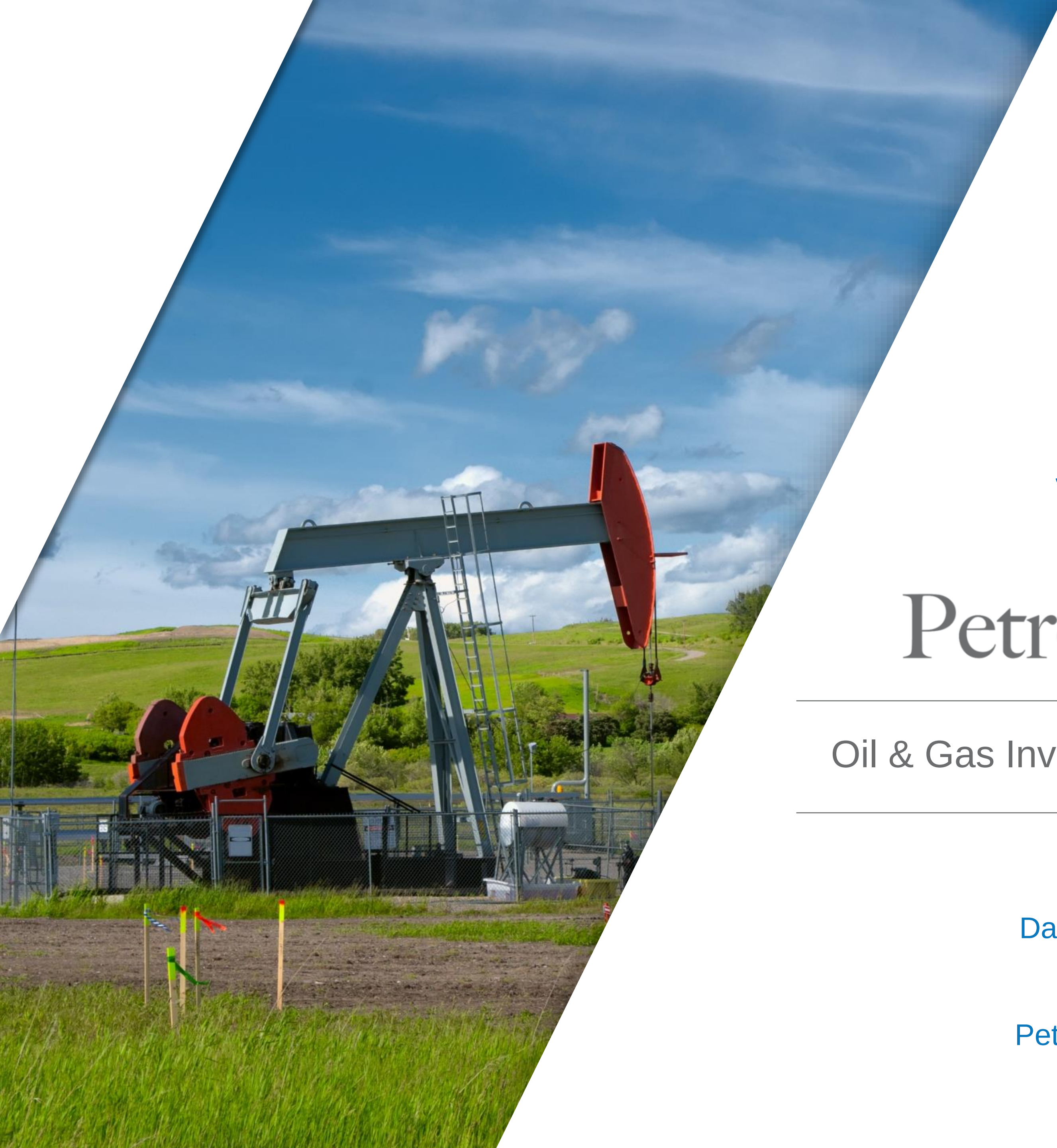


SIPES
Midland Chapter
Current Trends in Private Equity
January 15, 2020

PetroCap

Oil & Gas Investors Since 1992

David Hopson
Partner
PetroCap, LLC

Private Equity 101

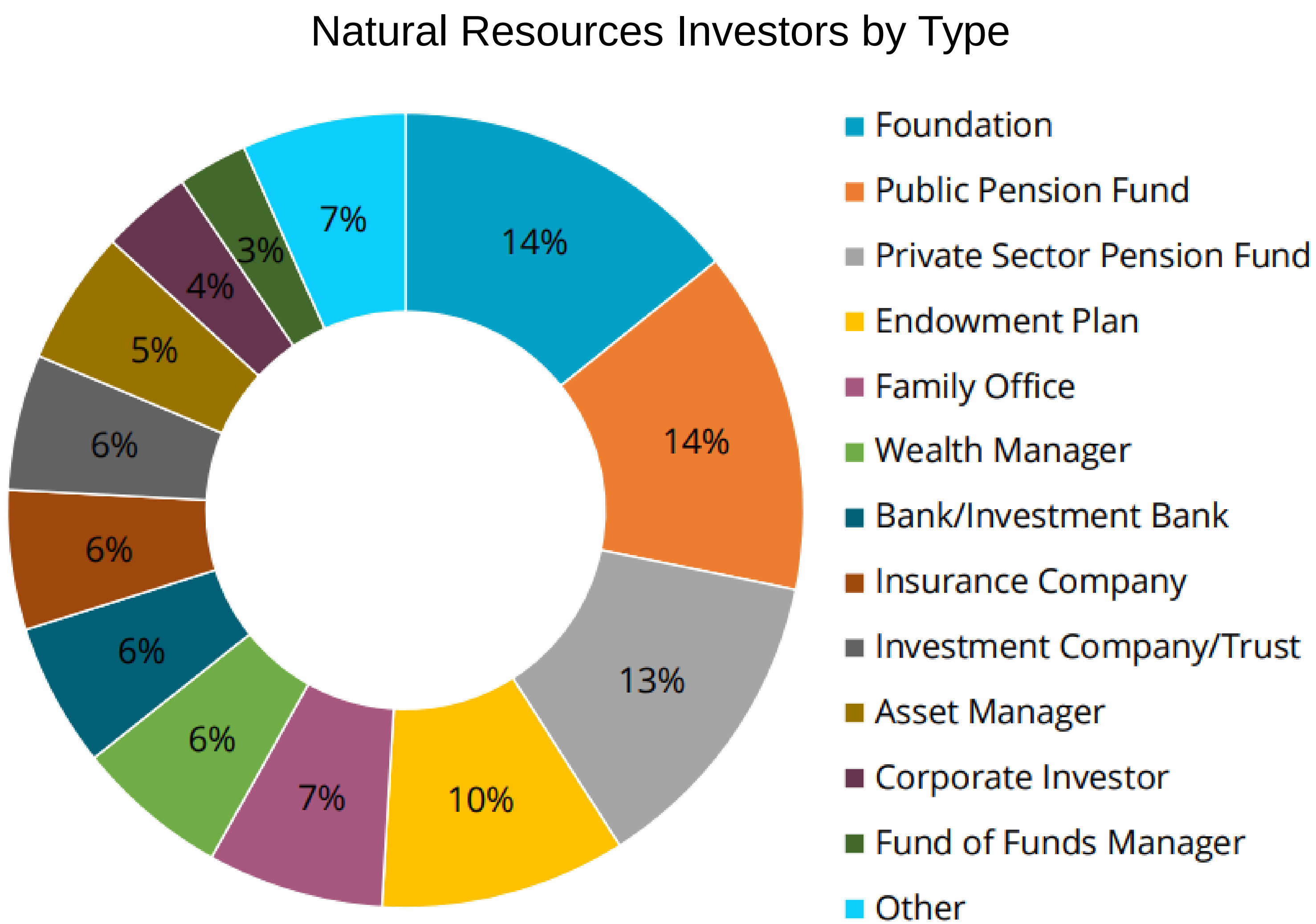
- What is private equity?
- Who has the money?
- Energy fund history
- Energy private equity today
- Why are we in this mess?

What Is Energy Private Equity?

- "Private Equity" is any illiquid, private investment in a company or project
- Began with investments by individuals/families - now dominated by institutional private equity funds
- Institutional energy private equity funds became popular in the late 1980's and have grown significantly over the past 30 years
- Currently over $178 Billion of energy focused private equity ready to be spent[1]

