



PULSE

ISSUE XIII

DELAWARE BASIN EDITION
SEPTEMBER 29, 2020



OIL & GAS
COUNCIL



INTRODUCTION

Welcome to the latest Pulse! Our 13th Issue revisits the steadfast Delaware Basin with an in-depth look at activity over the past six months, an incomparable time in our industry. We start this examination with leases, permits and production, including a look at production forecasts. Then, we welcome back our A&D section with prospective deals and transactions. We wrap up this issue with a dedicated section on the minerals and royalties space including a breakdown of who is buying and selling. We hope you enjoy!

Delaware Basin



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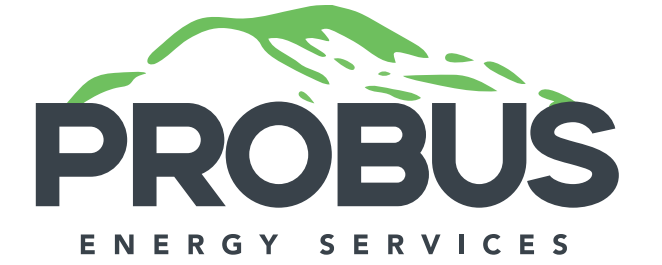
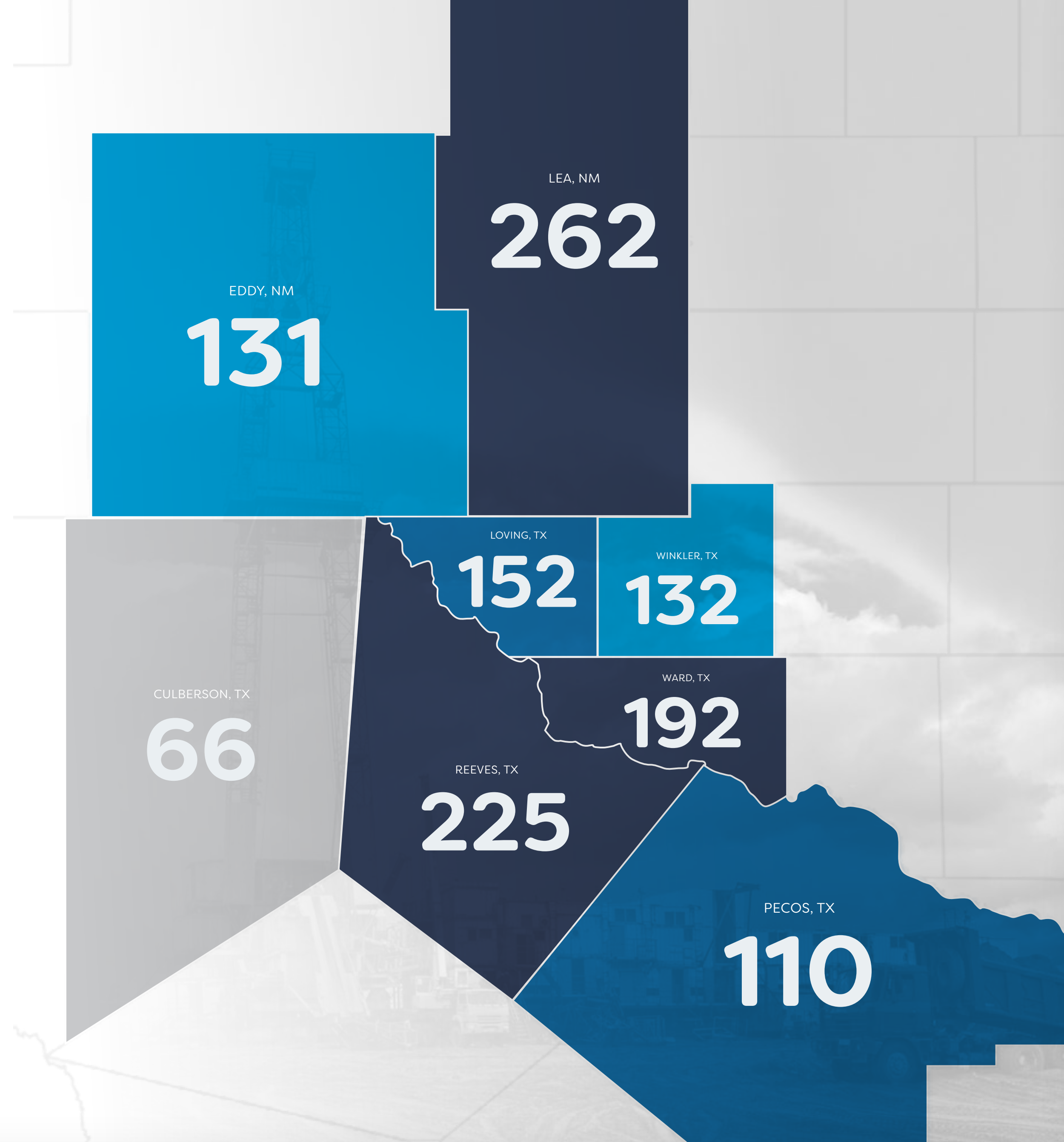
17 A&D Look



LEASE ACTIVITY

Where Is The Leasing?

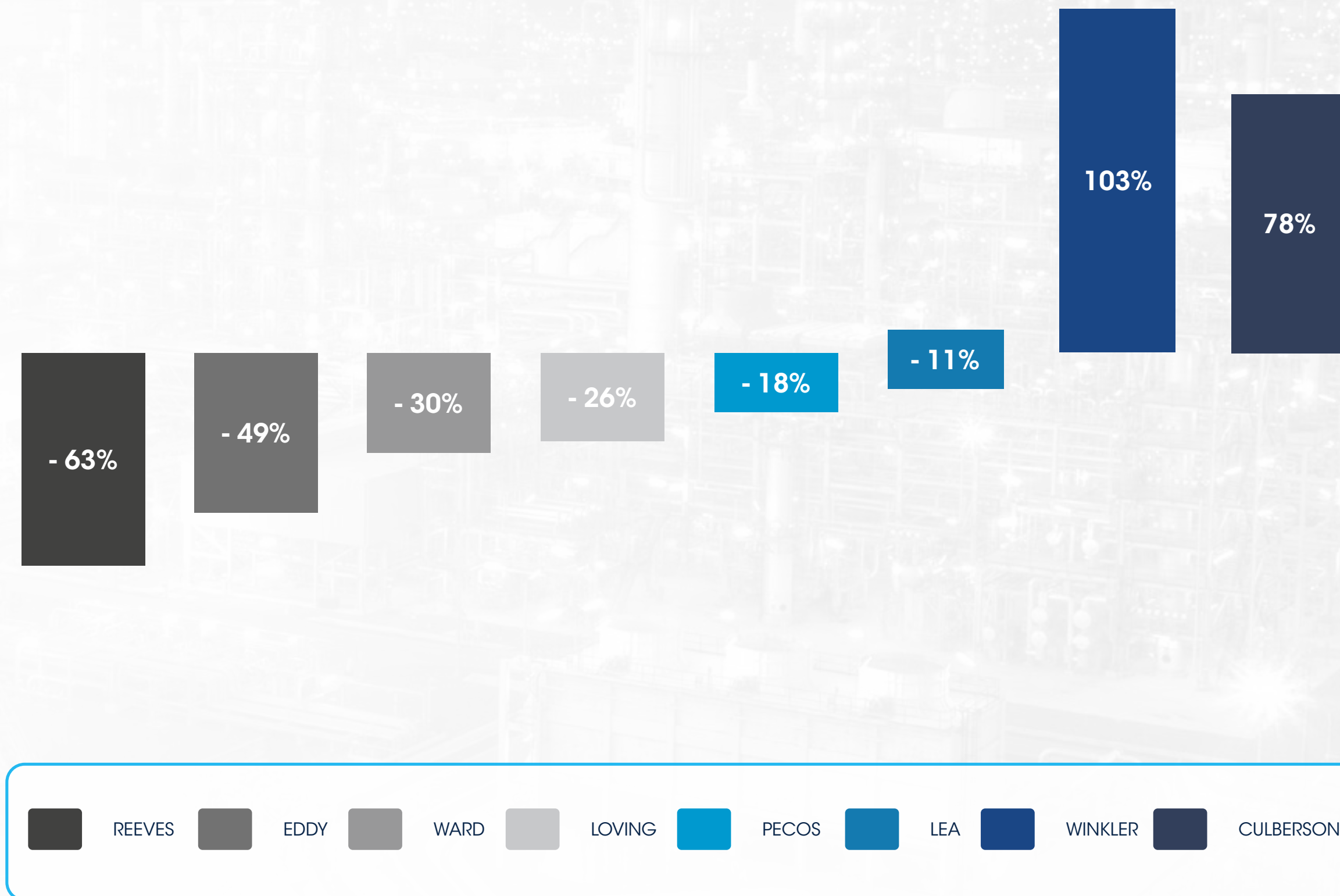
New leases filed since March demonstrate the resiliency of the Delaware Basin. Lea County had the most new leases during the past six months with 262. Next, with 225 new leases, was Reeves County, which had much lower activity (down 63%) compared to the preceding six months. Ward County follows with 192 leases, then Loving County with 152 and Winkler County (132). Culberson County follows with 66 leases.



