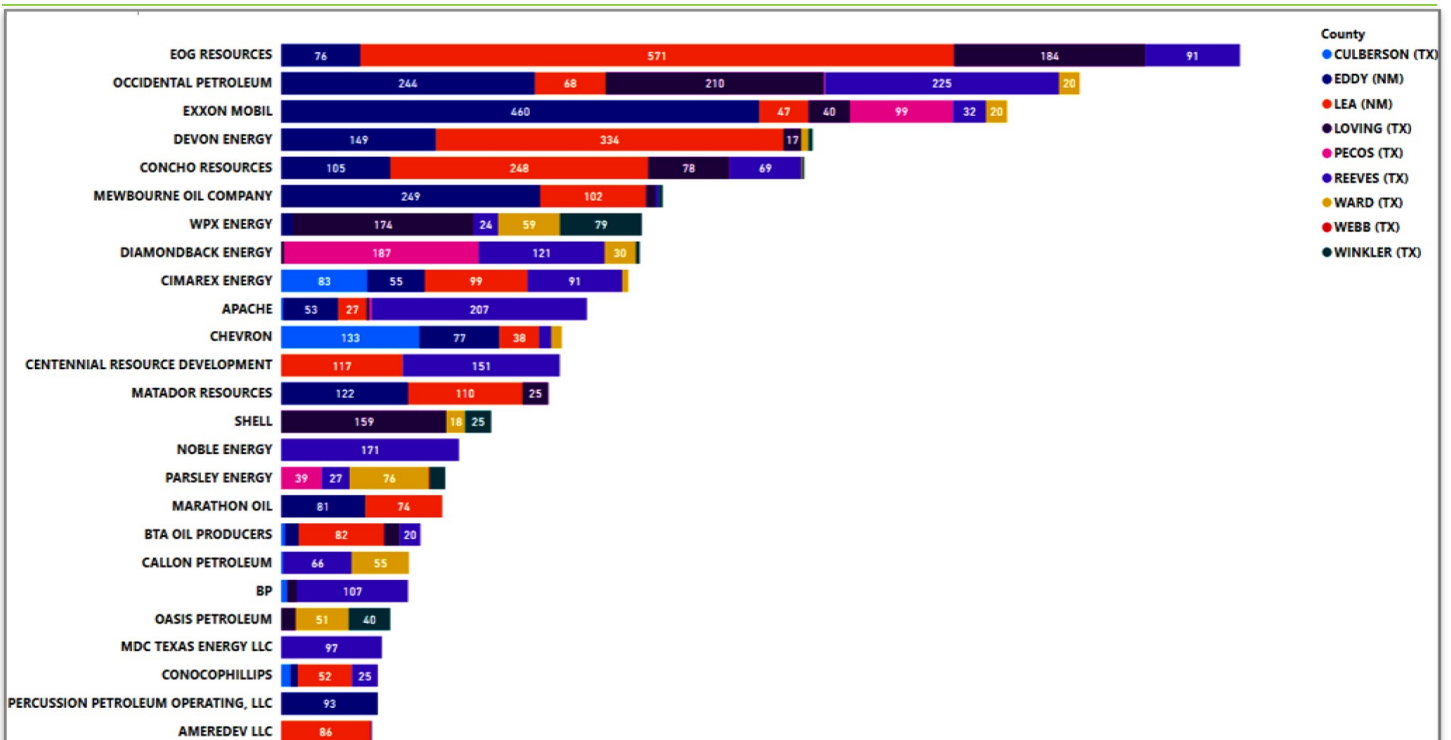
# WHO HAS THE MOST PERMITS



The chart on the left displays the top 25 operators with the most active permits and the rigs they currently have in the basin. The operator with the most Delaware Basin permits is, once again, EOG Resources with 922 permits, running 18 rigs. Next in line is Oxy with 768 permits, followed by Exxon Mobil with 698, up from 532. Exxon Mobil has the most rigs in the basin with 39, up from 27. Devon Energy comes next with 511, followed closely by Concho with 503. The graph below shows the counties where the most active operators have permits. When we compare leasing activity to permits, the companies that are acquiring new leases are doing so within their existing footprint. Overall, companies are focused on maintenance and development of their existing assets. Apache is one of the most active leasing companies and also one of the companies with the most permits. However, the company has announced that they plan to bring their Permian rig count to zero over the coming weeks with reductions to capital spending and dividends. Read more about Apache's plans [here](#).

