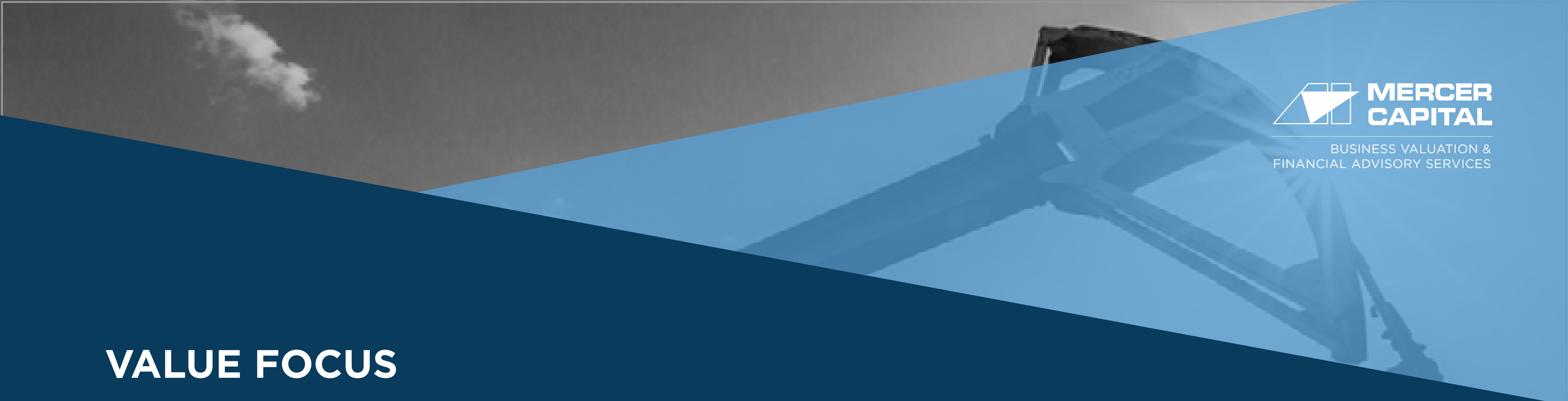

MERCER CAPITAL

BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES

VALUE FOCUS

Exploration & Production

Third Quarter 2020 // Region Focus: Bakken

EXECUTIVE SUMMARY

The third quarter of 2020 experienced a relatively stable price environment compared to the volatile prices seen in the first half of the year. The WTI range narrowed, hovering around $40 per barrel, and natural gas increased from $1.70 per MMbtu to $2.50 per MMbtu. According to the **Dallas Federal Survey** released on September 23, industry participants expect oil prices to be nominally higher than last quarter's expectations, but respondents continue to state that most new drilling remains uneconomic. The concurrent overlapping impact of (i) discord created by the OPEC / Russian rift and resulting supply surge; and (ii) the drop in demand due to COVID-19 related issues, was historic and continued to play a role in the third quarter. As optimism surrounding a gradual demand recovery has increased, companies are preparing for an eventful end to 2020. As if COVID-19 and the Russian-Saudi price rift wasn't eventful enough, an election in November will add to the mix for what seems to be an already pressing and critical time for the industry. The unfortunate overlap in timing of these events has made the **bankruptcy courts busy**, with no indication of that trend coming to a halt. In this newsletter, we examine the macroeconomic factors that have affected the industry in the third quarter and peek behind the curtain on what the remainder of the year might hold.

Oil and Gas Industry Services

Mercer Capital provides business valuation and financial advisory services to companies in the energy industry.

Services Provided

- Valuation of oil & gas companies
- Transaction advisory for acquisitions and divestitures
- Valuations for purchase accounting and impairment testing
- Fairness and solvency opinions
- Litigation support for economic damages and valuation and shareholder disputes

Industry Segments

Mercer Capital serves the following industry segments:

- Exploration & Production
- Oil Field Services
- Midstream Operations
- Alternative Energy

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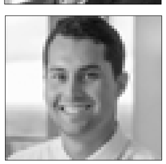

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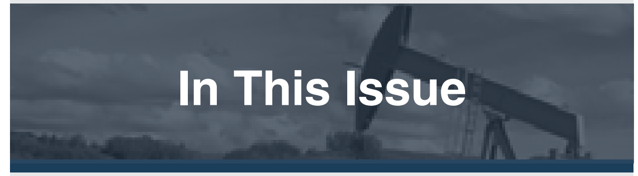

In This Issue

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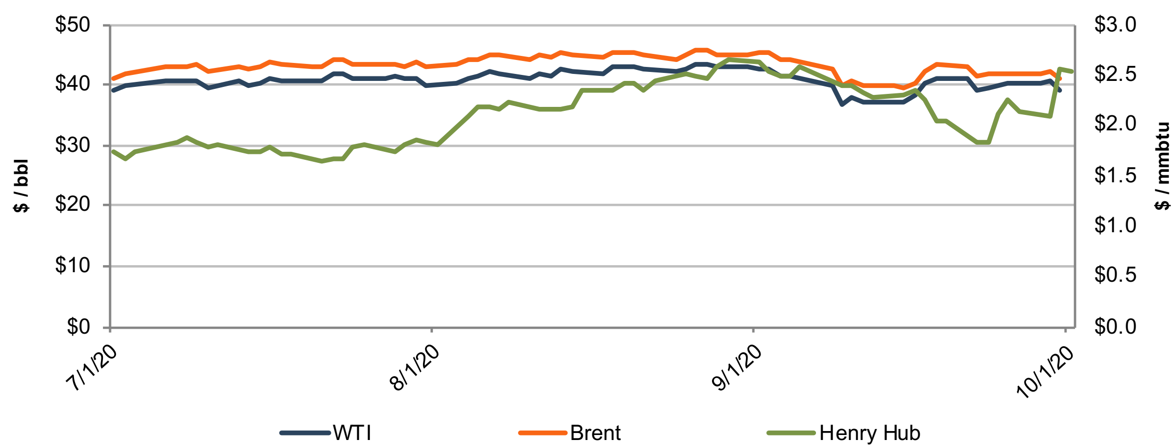
Oil and Gas Commodity Prices

Crude prices started the quarter at approximately $40/bbl and remained fairly stable throughout the quarter, ending at about the same price of $40/bbl. Brent crude followed the same pattern as WTI and closed at approximately $41/bbl. Natural gas prices started the quarter at about $1.70/mmbtu and gradually increased to finish the three-month period at $2.50/mmbtu. Part of that relates to a reduction of associated gas production driven by lower oil production activity, as well as some regular seasonality as winter approaches.