In a show of optimism, there were increases in leasing activity in two of the counties in the Delaware Basin. Take a peek at the percentage change (last six months vs. preceding six months) since our last analysis.

These counties with increases in lease activity are all perceived to be outside of the core of the Delaware Basin. The modest declines (under 30%) seen by four counties are reasonable and expected during this time frame. The surprises lie in the tails. Reeves and Eddy saw steep activity declines while Winkler and Culberson saw giant surges in activity.











One possibility of these findings is that companies are secure and possess the financial security to invest in the undeveloped value of the resources of the Delaware Basin. These county totals show that capital outlay for leases is being deployed in a cost-conscious manner. Companies are taking advantage of opportunities in the current market, while rejecting inflated acquisitions.

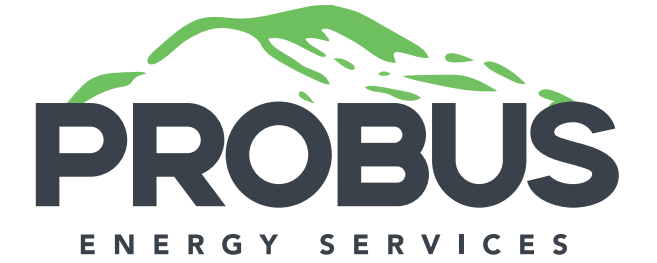


Top 20 Lessees

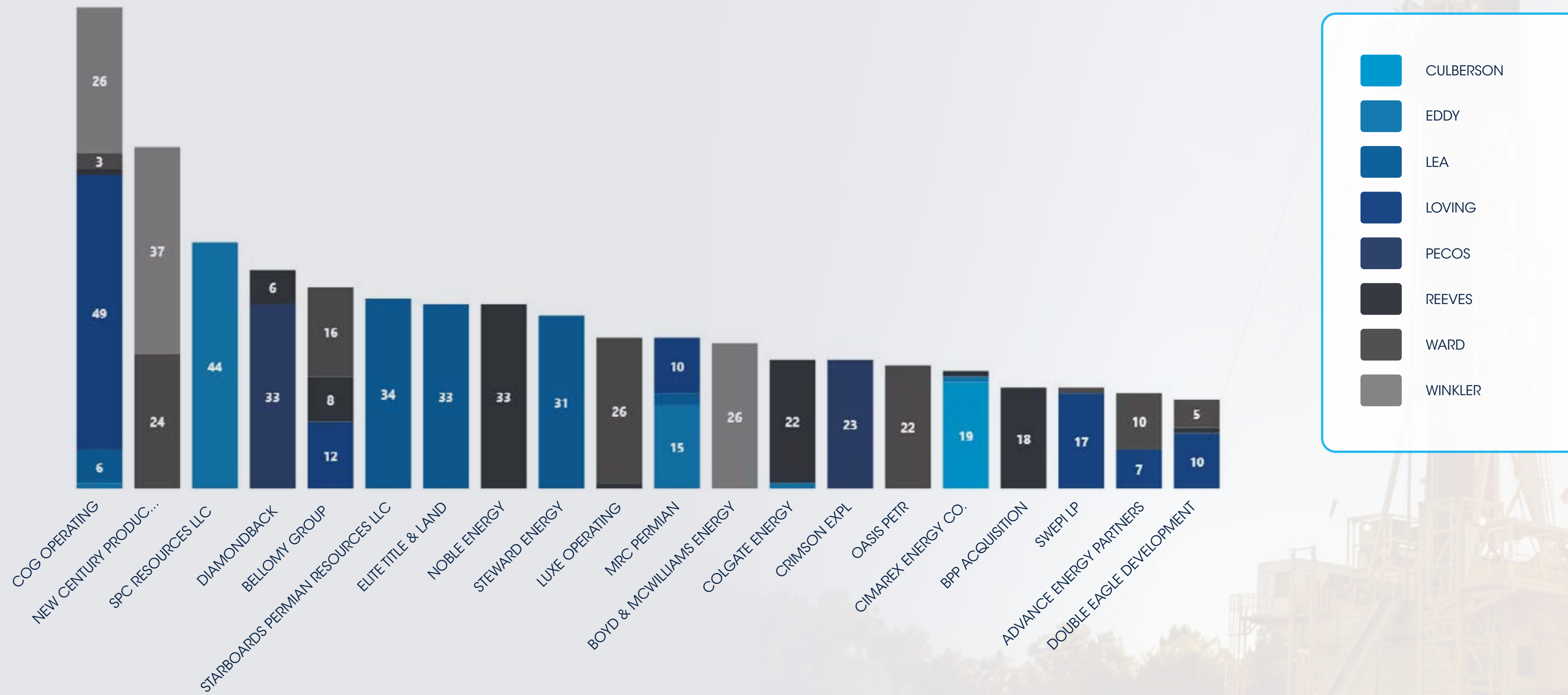
The top 20 lessees are identified, calculated by the number of leases, not acreage, over the past six months. We also examine where these companies were active in the bar charts. Analysis of activity levels and players within the leasing segment is constantly changing. Part of our examination includes identifying the companies that are newly acquiring and those that are slowing their efforts. In our last Delaware Pulse, we saw New Century Production, a subsidiary of Dudley Land Company surface as the company with the most new leases. New Century is still active in Ward and Winkler Counties, but has dropped to the number two spot with 61 leases, unseated by Concho Resources with 86. Concho leased in six counties, with the majority of their efforts in Loving County. In fact, Concho accounts for 32% of the total leasing activity in Loving during the past six months. Third, comes SPC Resources with 44 leases, once again exclusively in Eddy County. Diamondback shows up fourth with 39 leases, followed by the Bellomy Group with 36.



| | | | | | |
|---|-----------|------------------------------------|---|-----------|--------------------------|
|  | 86 | COG OPERATING |  | 27 | MRC PERMIAN |
|  | 61 | NEW CENTURY PRODUCTION COMPANY LLC |  | 26 | BOYD & MCWILLIAMS ENERGY |
|  | 44 | SPC RESOURCES LLC |  | 23 | COLGATE ENERGY |
|  | 39 | DIAMONDBACK |  | 23 | CRIMSON EXPL |
|  | 36 | BELLOMY GROUP |  | 22 | OASIS PETR |
|  | 34 | STARBOARD PERMIAN RESOURCES LLC |  | 21 | CIMAREX ENERGY CO. |
|  | 33 | ELITE TITLE & LAND |  | 18 | BPP ACQUISITION |
|  | 33 | NOBLE ENERGY |  | 18 | SWEPI LP |
|  | 31 | STEWART ENERGY |  | 17 | ADVANCE ENERGY PARTNERS |
|  | 27 | LUXE OPERATING |  | 16 | DOUBLE EAGLE DEVELOPMENT |