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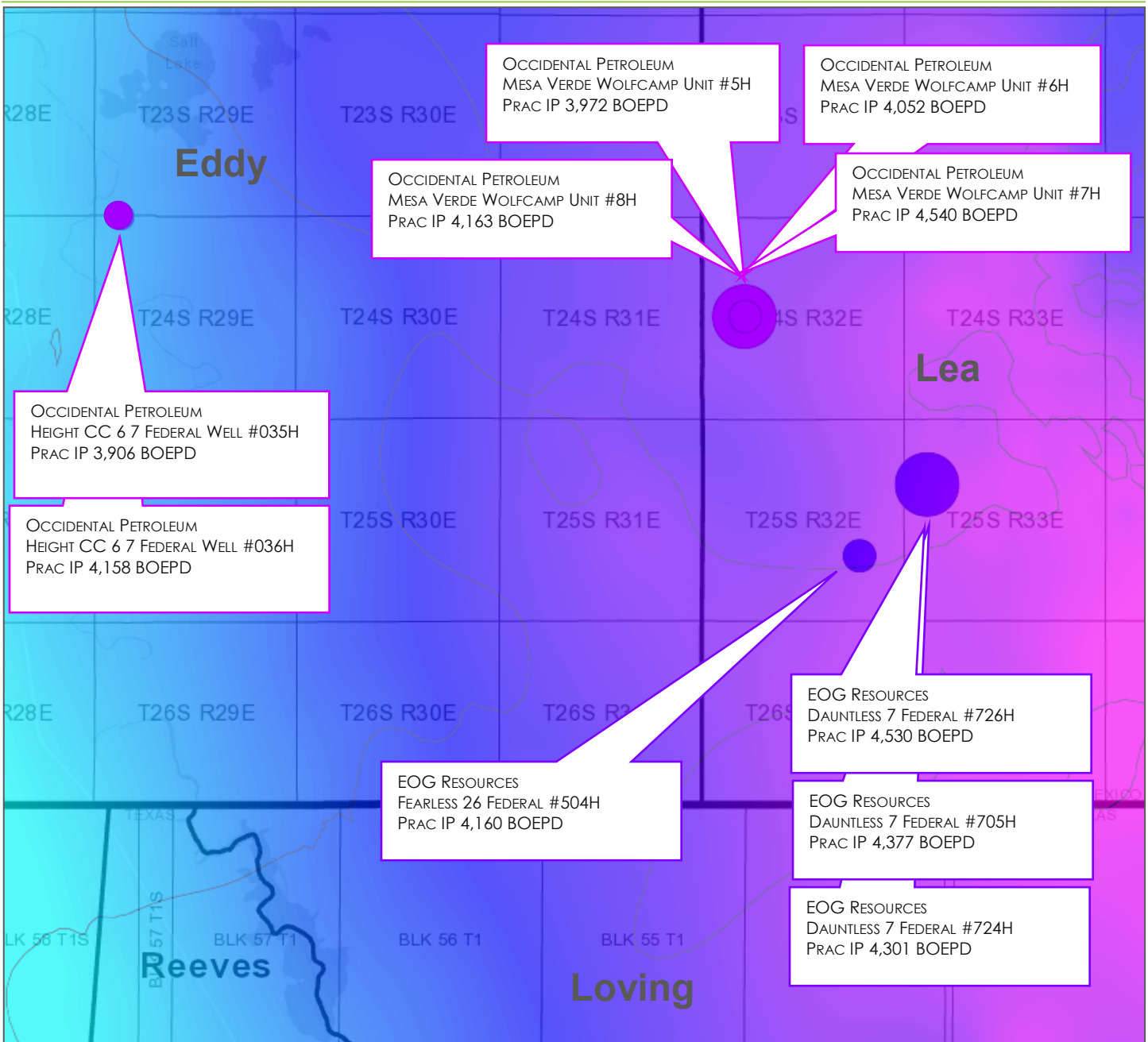
# WHERE THEY ARE PERMITTING