We note that *Bloomberg* has revised the default futures contracts utilized for historical commodity pricing in order to make the output more reasonable (hence the lack of negative prices shown in the chart below). As such, the information shown may not tie to previous analyses.

However, there is still considerable uncertainty around future demand, both near-term and long-run. While resuming economic activity has spurred an increase in consumption, changing travel habits and concerns around a potential surge of COVID-19 cases during the upcoming traditional flu season have clouded **experts' ability to make projections**. In the longer-run, BP's **2020 Energy Outlook** expects global liquid fuels consumption to peak by 2030 under a "business as usual" scenario. Under scenarios assuming more aggressive policy measures to reduce carbon emission, BP's analysis suggests that liquid fuels consumption peaked in 2019 and will continue to trend downward.

Crude Oil and Natural Gas Prices



Source: Bloomberg

Macro Update

OPEC+

On June 6, OPEC+ members reached an **agreement** to continue cutting 9.7 million b/d, or about 10% of global output under normal circumstances, through July. The extended supply cuts helped oil prices continue their recovery from the drastic drop in April due to the demand issues caused by COVID-19. The original agreement that OPEC+ reached on April 12 stated that production was set to increase gradually after June, but members refined that plan and continued their supply cuts for another month.

On July 15, OPEC+ members **agreed** to loosen existing production caps by roughly 1.6 million b/d. The agreement was slated to begin in August as demand was showing signs of recovery amid the COVID-19 related lockdowns. The decision created a 10% increase in Brent prices to $43.30/bbl. OPEC **expects** the world's demand for oil to increase by 7 million b/d next year, after a forecast 8.9 million b/d decline in 2020. A primary source of overall industry decline is the lack of jet fuel demand as travel has decreased significantly throughout the year. According to the Dallas Federal Energy Survey, 74% of industry executives believe that OPEC will play a bigger role in the determination of the price of oil going forward.

Macro Update (cont.)

Potential Market Consequences: Trump vs. Biden Administration

The upcoming election in November 2020 is on the industry's mind as both administrations have expressed their energy initiatives that will be implemented during the next four years. The election comes at a pressing time in the industry, with the next four years of U.S. oil and gas policy at stake. The **major topics** at hand include domestic production, infrastructure plans, OPEC+ engagements, and international sanctions. The following chart shows the contrasting platforms of the two potential administrations:

Topic / Issue	Trump Administration	VS.	Biden Administration
U.S. Upstream	Increased 3.9 million b/d from inauguration until COVID-19; Projected to gradually increase to approximately 13 million b/d by 2024		Could fall by as much as 2 million b/d under drilling restrictions on federal lands and waters
Infrastructure	Making efforts to ease permitting for pipelines, ports, and other projects		Raising the permitting bar by considering climate implications; Potential to deny 570,000 b/d Dakota Access Pipeline a new permit
OPEC+	Continues to urge OPEC+ to increase or cut supply		Under Biden, any U.S. diplomacy toward OPEC might return to being "behind the scenes"
Sanctions	Continues the sanctions pressure, restricting Iran's and Venezuela's oil supply		If Biden rejoins nuclear deal, Iranian oil exports could rise 1.8 million b/d by the end of 2021

Source: S&P global

Macro Update (cont.)

U.S. Production

The decline in production, **9.7 million b/d** year-over-year in August, reflects voluntary productions cuts by OPEC+ along with reductions in drilling activity and curtailments as of late. The **EIA estimates** that U.S. crude oil production increased to 10.8 million b/d in August as operators brought wells back online in response to rising prices after curtailing production in the second quarter. **Frac fleets** have slowly grown since May, but still are down roughly 68% from the peak in 2020. After September, however, the EIA projects U.S. crude oil production to decline slightly as new drilling activity will not generate enough production to offset declines from existing wells. According to the Dallas Federal Energy Survey, 66% of industry executives believe that U.S. oil production has peaked. The upcoming election poses significant uncertainties as the two administrations' contrasting agendas will play a major role on U.S. production moving forward.

Bankruptcy

Companies are on their heels heading into the end of 2020. **Bankruptcy activity** has heightened, and **debt levels** have increased as companies are hoping the worst is behind them. The question is whether the worst is yet to come. Balance sheets have become increasingly important and cash will remain king until the price environment becomes more economic. **Deal activity** has been quiet as of late, though ended with a bang given **Devon's announced merger** with WPX. More deals could come as buyers and sellers turn to consolidation to reduce costs in these challenging times. That does, however, assume companies will not have to file for bankruptcy.

Interest Rates

The U.S. Federal Reserve cut interest rates twice in the month of March. On **March 3**, the Fed made an emergency decision to cut interest rates by 0.5% in response to the foreseeable economic slowdown due to the spread of the coronavirus. This cut was anticipated and largely shrugged off by the markets as interest rates continued their precipitous decline. Benchmark rates were **again cut on March 15 by a full percent to near zero.** The Federal Reserve's latest forecast suggests that rates will remain close to zero for the foreseeable future until inflation increases.