Top 20 Leesees by County

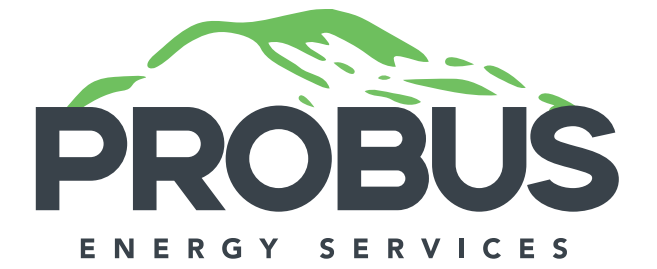
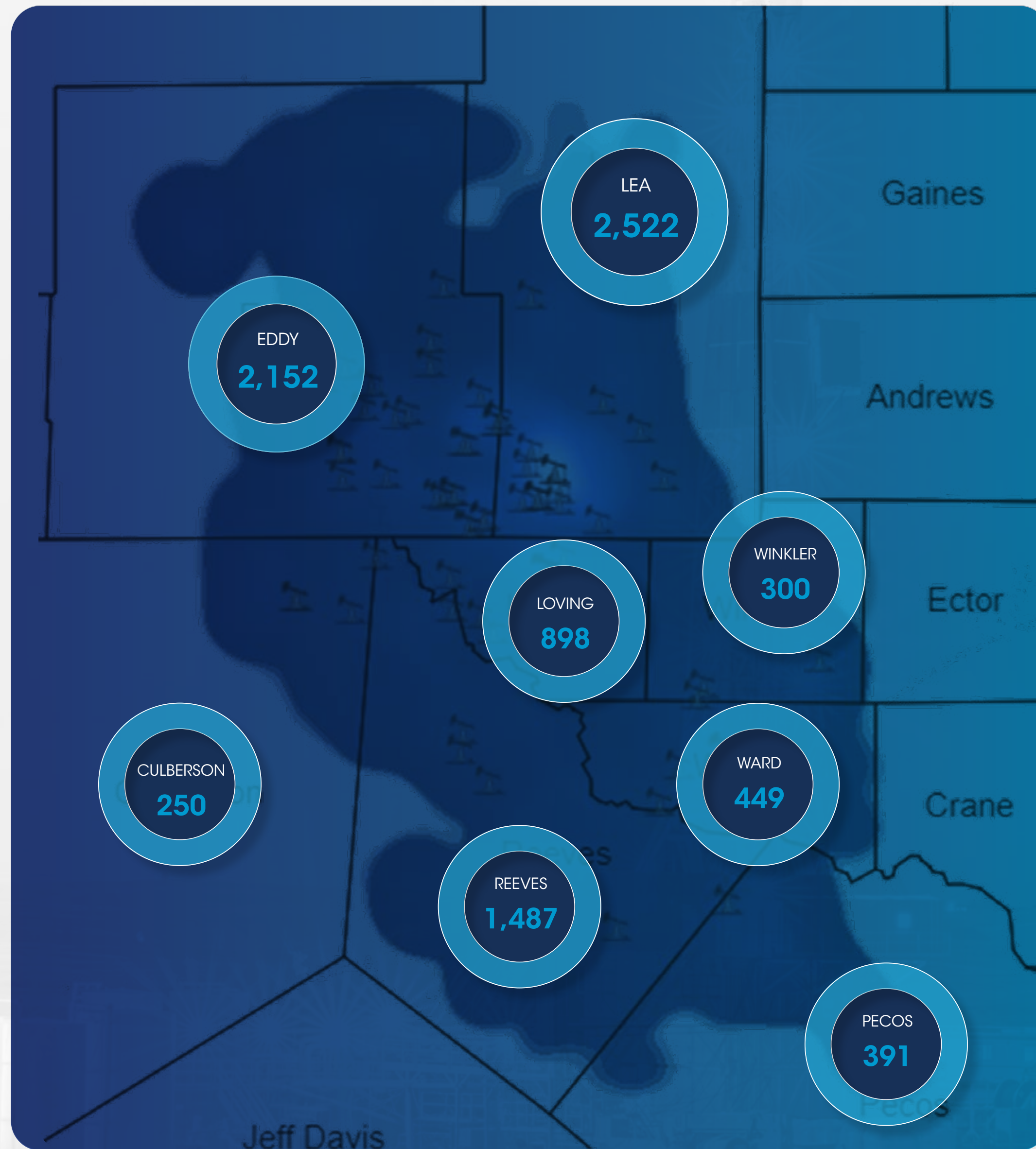




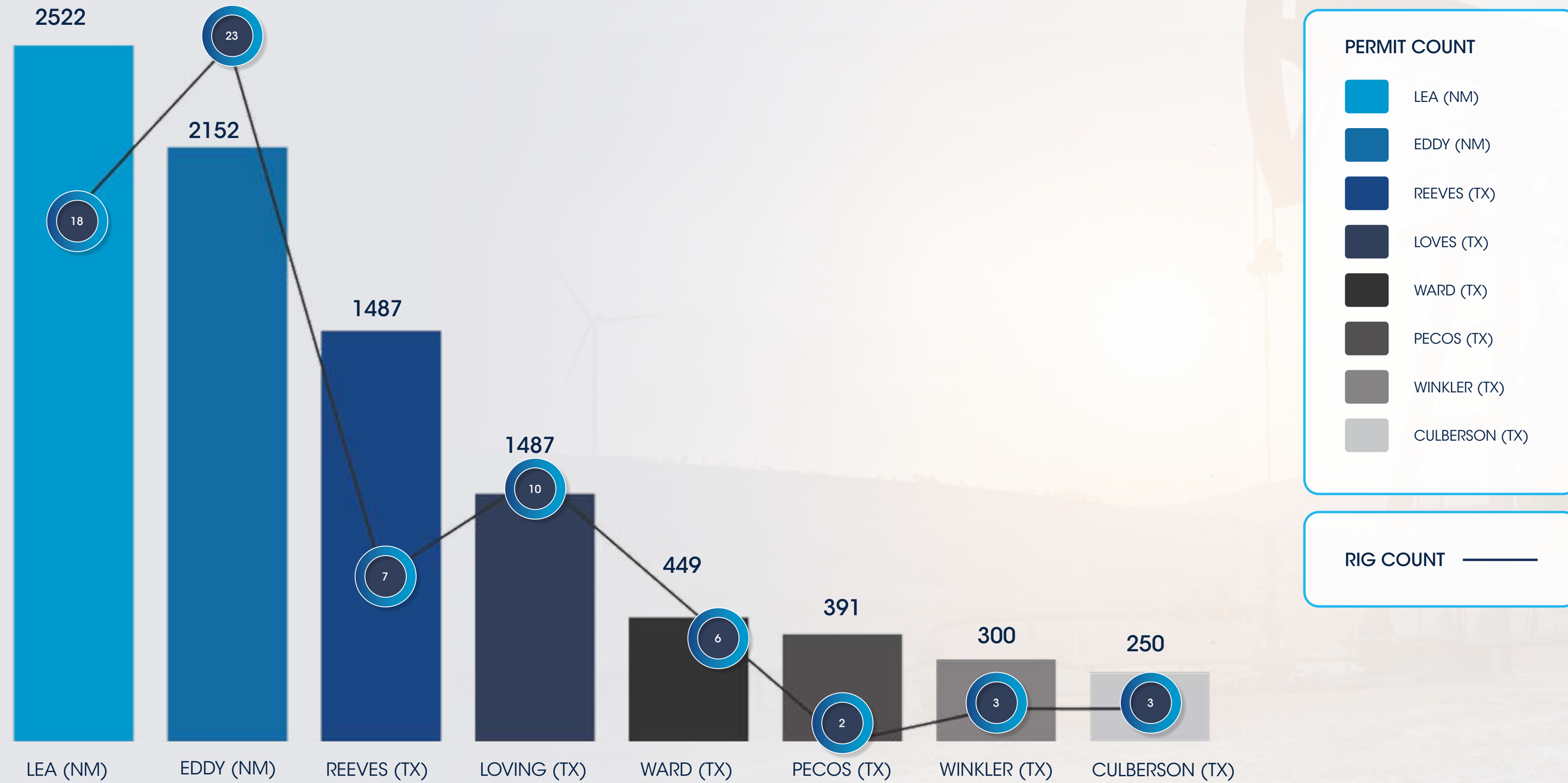
PERMIT ACTIVITY

Where Are The Permits?