# COMPLETIONS

## TOP 10 BIGGEST WELLS

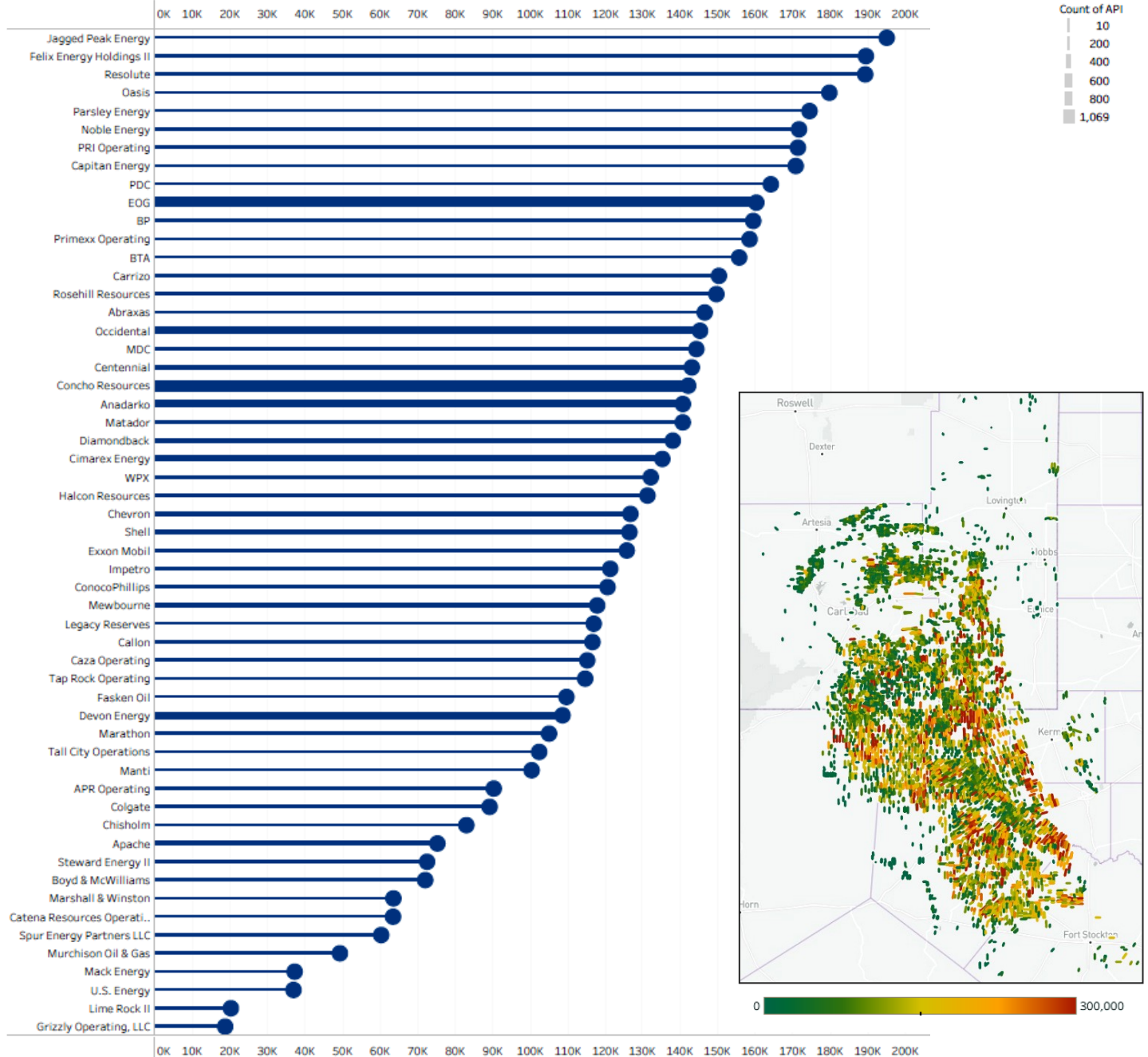


Source: Enverus

Congratulations to **EOG Resources** and **Occidental Petroleum** for their recent completions in the Delaware Basin! We continue to see the biggest well results coming out of New Mexico, this time with eight in Lea County and two in Eddy. Occidental Petroleum had the biggest well, their Mesa Verde Wolfcamp Unit #7H with second month production of 4,540 BOEPD.