As the industry attempts to recover from a dramatic timeline of events in the first half of 2020, many uncertainties remain ahead. Companies are trying to survive during the challenging environment while attempting to shore up the balance sheet and hang on tight with the election on the horizon. Potential policy changes might be the least of companies' worries as other pressing issues are affecting them in the very short-term. All of the pieces are stacking up against the industry, and it will be interesting to analyze the next six months, which could very well look different.

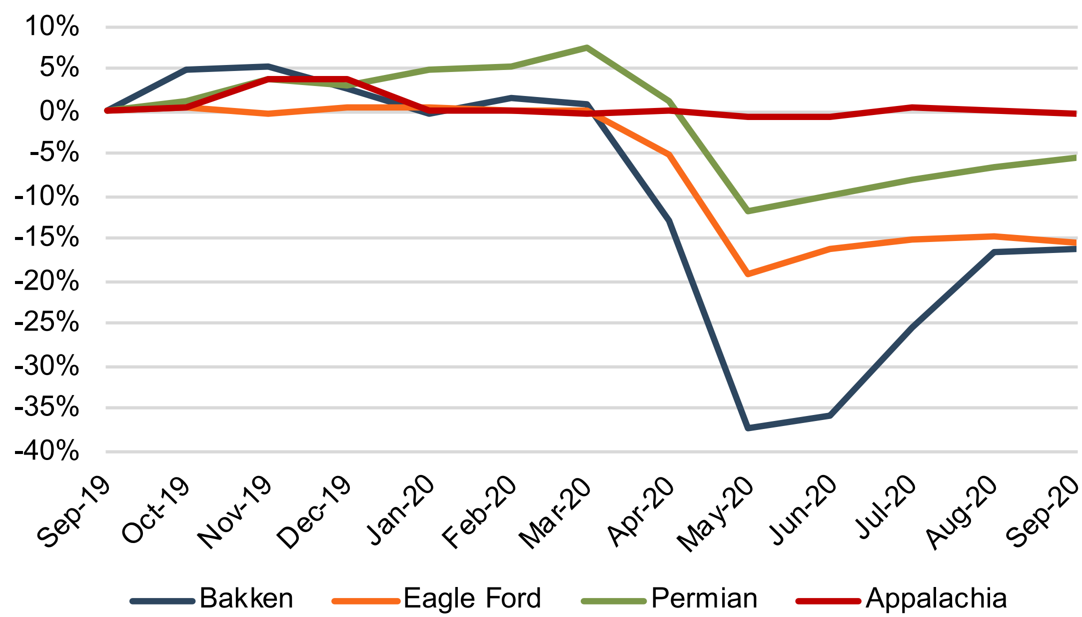
Region Focus: Bakken

Production and Activity Levels

The economics of oil and gas production varies by region. Mercer Capital focuses on trends in the Eagle Ford, Permian, Bakken, and Marcellus and Utica plays. The cost of producing oil and gas depends on the geological makeup of the reserve, depth of reserve, and cost to transport the raw crude to market. We can observe different costs in different regions depending on these factors. This quarter we take a closer look at the Bakken.

Estimated Bakken production declined approximately 16% year-over-year through September, in line with the Eagle Ford, though worse than the production declines seen in the Permian (down approximately 5%) and Appalachia (essentially flat). However, the Bakken has rebounded strongly from production lows observed in May following April's historic rout in crude oil prices. The Bakken was particularly impacted by production curtailments, driven in part by higher pricing differentials given the basin's location, higher **breakeven prices**, and the fact that most operators in the basin have diverse operations, giving them optionality as to where to curtail production while being able to maintain cash flow necessary for near-term obligations (unlike pure-play counterparts).

1-Year Change in Production

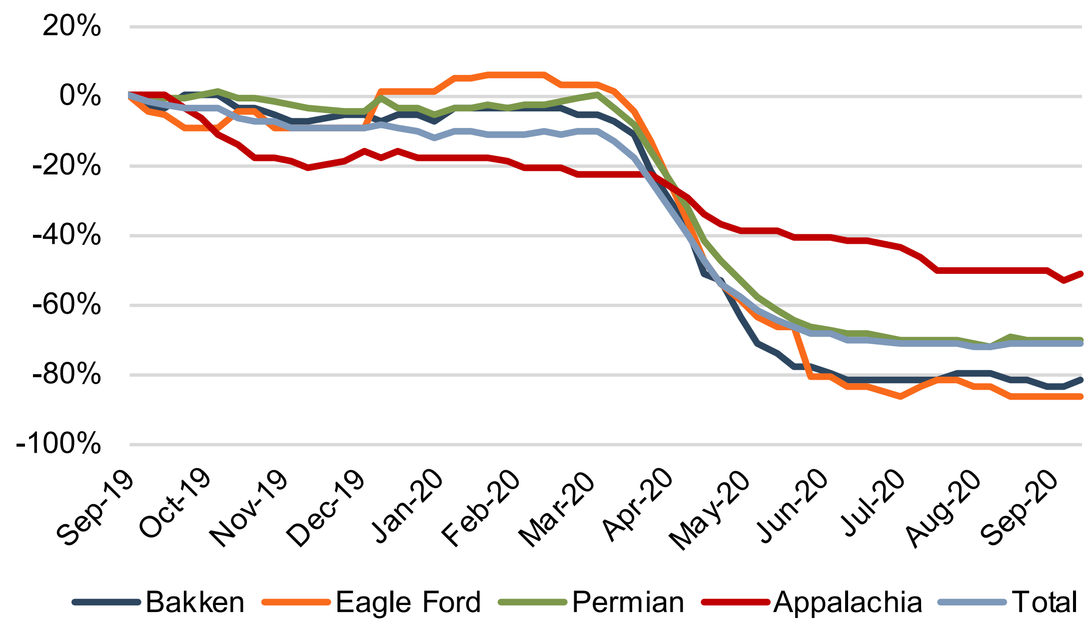


Source: EIA

Production and Activity Levels (cont.)