New Mexico continues to dominate indicators of near-term development. With 4,674 active permits in Lea County and Eddy County alone, New Mexico has the majority (55%) of the Delaware Basin Permits. Lea County leads the way with 2,522 permits, followed by Eddy with 2,152. Next, comes Reeves County with 1,487. Like what we see in Lease and Mineral activity, Reeves County has seen a decline in activity over the past six months. Permits are down in Reeves County by 29%. In our previous Delaware Pulse, we predicted a record number of permit expirations and lower conversions. So far, our predictions are correct within Texas. However, New Mexico is proving to be shelter from the storm, with an increase in active permits. The same is true for rig counts. New Mexico has 56% of the rigs in the basin too, with 23 rigs in Eddy County and 18 in Lea. We can only hope that this show of strength continues.



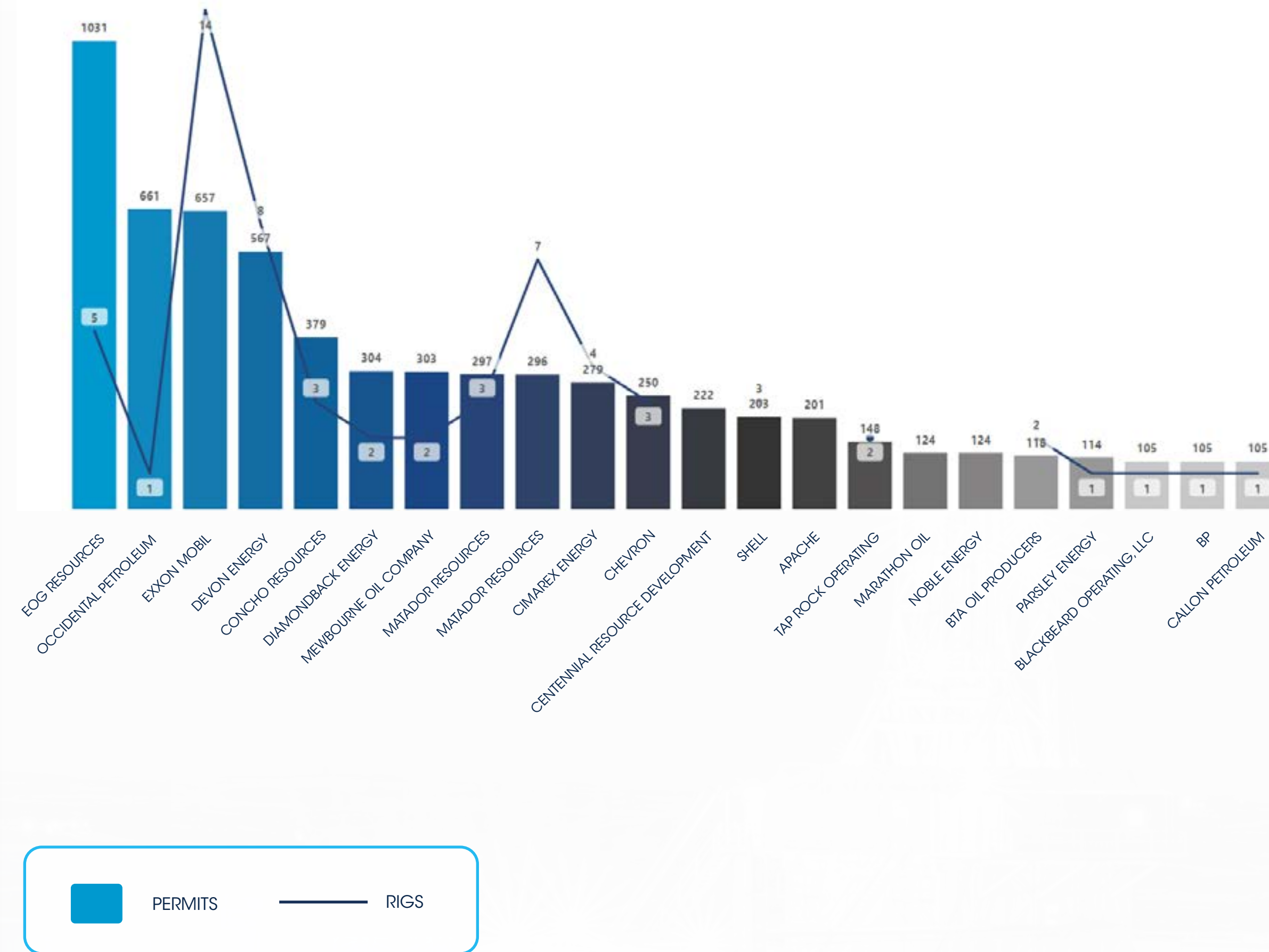
Rigs In Basin



Top 20 Companies

EOG Resources continues to lead the way with the most permits (1,031) in the Delaware Basin. Occidental Petroleum follows with 661 permits and only 1 rig. Exxon Mobil is close behind with 657 permits and the most rigs in the basin (14). Devon Energy comes next with 567 permits. Devon Energy and WPX Energy announced yesterday their merger agreement, creating an entity valued at \$6B, moving both companies up the list as Delaware Basin operators. While permit counts have remained relatively strong, rig counts have plummeted. In our last Delaware Basin Pulse, the top 20 companies with the most permits had 190 rigs active in the basin. Currently, there are 73 total rigs in the basin, 60 operated by these top 20 companies.

The counties where these operators hold permits are shown on the bar chart, giving a glimpse into their future development plans and priorities. No surprises here, operators are planning to drill wells in proven areas with the lowest risk.



COMPLETIONS

Big congratulations to these operators on these impressive wells! In our last two Delaware Basin Pulse issues, New Mexico had the majority of the biggest wells.

The tide has turned, and Texas is back on top with six of the top 10 biggest well completions over the past six months. Five of the top wells were in Loving County, another three in Eddy County, and one each in Lea and Reeves Counties.

The biggest well, based on the second month production, is **Cimarex Energy's** DaVinci 7 18 Federal # 29H well with a practical initial production rate of 3,840 BOEPD.