# PRODUCTION

## PRODUCTIVITY RANKING



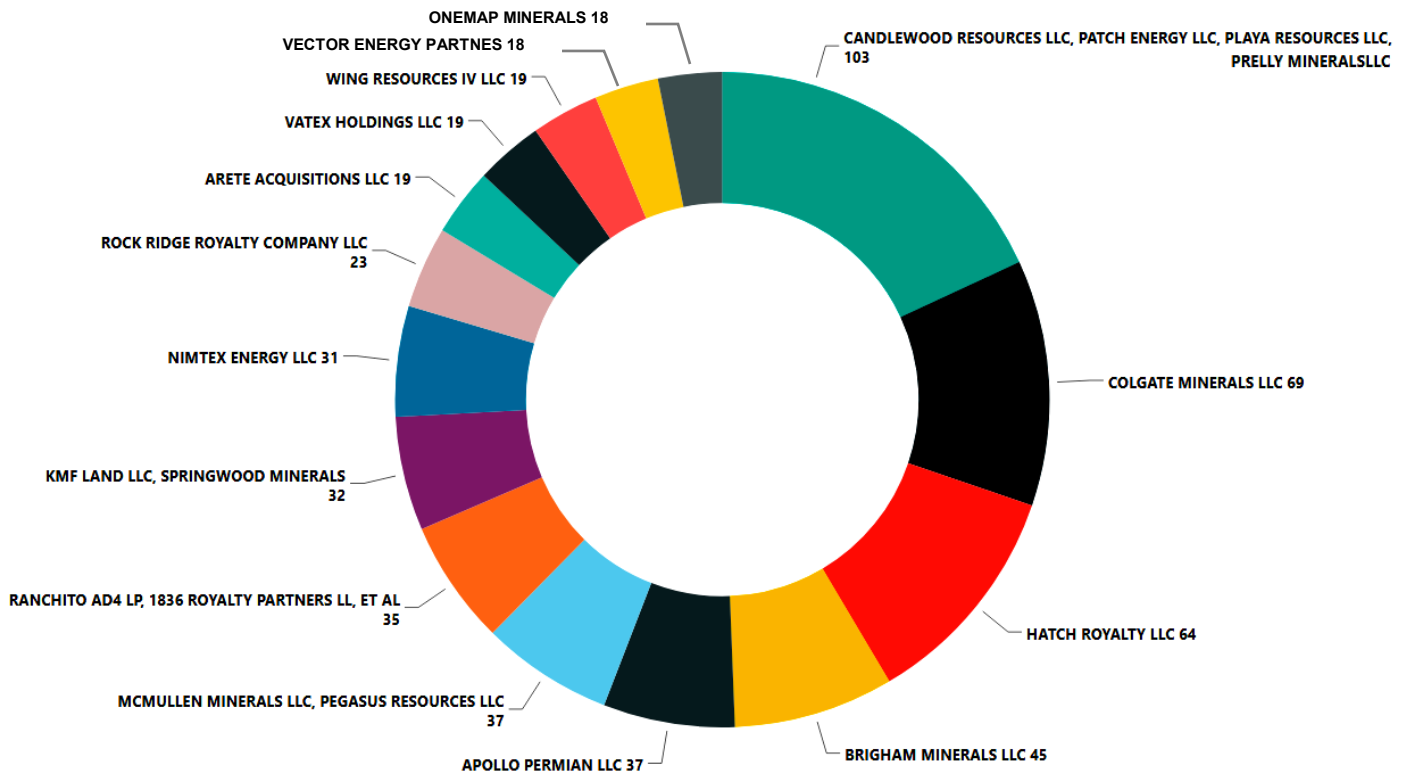
In this edition of the Pulse, we investigated which operators are the best, based on a productivity ranking in the basin. The chart shows the amount of oil recovered, on average, by operator during the first 18 months of production. The map shows the locations of the wells included in this assessment, colored by average recovery during the initial 18 months of production. On the ShaleProfile dashboard, all of this data is interactive giving the ability to drill down further. Important to note is that the thickness of the bars in the chart is indicative of the number of wells an operator has in the basin. We found it especially interesting that two of the companies that were bought as part of merger transactions were ranked first. Maybe that's the key to putting yourself in line as a buy out target; great wells. Makes sense to us.