The rig count in the Bakken stood at 10 as of September 18, down over 80% from the prior year. Only the Eagle Ford has seen a more severe drop in rigs, with the rig count declining by more than 86% during the same period. While swift, the decline has stabilized. The Bakken's rig count has ranged from 9 to 11 rigs during the third quarter. However, a meaningful increase in rigs is unlikely given **reduced capex budgets.**

1-Year Change in Rig Count

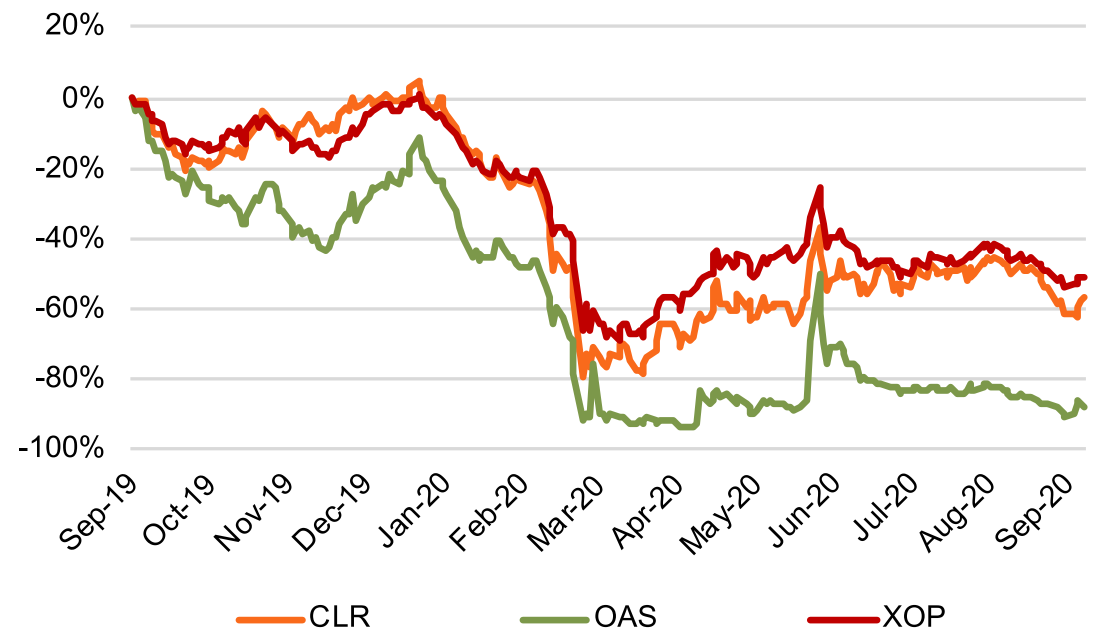


Source: Baker Hughes

Financial Performance

With Whiting's restructuring (discussed in a subsequent section), the Bakken-focused peer group with meaningful historical trading activity has become quite small. Continental Resources is down approximately 57% year-over-year, though that isn't much worse than the overall exploration & production sector (as proxied by XOP, which is down 51% over the same period). Oasis Petroleum's stock price has declined by approximately 88% over the past year and the company has filed for bankruptcy.

1-Year Change in Stock Price



Source: Capital IQ

Financial Performance (cont.)

We note that neither company is pure-play Bakken, as Continental has a sizeable acreage position in Oklahoma's SCOOP/STACK, and Oasis has operations in the Permian as well. Other publicly traded Bakken operators, including ExxonMobil, Marathon Oil, Hess, EOG, Ovintiv, ConocoPhillips, and QEP, also have diverse operations outside the basin. Northern Oil & Gas, which has traditionally focused on owning non-operating working interests in the Bakken, has expanded outside the basin with **acquisitions in the Permian.**

Equinor, which entered the Bakken with its **$4.7 billion acquisition** of Brigham Exploration, announced that it is **halting all U.S. shale drilling and well completion activity.**

The lack of a pure-play Bakken peer set makes it difficult to draw conclusions specific to the basin, but is also a telling fact about the difficult operating conditions in the area.

Whiting Emerges, Enters Bankruptcy

Whiting Petroleum, which announced its **Chapter 11 reorganization process in April,** emerged from bankruptcy in September. The reorganization process allowed Whiting to **reduce its debt load** by more than $3 billion, from over $3.4 billion to just $425 million. While shareholders were able to avoid being completely wiped out, the restructuring was extremely dilutive. Legacy shareholders now own approximately 3% of the equity of the new entity.

On September 30, Oasis Petroleum **announced** that it entered into a restructuring support agreement with its lenders. The voluntary Chapter 11 process is expected to be completed quickly, as the company expects to emerge from bankruptcy in November.

Dakota Access Pipeline Under Siege Again

Energy Transfer's Dakota Access Pipeline ("DAPL"), which was the subject of **protests in 2016 and 2017**, is under renewed legal action. The pipeline, which was **instrumental in helping minimize pricing differentials** in the land-locked Bakken relative to other basins, has the capacity to transport 570 mbbl/d of crude oil from the Bakken to a hub in Illinois, with connections to pipelines serving refining markets in the Midwest and Gulf Coast.

In July, a judge ruled that DAPL **must be shut down** and emptied by August 5, pending an environmental review by the Army Corps of Engineers. A U.S. appeals court **reversed the shutdown** order in August, though requirement for the environmental review is still under appeal. Based on the current trial schedule, DAPL should be able to **continue operating through at least late December** before a federal court could mandate another shutdown.

Despite the renewed legal scrutiny, Energy Transfer is pushing forward with an **expansion plan** which would roughly double DAPL's capacity. The additional capacity is expected to come online in the third quarter of 2021.