PRODUCTION

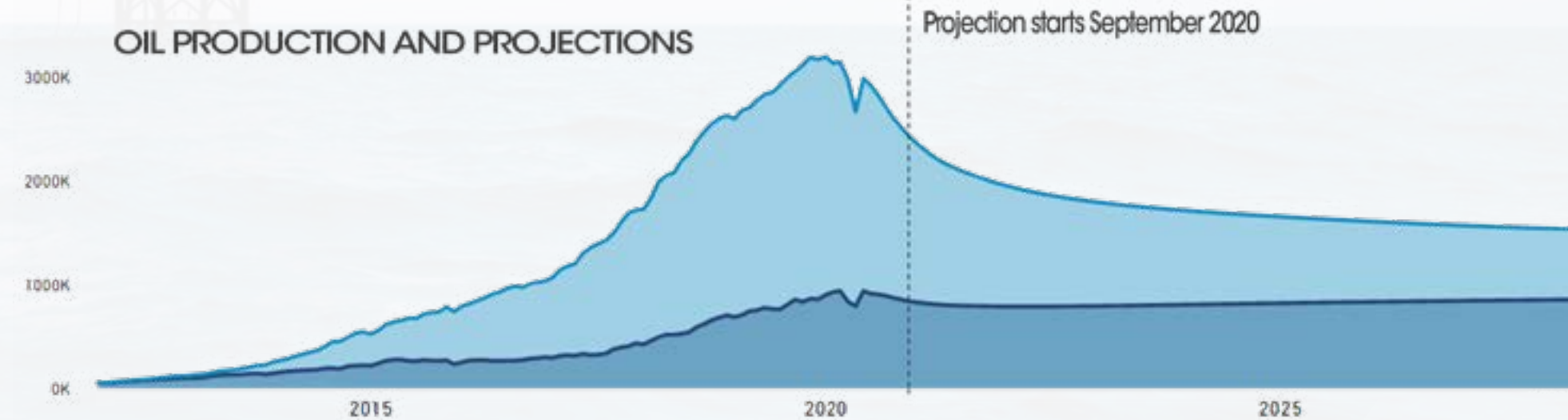
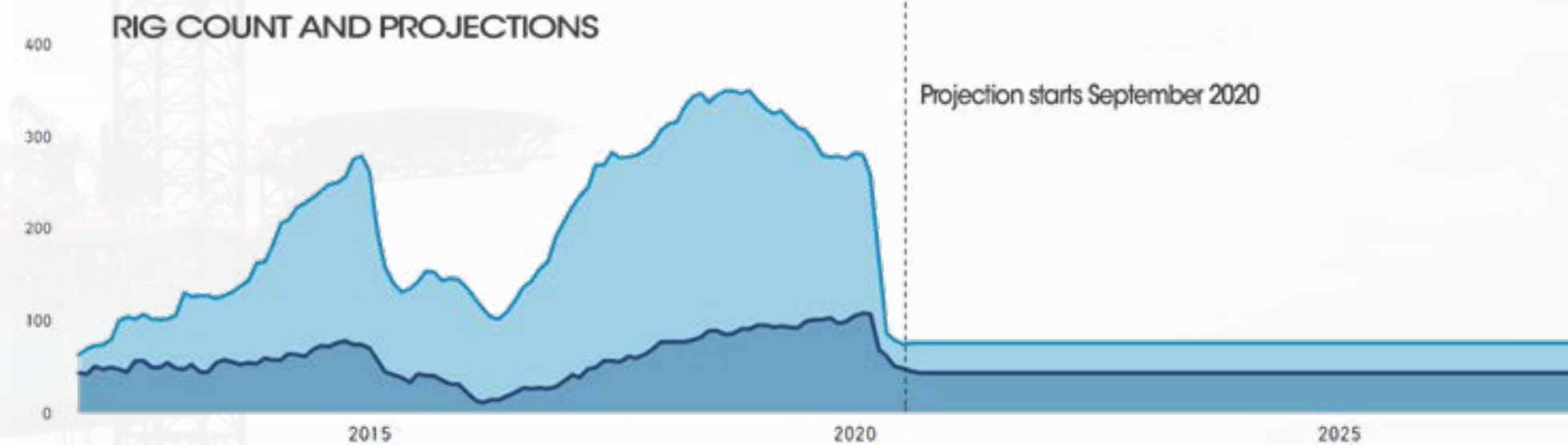
DELAWARE BASIN MONTHLY PRODUCTION

Everyone wants to know what the future holds. One thing is certain, nobody predicted the events that occurred this spring. An international price war coupled with an international pandemic forcing a world-wide quarantine sounds like the plot of the newest Armageddon movie. Models and projections are a great way to plan for future scenarios as things settle into a new normal. [ShaleProfile Analytics](#) has uncovered some fascinating insights using their projections.

The chart on the top shows the rig counts in the Delaware Basin since 2012 and projected through 2029. The massive drop in rigs during 2020 is unprecedented. What does that mean? The logical conclusion would be significantly less oil production (supply) and therefore a rebound in demand and commodity prices. But wait, not so fast.

The chart at the bottom shows oil production from the Delaware Basin over the same timeframe. The decline for oil production is moderate when compared to the rig count decline. The effects of this are that oil production will remain strong with only a moderate decline, near early 2019 levels. That amount of production is not likely to lead to a strong rebound in prices nor increased demand.

The forecasted production from New Mexico is more optimistic than Texas production forecasts within the Delaware Basin. In fact, in this model, oil production from Lea and Eddy Counties increases through 2029 while production from the Texas side of the Delaware declines. It will be interesting to see how the model fits rig counts and oil production as the future unfolds. Hopefully we won't have any Armageddon movie plot inputs to account for going forward.

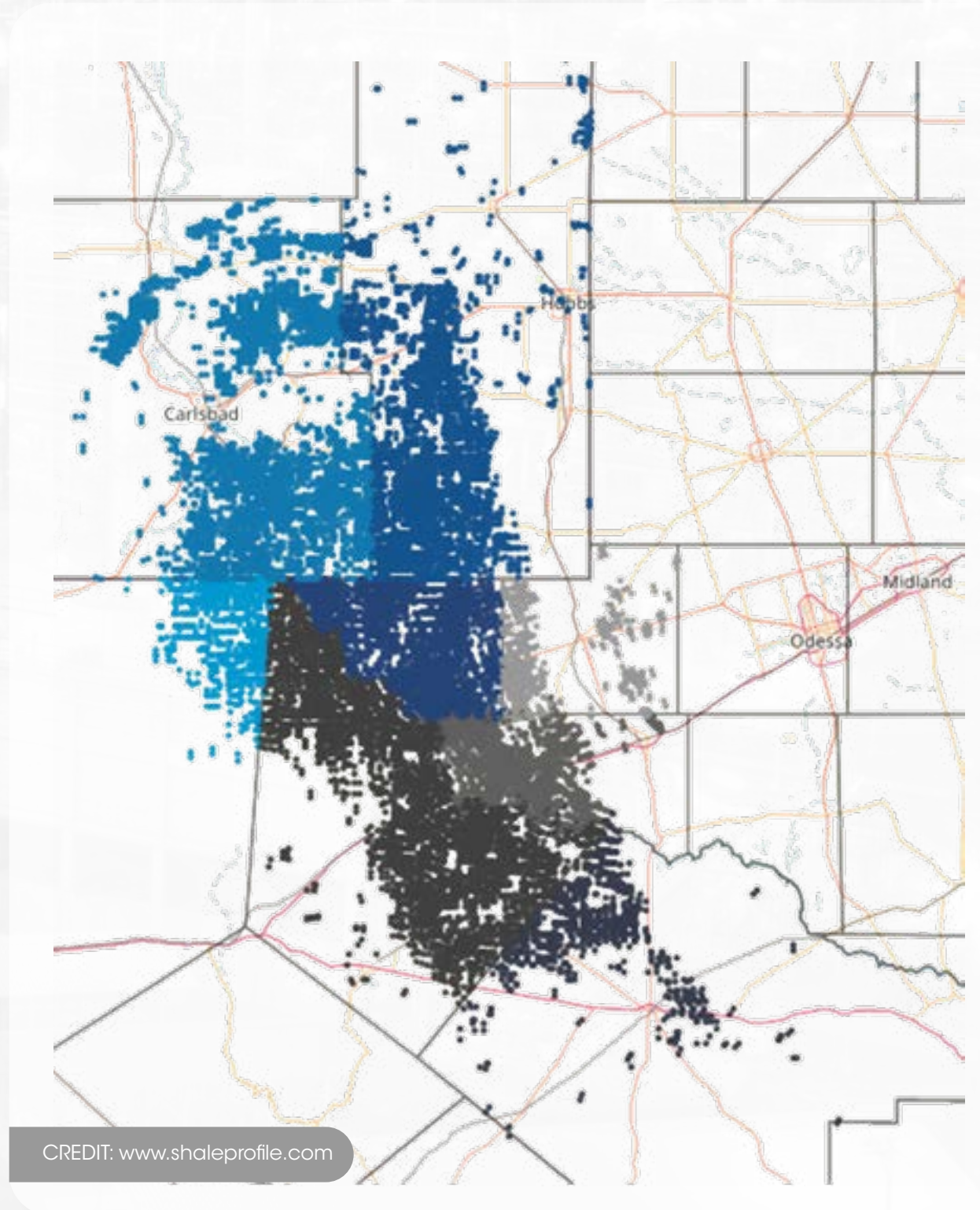
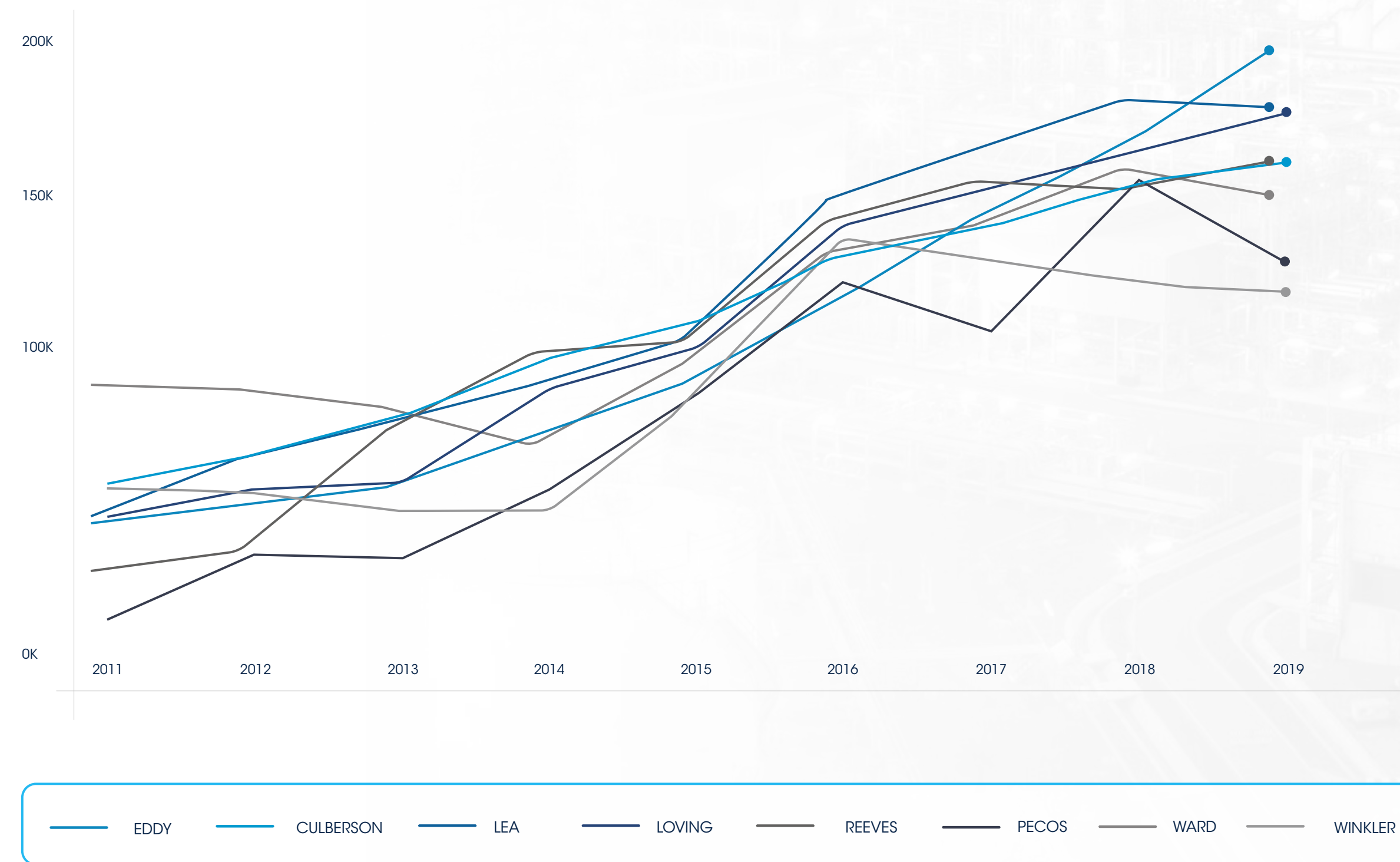