Data Source: ShaleProfile Analytics





## TOP 15 MINERAL BUYERS

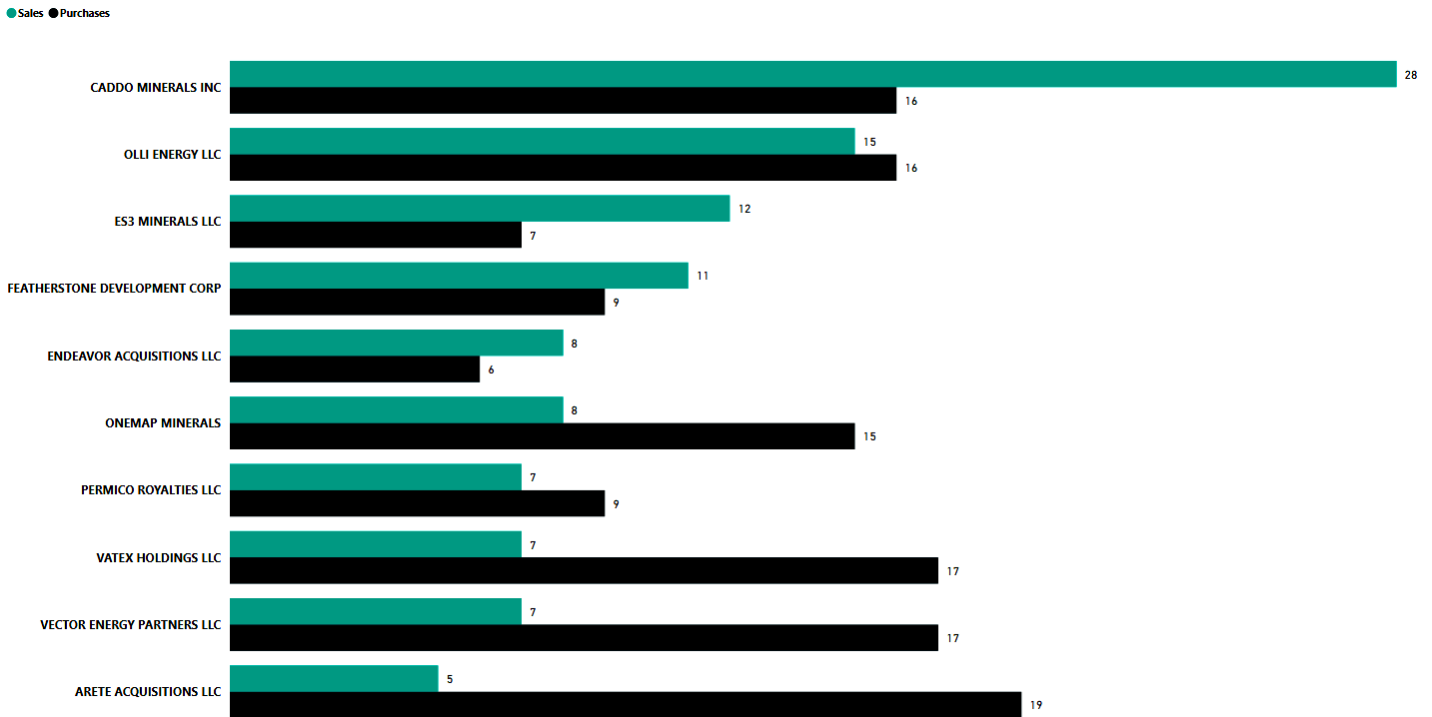


The above ring shows the biggest mineral buyers, determined by the count of deeds filed in the past six months. We see a lot of familiar names within this list, most of these companies are regulars in this section of the Pulse. Noticeably absent from the list was Platform Energy, the number one buyer in our previous two Delaware Basin Pulse editions. Platform appears to have slowed their acquisition pace with only 15 purchases in the past six months.

The biggest mineral buyer was Candlewood Resources, LLC and their associated partnerships with 103 mineral transactions. Candlewood purchased minerals in six counties on the Texas side of the Delaware Basin, but more than half of their acquisitions over the past six months were in Winkler County. Mineral transactions were also higher than our last analysis over the past six months overall. Candlewood's activity was up 180% compared to our last look at the Delaware Basin. The second biggest buyer was Colgate Minerals with 69 transactions, the vast majority in Reeves County. Hatch Royalty with 64 transactions comes in third, followed by Brigham Minerals (45) and Apollo Permian (37).

We recognize the opportunity for this data to be examined in much more detail using acreage amounts, net royalty calculations, property descriptions and the ratio of purchases to sales. Contact us if you are interested in digging deeper, we enjoy discussing new ways to use data to uncover interesting trends.