The Bakken was hit the hardest by curtailments driven by low commodity prices, but has also seen the sharpest rebound in production. Restructurings by Whiting and Oasis should add stability to the basin, though the recent bankruptcies of Bakken-focused operators are indicative of challenging economics. While operating conditions are difficult across the U.S., the stress appears quite acute in the Bakken.

Market Valuations & Transaction History

M&A in the Bakken: Immense Drop in Deal Activity Due to COVID Concerns

Over the past several years, the Bakken has generally had much lighter acquisition and divestiture activity than other major basins in the United States. Given that deal activity across the energy sector **has dropped an immense 42.7 percent** over the past year, acquisition and divestiture activity has dropped even further in this basin over the past year.

Observed deal activity has largely been the result of Northern Oil and Gas growing its production base in the area during the past several years.

Transactions in the Bakken

Announced Date	Buyer	Seller	Deal Value ($MM)	$ / Acre	$ / Boepd
8/3/20	Northern Oil and Gas, Inc.	Undisclosed Seller	$6	$14,500	nm
6/11/20	Northern Oil and Gas, Inc.	Undisclosed Seller	$2	$4,688	nm
11/1/19	Undisclosed Buyer	Gulfport Energy Corp.	$8	nm	$116,618
8/15/19	Panhandle Oil and Gas Inc.	Undisclosed Seller	$5	$7,453	nm
7/31/19	Undisclosed Buyer	Whiting Petroleum Corp.	$53	$7,794	$75,391
6/5/19	Undisclosed Buyer	Abraxas Petroleum Corp.	$16	$31,000	$44,286
6/4/19	Resource Energy Can-am LLC	Undisclosed Seller	---	nm	nm
4/22/19	Northern Oil and Gas, Inc.	Flywheel Energy LLC	$180	$10,000	$27,273
4/3/19	Empire Petroleum Corp.	Energyquest Ii Llc	---	nm	nm
Median			**$8**	**$8,897**	**$59,838**
Average			**$38**	**$12,572**	**$65,892**

Source: Shale Experts
**Does not include every transaction in the region for 2019-2020*

Market Valuations & Transaction History

Northern Oil and Gas Continues Core Acreage Buildout

Northern Oil has constituted approximately two-thirds of the observed deal activity (based on disclosed deal value) in the basin, including its bolt on acquisitions in June and August 2020 for several hundred acres. This activity furthers Northern Oil's mission of building out its core position in non-operating interests through consistent, strategic acquisitions.

Although production is down across the country, wells are slowly beginning to come back online, and Northern Oil believes increasing inventory while pricing is advantageous should drive returns in the future.

According to Northern COO Adam Dirlam, "We continue to add to our core inventory. Record levels of wells-in-process should drive strong volumes and improve upon our return on capital employed metrics in 2021 and beyond."

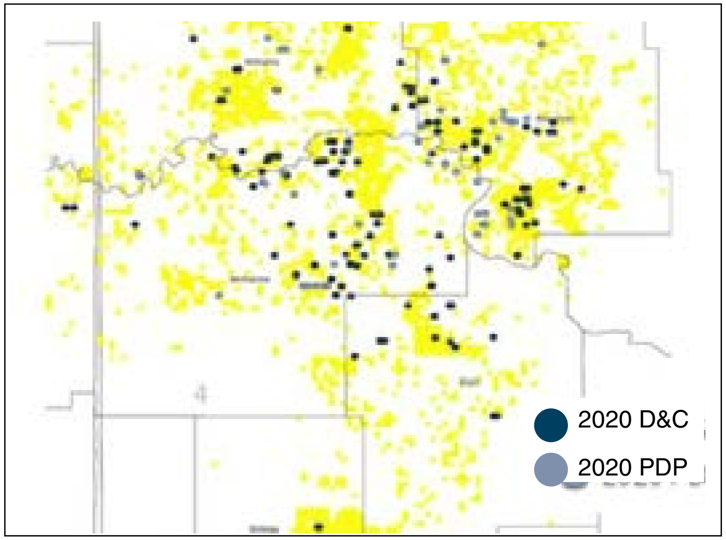
Since the start of 2018, the company has made six large publicly announced transactions totaling more than $820 million, including its large acquisition of private equity-backed Flywheel Energy LLC in April 2019.

Below is a map of Northern Oil's acreage to show its overall footprint in the basin.

The energy industry in Q1 and Q2 2020 has seen extreme volatility that has had investors and operators alike remaining cautious and waiting to see what happens next. As a result, acquisition and divestiture activity has been put on the back burner as companies struggle to plan ahead while remaining solvent.

As we moved from the second quarter to the third quarter, fundamentals in the Bakken have steadily improved as crude oil pipeline and storage limitations were alleviated. Stabilization of WTI pricing and well differentials in the region over the past couple of months have also aided as well. Companies like Northern Oil look towards the future as demand begins to creep upward from its mid-year lows, and the company has taken advantage of lower pricing to accrete acreage to its core position.

Northern Oil Acreage in Williston Basin Core
182,899 net acres



Source: Northern Oil & Gas, Inc - September 2020

Appendix A

Selected Public Company Information

Mercer Capital tracks the performance of Exploration and Production companies across different mineral reserves in order to understand how the current pricing environment affects operators in each region. We created an index of seven groups to better understand performance trends across reserves and the industry. The current pricing multiples of each company in the index are summarized below.