CREDIT: www.shaleprofile.com



Productivity by County

Where are the best wells in the basin? We analyzed how the Delaware Basin counties stack up against one another based on average well productivity. The graph compares the first 12 months of oil production over well start for horizontal wells drilled since 2011. The wells included in the evaluation are shown on the map. For the most part, wells are increasing in their productivity on a yearly basis with higher oil production during the first year of production for newer wells. The benefits of advanced knowledge regarding well and completion designs appear to be paying off. This is especially true in Lea and Eddy Counties, with the highest average well performance in the basin for wells drilled in the past two years.

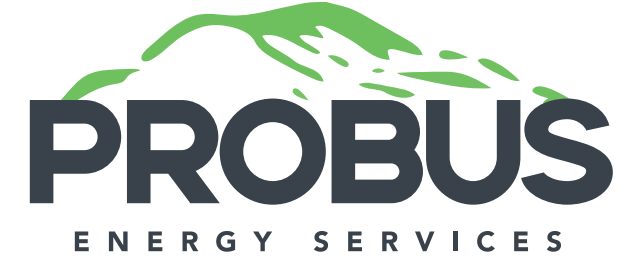
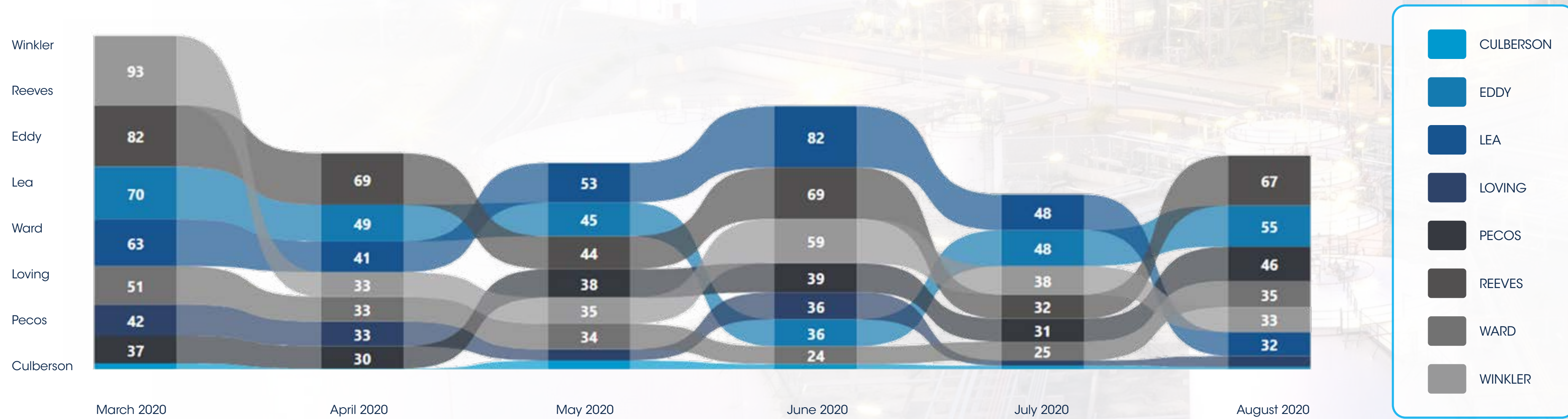




MINERALS

Monthly Mineral Activity

Mineral activity over the past six months shows a decline in transactions in the Delaware Basin. Included in this examination are both mineral deeds and royalty assignments. We see rebounds in activity with steady increases through June followed by the lowest activity levels in July. Oil prices have steadily increased on average since the bottom seen in April. We anticipated the lowest mineral activity would be seen 1-2 months after the lowest commodity month, accounting for the delay from negotiated deal to courthouse filing. The lower activity levels in July show the market volatility and evidence that the market reset is not yet complete.



Top 20 Mineral Buyers

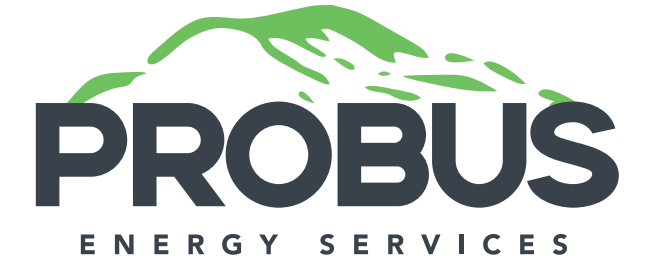
Congratulations to the top 20 mineral buyers over the past six months. For the second time in a row, Candlewood Resources was the biggest mineral buyer, with 83 transactions across seven counties in the Delaware Basin. Once again, the majority (62%) of their acquisitions were in Winkler County, Texas. Second was Ridgefield Permian Minerals, with 49 mineral acquisitions in the Texas portion of the Delaware Basin, primarily in Reeves County (78%). Ridgefield has stepped up their mineral acquisition efforts this year, possibly with an opportunistic aim. Following these top two buyers, things drop off. Permico Royalties comes next with 20 acquisitions, followed by Hatch Royalty (20) and Rock Ridge Royalty (18).