## TOP 10 COMPANIES THAT BROKERED MINERALS



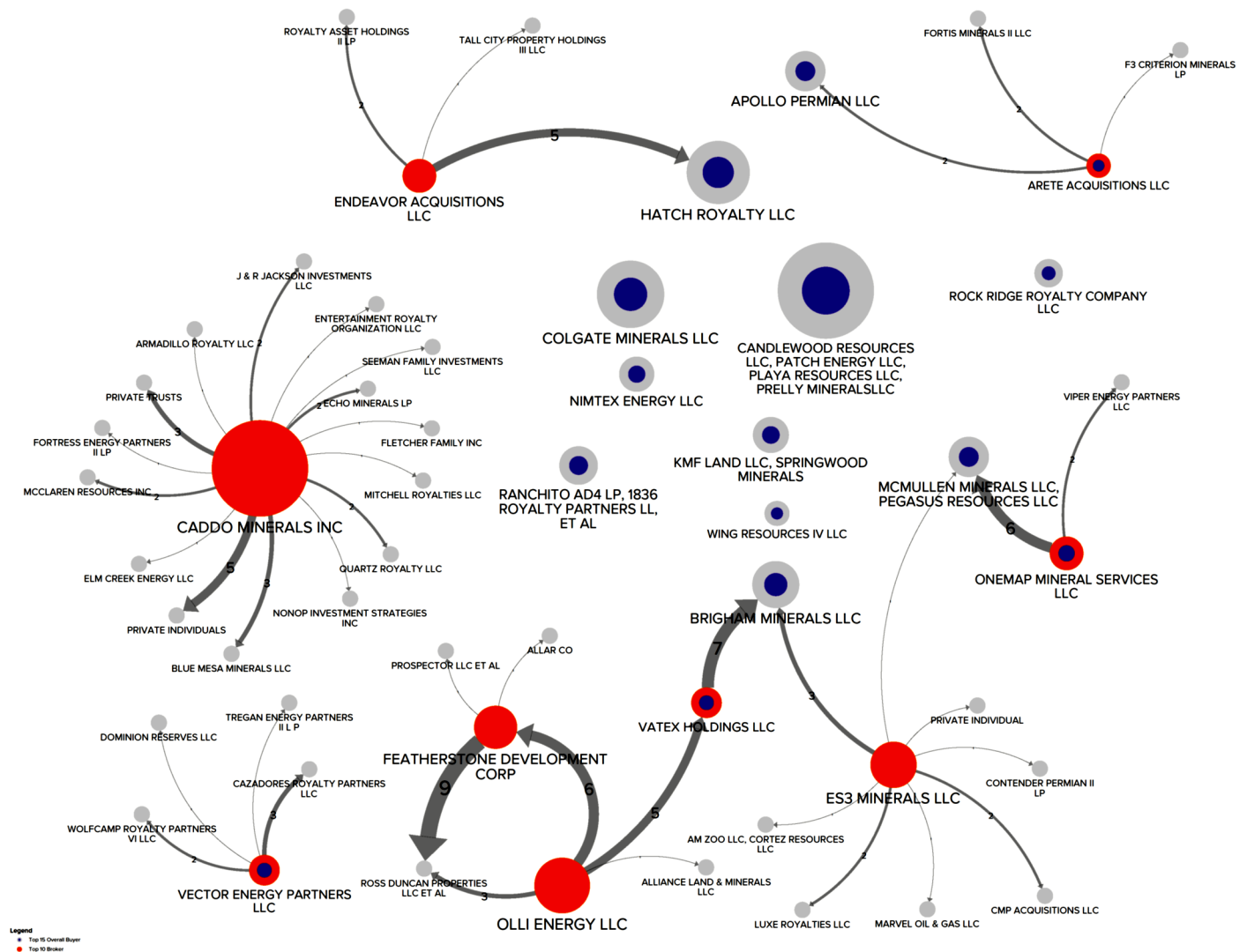
We assessed which mineral buyers also sold minerals. We excluded internal transfers, when possible, to give the most accurate count of mineral sales. This analysis allowed us to narrow down our focus to what we define as mineral brokers; included are both companies that buy minerals with the intent to sell and those that prune their position from time to time. The top companies that brokered minerals are shown in the graph above, ranked by the number of mineral sales. As we saw in our Midland Basin Pulse last month, there were less brokers in our Top Mineral Buyer list than usual indicating a trend that aggregators are taking over as the biggest buyers. We see the same trend continuing here in the Delaware Basin as well. In fact, there are only four companies that were included in both the biggest buyers and biggest brokers lists; OneMap Minerals, VateX Holdings, Vector Energy Partners and Arete Acquisitions.

This is certainly another area that invites further analysis. It might be beneficial for example, to know which brokers own mineral interests for the shortest length of time. If that's you, give us a call, that actionable data is our favorite kind.

Who are these companies selling mineral interests to? We mapped out the transactions from the top brokers on the following page, to better understand the relationships and deal flow going on in the basin.