					as of 9/30/2020		
Company Name	Ticker	9/30/2020 Enterprise Value	YoY % Change in Stock Price	EBITDAX Margin	EV/ EBITDAX	Daily Production (mboe/d)	Price per Flowing Barrel*
Global Integrated							
Exxon Mobil Corp	XOM	$252,995	-36.67%	12.0%	9.9x	3,746	$67,545
Royal Dutch Shell PLC	RDS/A	$202,107	-44.45%	15.7%	4.9x	3,391	$59,601
Chevron Corp	CVX	$193,998	-24.76%	19.6%	8.6x	2,996	$64,756
BP PLC	BP	$143,303	-38.62%	5.7%	10.9x	3,575	$40,083
Equinor ASA	EQNR	$63,301	-23.59%	24.2%	5.0x	2,126	$29,780
Group Median			**-36.67%**	**15.7%**	**8.6x**	**3,391**	**$59,601**
Global E&P							
Marathon Oil Corp	MRO	$9,975	-50.12%	59.2%	4.2x	377	$26,445
Hess Corp	HES	$24,134	-14.34%	7.0%	63.0x	328	$73,599
ConocoPhillips	COP	$53,169	-26.25%	44.3%	4.9x	1,138	$46,735
Occidental Petroleum Corp	OXY	$65,613	-58.85%	-5.8%	nm	1,346	$48,760
Noble Energy Inc	NBL	$13,017	-60.11%	-42.6%	nm	357	$36,499
Apache Corp	APA	$15,614	-47.27%	-89.5%	nm	428	$36,514
Murphy Oil Corp	MUR	$5,936	-37.58%	31.0%	7.2x	178	$33,264
Group Median			**-47.27%**	**7.0%**	**6.1x**	**377**	**$36,514**

Source: Bloomberg L.P.

- Price per Flowing Barrel is EV/daily production ($/boe/d)
- We review 10-K's and annual reports from guideline companies to ensure companies continue to operate in the regions and groups we have identified.

Appendix A

Selected Public Company Information

					as of 9/30/2020		
Company Name	Ticker	9/30/2020 Enterprise Value	YoY % Change in Stock Price	EBITDAX Margin	EV/ EBITDAX	Daily Production (mboe/d)	Price per Flowing Barrel*
North American E&P							
Devon Energy Corp	DVN	$7,544	-52.87%	-11.4%	nm	326	$23,164
QEP Resources Inc	QEP	$2,233	-65.14%	61.6%	3.6x	80	$28,044
WPX Energy Inc	WPX	$6,752	-39.75%	34.1%	12.1x	211	$32,072
Group Median			**-52.87%**	**34.1%**	**7.9x**	**211**	**$28,044**
Bakken							
Continental Resources Inc/OK	CLR	$12,524	-43.07%	58.6%	6.3x	288	$43,414
Group Median			**-43.07%**	**58.6%**	**6.3x**	**288**	**$43,414**
Appalachia							
Range Resources Corp	RRC	$4,699	47.38%	-68.9%	nm	380	$12,358
EQT Corp	EQT	$7,658	11.84%	-10.2%	nm	669	$11,444
Cabot Oil & Gas Corp	COG	$7,986	-2.22%	57.6%	8.6x	393	$20,295
Antero Resources Corp	AR	$7,061	-15.89%	15.4%	11.6x	570	$12,392
Gulfport Energy Corp	GPOR	$2,086	-59.78%	-189.4%	nm	174	$11,986
Southwestern Energy Co	SWN	$3,964	32.64%	-36.6%	nm	386	$10,267
Group Median			**4.81%**	**-23.4%**	**10.1x**	**390**	**$12,172**

Source: Bloomberg L.P.

- Price per Flowing Barrel is EV/daily production ($/boe/d)
- We review 10-K's and annual reports from guideline companies to ensure companies continue to operate in the regions and groups we have identified.

Appendix A

Selected Public Company Information

Company Name	Ticker	9/30/2020 Enterprise Value	YoY % Change in Stock Price	EBITDAX Margin	as of 9/30/2020 EV/ EBITDAX	as of 9/30/2020 Daily Production (mboe/d)	as of 9/30/2020 Price per Flowing Barrel*
Permian Basin							
Concho Resources Inc	CXO	$13,767	-24.15%	-169.0%	nm	310	$44,349
Parsley Energy Inc	PE	$7,623	-36.43%	-154.2%	nm	178	$42,791
Diamondback Energy Inc	FANG	$13,638	-53.49%	-43.1%	nm	296	$46,039
Centennial Resource Development Inc/DE	CDEV	$1,352	-80.29%	58.1%	3.1x	64	$21,040
Callon Petroleum Co	CPE	$3,855	-73.50%	-100.6%	nm	101	$38,300
Laredo Petroleum Inc	LPI	$1,435	475.10%	-60.2%	nm	81	$17,744
Pioneer Natural Resources Co	PXD	$18,354	-22.32%	29.3%	7.4x	346	$53,078
Cimarex Energy Co	XEC	$5,043	-42.66%	-71.1%	nm	251	$20,119
Group Median			**-39.54%**	**-65.6%**	**5.3x**	**214**	**$40,546**
Eagle Ford							
EOG Resources Inc	EOG	$33,047	-31.74%	47.4%	5.0x	740	$44,681
Magnolia Oil & Gas Corp	MGY	$1,803	-45.41%	-119.0%	nm	62	$29,265
SilverBow Resources Inc	SBOW	$504	-66.87%	-96.6%	nm	na	na
Penn Virginia Corp	PVAC	$679	-67.22%	52.9%	4.0x	21	$32,737
Group Median			**-56.14%**	**-24.6%**	**4.5x**	**62**	**$32,737**
OVERALL MEDIAN			**-39.18%**	**6.4%**	**6.8x**	**346**	**$33,264**

Source: Bloomberg L.P.