Insights into mineral buyers strategies can be heard on the Oil & Gas Council's Minerals and Royalties Podcast Series. In April, the 12th largest buyer over the past six months, Wing Resources V LLC's President and CEO Nick Varel talked about why minerals and royalties will continue attracting new types of investors and end-buyers in the upcoming years.

These top buyers are determined by the number of mineral and royalty transactions filed over the past six months. We recognize the opportunity to examine this data using more detail and additional metrics. Contact Probus if you are interested in digging deeper, we take pride in solving difficult problems and using data to uncover interesting trends.



| | | | |
|----|---|----|--------------------------------|
| 83 | CANDLEWOOD RESOURCES LLC, PATCH ENERGY LLC, PRELLY MINERALS LLC | 13 | WING RESOURCES V LLC |
| 49 | RIDGEFIELD PERMIAN MINERALS LLC | 13 | WPX ENERGY MINERAL PARTNERS LP |
| 20 | PERMICO ROYALTIES LLC | 13 | PLATFORM ENERGY III LLC |
| 20 | HATCH ROYALTY LLC | 13 | MAVEN ROYALTY 2 LP |
| 18 | ROCK RIDGE ROYALTY COMPANY LLC | 13 | ENERLEX INC |
| 17 | MOUNTAIN LION OIL & GAS LLC | 12 | MASON OAKS ENERGY HOLDINGS LLC |
| 17 | COLGATE MINERALS LLC | 12 | APOLLO PERMIAN LLC |
| 16 | ROYALTY ASSET HOLDINGS II LP | 12 | 3P OIL AND GAS LLC |
| 15 | ROCKWELL ENERGY RESOURCES LLC | 11 | KANE RESOURCES LLC |
| 15 | N M & T RESOURCES LLC | 11 | MARKE EXPLORATION INC |



Top 10 Brokers Purchases and Sales

- MAVEN ROYALTY 2LP
- CADDO MINERALS LP
- MASON OAKS ENERGY HOLDINGS LLC
- CHARIS RESOURCES LLC
- LOCKE LLC
- TOC HOLDINGS LLC
- APOLLO PERMIAN LLC
- VECTOR ENERGY PARTNERS LLC
- KANE RESOURCES LLC
- MOUNTAIN LION OIL & GAS LLC



LEASE ACTIVITY

PERMIT ACTIVITY

COMPLETIONS

PRODUCTION

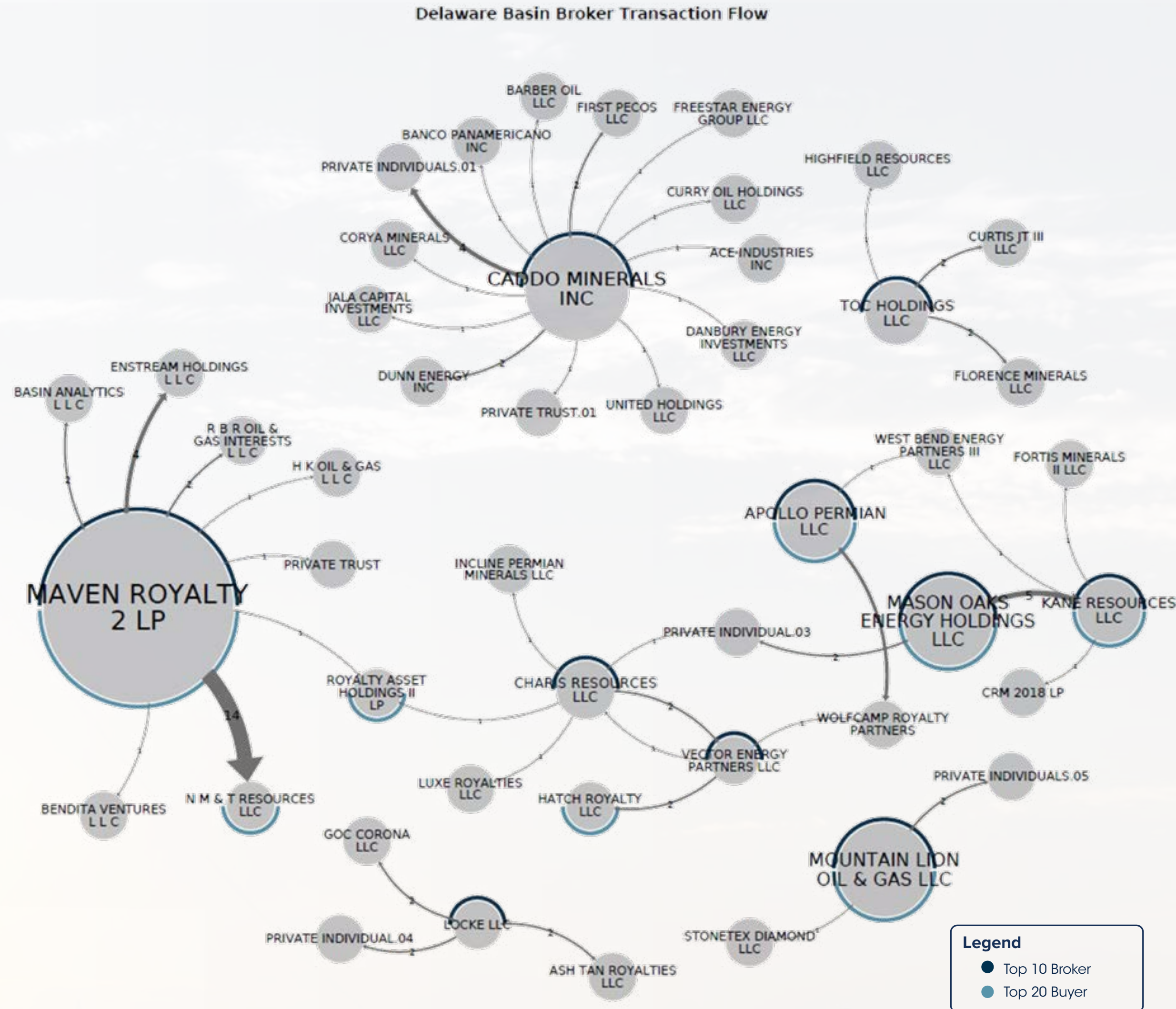
MINERALS

A&D LOOK

Mineral Transaction Flow

We examined which mineral buyers also sold minerals and royalties in the past six months. Our definition of mineral brokerage includes companies that buy minerals with the intent to sell and those that prune their position occasionally. The top 10 companies that brokered minerals are shown on the graph on the preceding page, ranked by the number of mineral sales. The companies we see as the top brokers currently are usually small to medium aggregators, having private capital and the ability to hold mineral interests for longer periods of time.