# MINERAL TRANSACTION FLOW

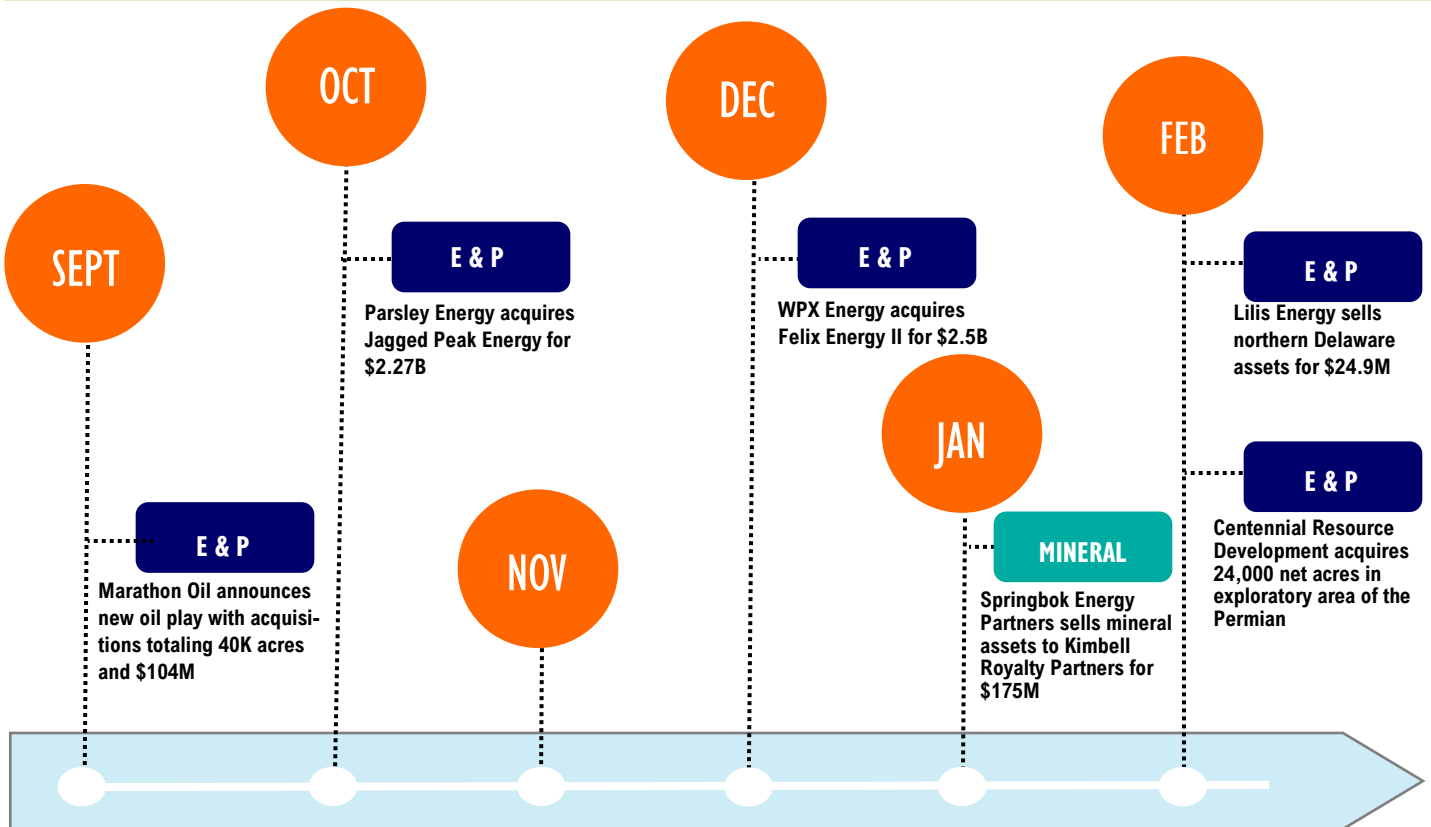
The network shows the transaction flow from the top companies that brokered minerals as a way to track the frequency of mineral sales and identify relationships. The network shows mineral sales for the top brokers in the basin during the past six months. The companies within an orange circle are the top brokers and the size of the circle is representative of the number of times a company sold mineral interests. We included the top 15 mineral buyers on our map, designated with a purple inner circle, to show deal flow to the top buyers from brokers. The thickness of the arrow as well as the number on the arrow is the number of times one company sold to another, indicating a strong relationship between the two entities. The majority of the biggest mineral buyers didn't purchase any interests from an identified broker. One example is Candlewood Resources, the biggest overall buyer, doesn't have any transaction flow from brokers, evidence of a solid ground game. The four companies with both blue and red circles designate the companies that are both top buyers and top brokers. If you would like to see this network in more detail [Click Here](#).