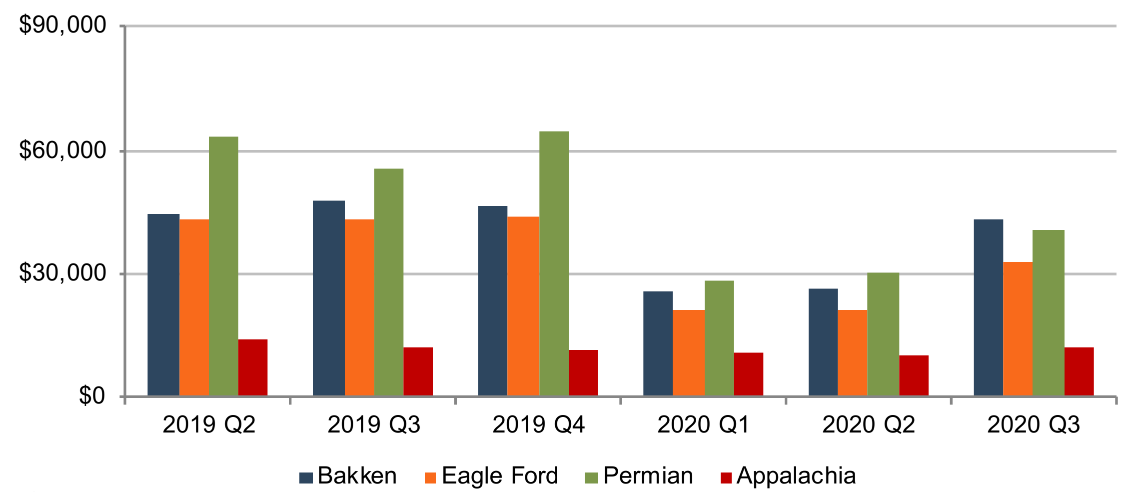
- Price per Flowing Barrel is EV/daily production ($/boe/d)
- We review 10-K's and annual reports from guideline companies to ensure companies continue to operate in the regions and groups we have identified.

Appendix A

Selected Public Company Information

The following graph depicts the median of EV/production multiples, also known as price per flowing barrel, at the end of the past six quarters. As has been the case for some time now, operators in the Permian continue to lead the other regions in terms of valuation, although this margin is decreasing. All basins in the analyzed sample, the Permian, Eagle Ford, Bakken, and Appalachian saw an increase in their price per flowing barrel in the third quarter of 34%, 55%, 65%, and 18%, respectively. This increase can be explained by the small recovery in commodity prices since the COVID-19 demand destruction which occurred primarily in the second quarter. However, low commodity prices, relative to years past, have negatively impacted operators regardless of region, as all four basins have seen a decline in price per flowing barrel in the range of 2% to 36% since Q2 2019.

Price per Flowing Barrel



Source: Bloomberg

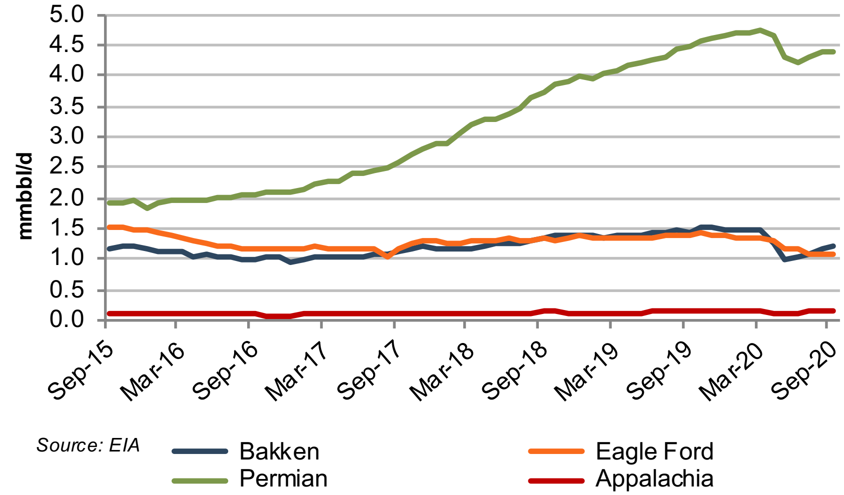
- Price per Flowing Barrel is EV/ daily production ($/boe/d)
- This is simply a graphic depiction of median figures of our selected public companies for each region. This should be interpreted solely in the context of relative valuation between the various basins over time. Bloomberg aggregates this raw data, and Mercer Capital does not represent or warrant these figures as indicative of valuation multiples attributable to E&P companies or other interests.

Appendix B

Production

Daily Production of Crude Oil

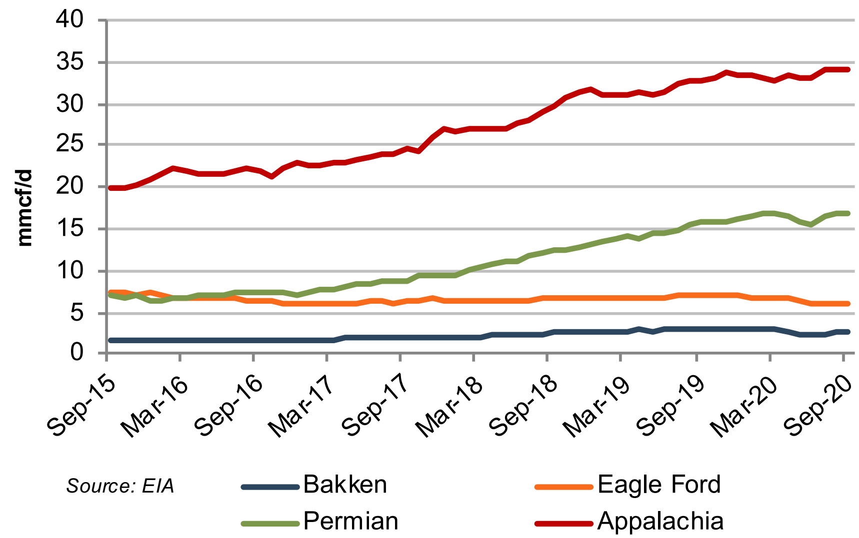
The Permian, Eagle Ford, Bakken, and Appalachia all experienced negative production growth over the last year, 1.9%, 24.0%, 17.2%, and 14.1%, respectively.