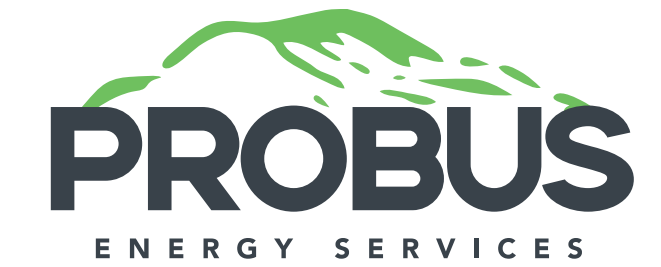
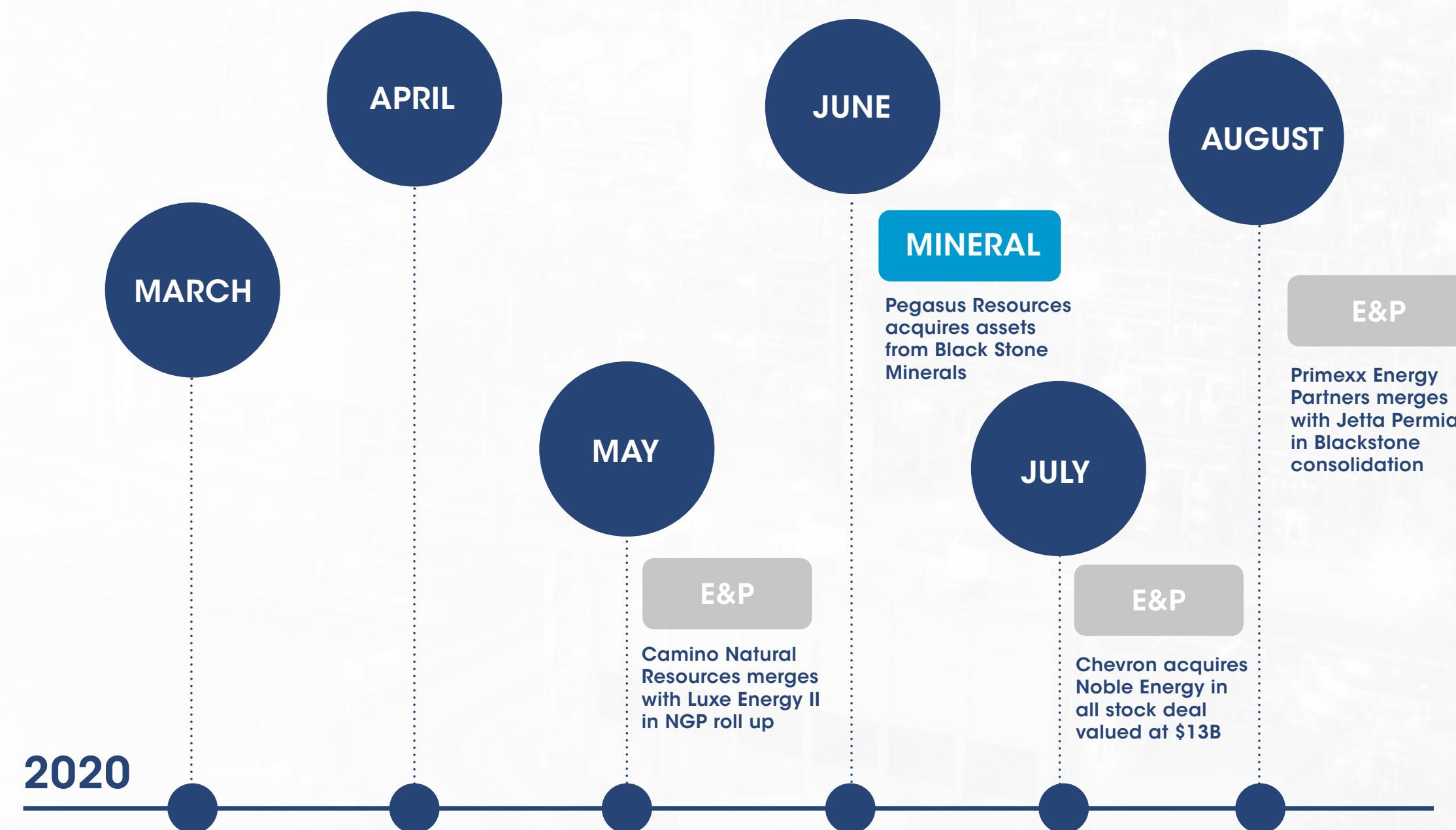
Who are these companies selling minerals to? We mapped out the transactions from these top brokers to better understand and identify relationships and deal flow in the basin. The companies with a navy half circle are the top brokers. The thickness of the arrow as well as the number on the arrow is the number of times one company sold to another, indicating a strong relationship between the entities. If you would like to examine this transaction flow in more detail, you can access the pdf [here](#).



A&D LOOK

We cannot contain our excitement to have activity in the acquisitions and divestitures sector again. The end of 2019 seemed to start a wave of mergers, starting with Jagged Peak/Parsley and Felix/WPX. Things slowed this spring (unsurprisingly) but have gradually started to pick up. Starting with private equity consolidations, Luxe Energy was acquired by Camino Natural Resources (NGP) and Primexx Energy was acquired by Jetta Permian (Blackstone). The biggest deal so far this year is the acquisition of Noble Energy by Chevron. The deal is valued at \$13B and hangs on an upcoming vote October 2, 2020 by Noble's shareholders. Activist investor Elliott Management has voiced concerns over the deal, saying that the deal undervalues Noble Energy. This month, Williston operator Northern Oil & Gas announced their official entry into the Delaware Basin. Northern acquired non-operated interest in Lea County, a total capital commitment of \$11.9M which includes acquisition costs and planned development expenditures. Also this month, Devon Energy and WPX Energy announced their merger agreement in an all stock deal, valued at \$6B.

Notable Transactions & Available Deals



Notable Transactions & Available Deals

There are plenty of unique deals available on the market, here are some that are especially interesting:

- Historic Hanging H Ranch located in Reeves and Loving Counties, consisting of approximately 7,464 net royalty acres is being offered by Detring Energy Advisors.
- Lilis Energy is divesting substantially all its assets in the Delaware Basin under a 363 bankruptcy sale, including approximately 16,000 net acres. With a newly restructured management team in place, recall that Lilis received an offer from investor Värde Partners Inc. to take the company private back in January 2020. Lilis Energy declined the offer and instead sold a portion of their assets in the Delaware Basin for \$24.1M in February. With things moving in the right direction but still in a cash crunch, Lilis Energy was not able to withstand the additional stress from the demand and price collapse this spring. In June 2020, Lilis Energy filed for Chapter 11 bankruptcy protection with a proposed restructuring agreement. The agreement relied on Värde Partners agreeing to a \$55M equity commitment. Värde decided not to move forward, which triggered the asset sale under a bankruptcy provision. With a strong acreage position, this will be a great target acquisition for a larger operator. Offset operators include Callon, Parsely, WPX and Tap Rock.
- Legacy Reserves has retained TenOaks to divest its Permian Basin assets covering 88,000 net operated acres.
- Parsley Energy has retained EnergyNet Indigo to sell operated Delaware basin assets in Pecos county, Texas covering 11,625 net acres.
- Torchlight Energy plans to divest its oil and gas assets as part of a business combination agreement with Metamaterial Inc. to shift into the Advanced Materials market. "During the past six months the oil and gas market has softened due to the economic slowdown resulting from the pandemic," stated John Brda, Torchlight's CEO. "In order to unlock value potential from our national listing and access to the capital markets, we shifted some attention from the divestiture of our oil and gas assets to an acquisition strategy targeting proven disruptive technology companies with strong environmental, social and governance (ESG) priorities. Torchlight's assets include 1,080 non-op acres in Winkler County, Texas, 12,000 acres in the Midland Basin and 134,000 acres primarily in Hudspeth County, TX, a project Torchlight calls the "largest domestic onshore new field discovery in over 30 years".





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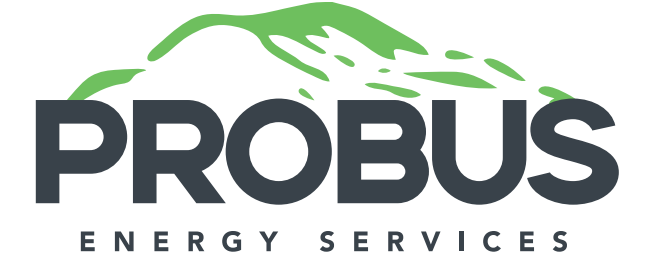
Conversation with:
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CEO & Portfolio Manager | Cornerstone

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Conversation with:
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President & CEO | Wing Resource



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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 provides actionable land intelligence, and we want to assist you in using information more efficiently. Our skilled team can support you no matter where you are at, from identifying opportunities, acquisition, asset management and strategic exits, we are by your side every step of the way. Let us help you with your next project, deliver solutions, execute effectively and reach your goals.

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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