# A&D LOOK

## NOTABLE TRANSACTIONS



The timeline above shows the most notable transactions since September in the Delaware Basin. The two biggest transactions were corporate mergers, a favorite trend going on. The first one, announced in October was the sale of Delaware pure player Jagged Peak Energy to Parsley Energy. The sale included 78K net acres in the basin, strengthening Parsley's position in the Delaware. Then, in December, it was announced the WPX Energy was going to acquire Felix Energy II. The deal closed earlier this month ahead of schedule and covers over 58K net acres in the Delaware Basin. Last month, it was announced that Lilis Energy, who had received an offer from shareholder Varde Partners to take the company private, instead sold their northern Delaware assets for \$24.9M. The same month, Centennial Resource Development announced that they had acquired 24,000 net acres in an exploratory area of the Permian. It is rumored that these deals are actually one and the same.

What's next? Here are some **available deals**:

- Lincoln Energy Partners** has retained Eagle River Holdings to sell their multi-basin mineral assets covering 24,650 NRA, with 698 NRA in the Delaware Basin. [Read more](#)

- Contender Energy Partners** has retained BOK Financial to explore the sale of their Permian Basin mineral and royalty assets covering 889 NRA. [Read more](#)

- Miramar Minerals LP** has retained RedOaks to sell their mineral and royalty assets in Ward County covering 232 net royalty acres. [Read More](#)

## SPECIAL REPORT:

MARKET CONDITIONS AND THEIR AFFECT ON THE TOP 10 PRODUCERS

# THE PERFECT STORM

SAUDI/RUSSIA  
PRICE WAR

OIL PRICE  
PLUMMETS

COVID-19

ECONOMIES  
SHUTDOWN

Things are grim, we get it. Not only were we as an industry already contending with low commodity prices because the OPEC+ deal fell through, Saudi Arabia and Russia are in a price war that they can each survive for years to come. Oil storage in the United States is at capacity. The new corona virus has destroyed demand and has the economy at a standstill. While no one knows when this storm will be over, we do know that this industry has faced countless challenges before and we will get through this one too. The long term effects of the storm are unknown, but here are updates on 2020 capital spending for the companies that produce the most oil in the Delaware Basin:

COMPANY	OIL PRODUCED PAST 12 MO.	2020 CAPITAL REVISIONS
OCCIDENTAL PETROLEUM	124.98 MBbbls	Cut 2020 CAPEX to \$2.7-2.9 Billion from it's original 2020 guidance of \$5.2-\$5.4B, a midpoint reduction of 47%
EOG RESOURCES	89.77 MBbbls	Cut 2020 CAPEX by 31% to \$4.3B - \$4.7B with flat production forecast from 2019
CONCHO RESOURCES	58.97 MBbbls	Cut 2020 CAPEX by 25% to ~\$2B
CIMAREX ENERGY	40.26 MBbbls	Expects a 40-50% reduction in its 2020 CAPEX from its original guidance of \$1.25-\$1.35 billion.
WPX ENERGY	37.13 MBbbls	Cut 2020 CAPEX by 25% to \$1.275B - \$1.4B, maintain production at 150BOPD
DIAMONDBACK ENERGY	33.81 MBbbls	Cut 2020 CAPEX by 40% to \$2.8B - \$3B, expects to run 3-5 completion crews
DEVON ENERGY	32.95 MBbbls	Cuts 2020 CAPEX by 30% to \$1.3B
EXXON MOBIL	29.79 MBbbls	No announcement yet, but looking to reduce spending
MEWBOURNE OIL COMPANY	29.24 MBbbls	Privately held, no updates as to spending
CHEVRON	26.92 MBbbls	Cut 2020 spending by 20% and suspended buyback program



Probus Energy Services was founded with a vision to offer world-class land services while championing relationships. We value uncompromising accuracy and apply a rigorous standard to every project. What sets us apart is that we pride ourselves on relationships, and we view them distinctly different than anyone else. It is vital that we provide outstanding service to our clients, and we see information as a collection of relationships. This view delivers unique insight on the industry and unlocks a deeper level of understanding. In turn, this allows for innovative and ultimately more effective solutions. Bottom line, we love data and we love helping our clients be successful!

We created the Pulse to be the perfect union and natural product of our love for data and staying informed about what's happening in the major oil and gas basins in the United States. The Pulse is a monthly report, focused on a different basin in each edition. If there is somewhere you want to know more about, just let us know.

Probus is a comprehensive land service company, and we want to assist you in using your information more efficiently. Let us help you with your next project, deliver solutions and reach your goals. Our team is skilled at all things land; prospect identification, leasing, title, due diligence and curative...we do it all.

Our cover photo is the work of the talented photographer Robert Flaherty. More of his work is available on his website [www.energylandscapes.net](http://www.energylandscapes.net)

We love hearing from you, drop us a line and let us know what you think. Can't wait for the next edition of the Pulse? Our email subscribers get the first look, sign up on our website.

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