Source: EIA

Daily Production of Natural Gas

Natural gas production in the Appalachia has increased 3.4% over the last year, whereas Permian production has grown 5.8% in the same time frame. Growth in the Eagle Ford decreased 15.9% year-over-year, and growth in the Bakken decreased 11.7%.



Source: EIA

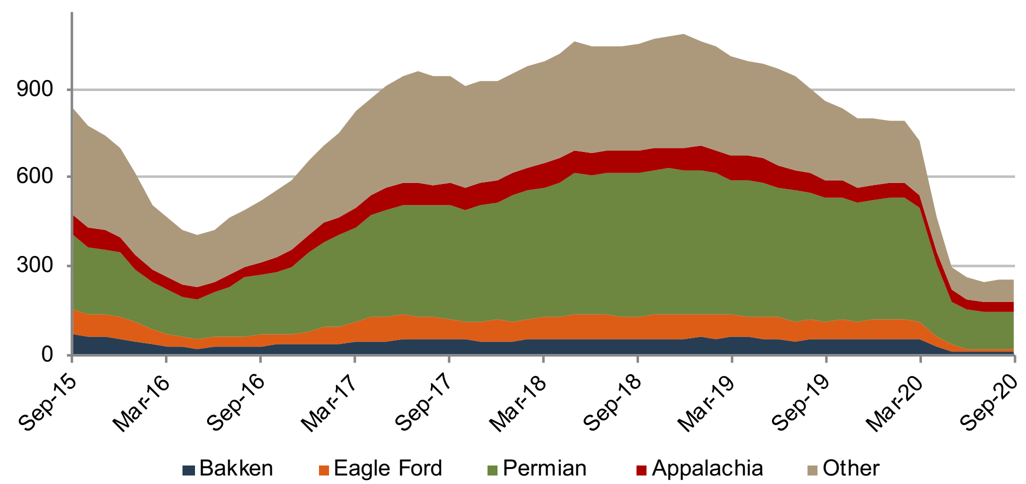
Appendix B

Rig Count

Baker Hughes collects and publishes information regarding active drilling rigs in the United States and internationally. The number of active rigs is a key indicator of demand for oilfield services & equipment. Factors influencing rig counts include energy prices, investment climate, technological changes, regulatory activity, weather, and seasonality.

The number of active rigs in the United States as of September 30, 2020 stood at 258, a 1.9% decrease from June 30, 2020, and a 70.0% decline from September 2019. The rig count in the Bakken decreased from 53 to 10 rigs in over the last year as E&P operators are cutting rigs in light of recent demand issues.

Rig Count by Region



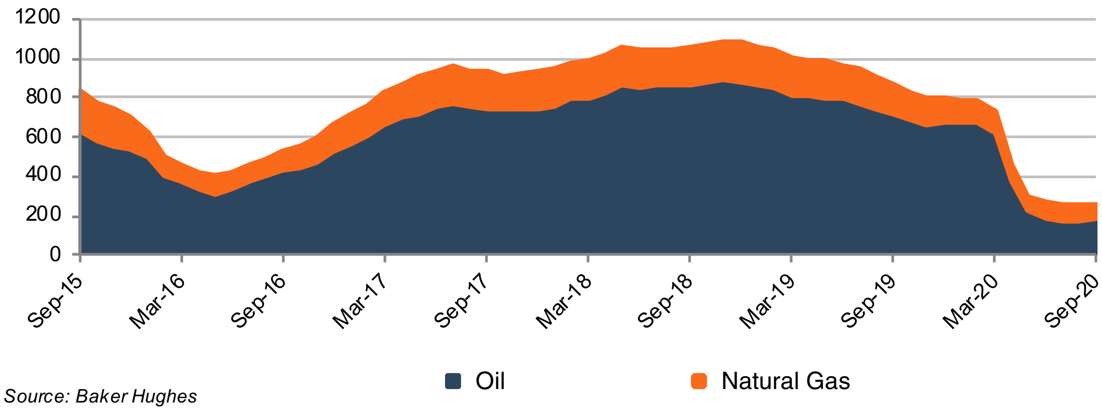
Source: Baker Hughes

[1] Calculations based on monthly crude oil and gas production and EIA drilling report by region.

Appendix B

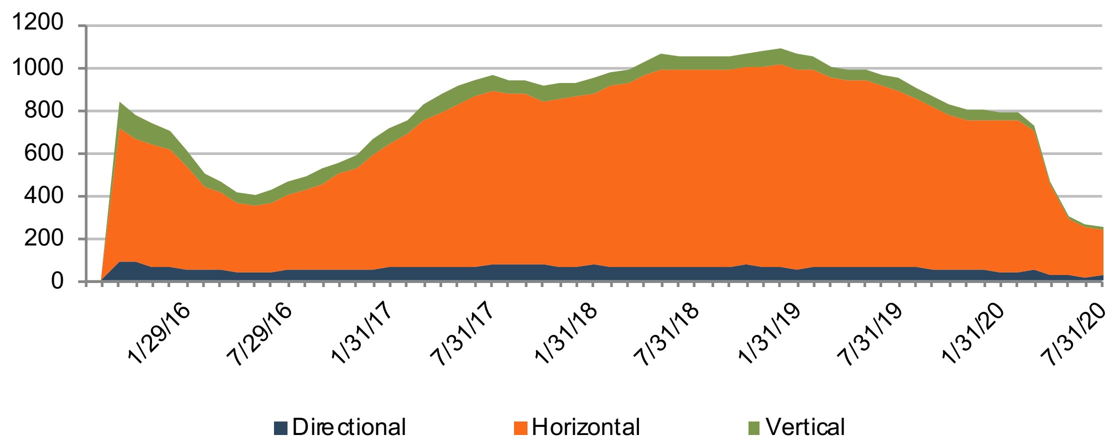
Rig Count

U.S. Rig Count by Oil vs. Natural Gas



Source: Baker Hughes

U.S. Rig Count by Trajectory



Source: Baker Hughes

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