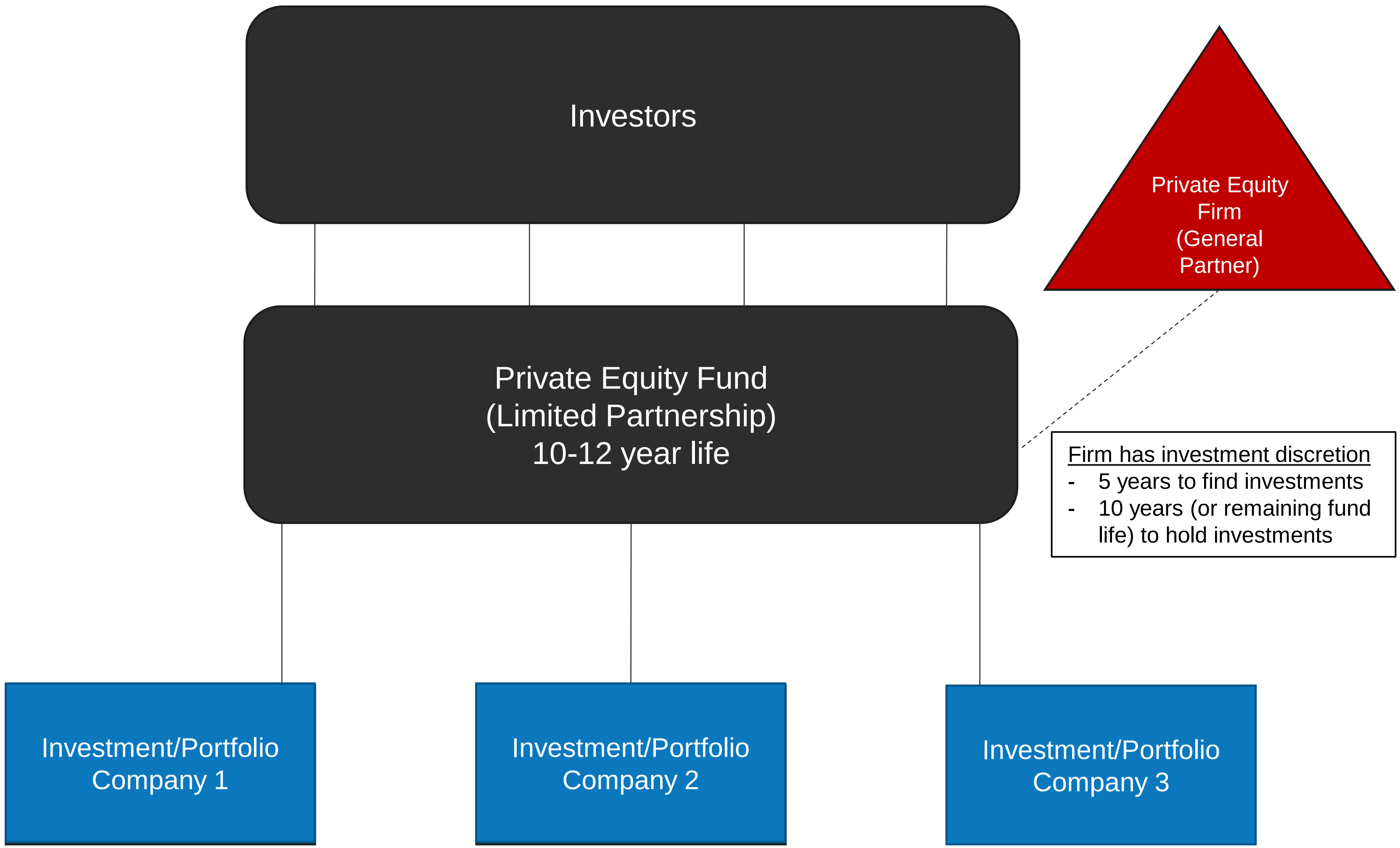
Source: (1) Preqin Quarterly Update: Natural Resources Q3 2018 Online. Data as of 12/31/17

Where Does the Money Come From?



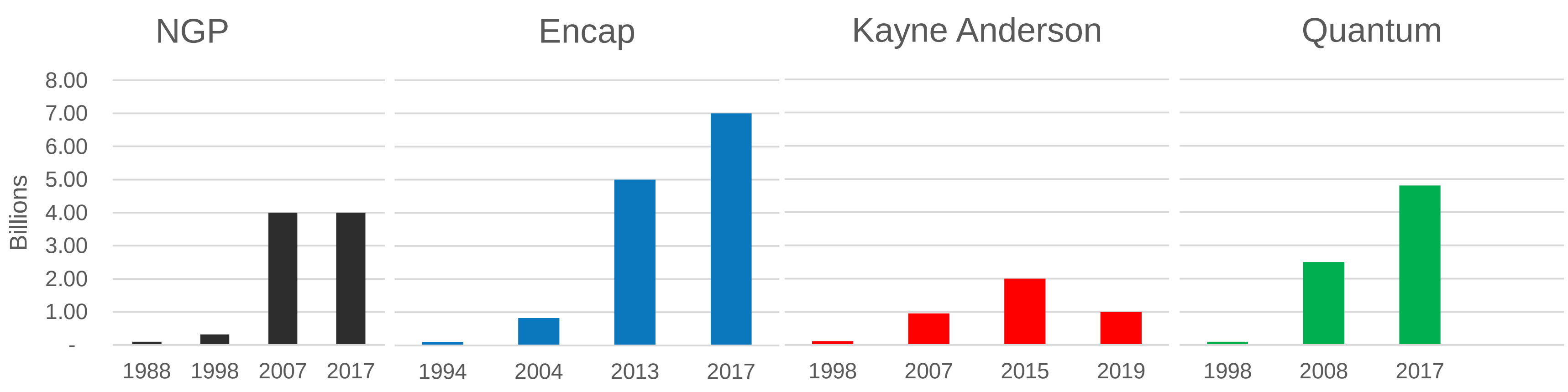
Source: Preqin Investor Update: Alternative Assets H2 2018

Typical Private Equity Fund Structure

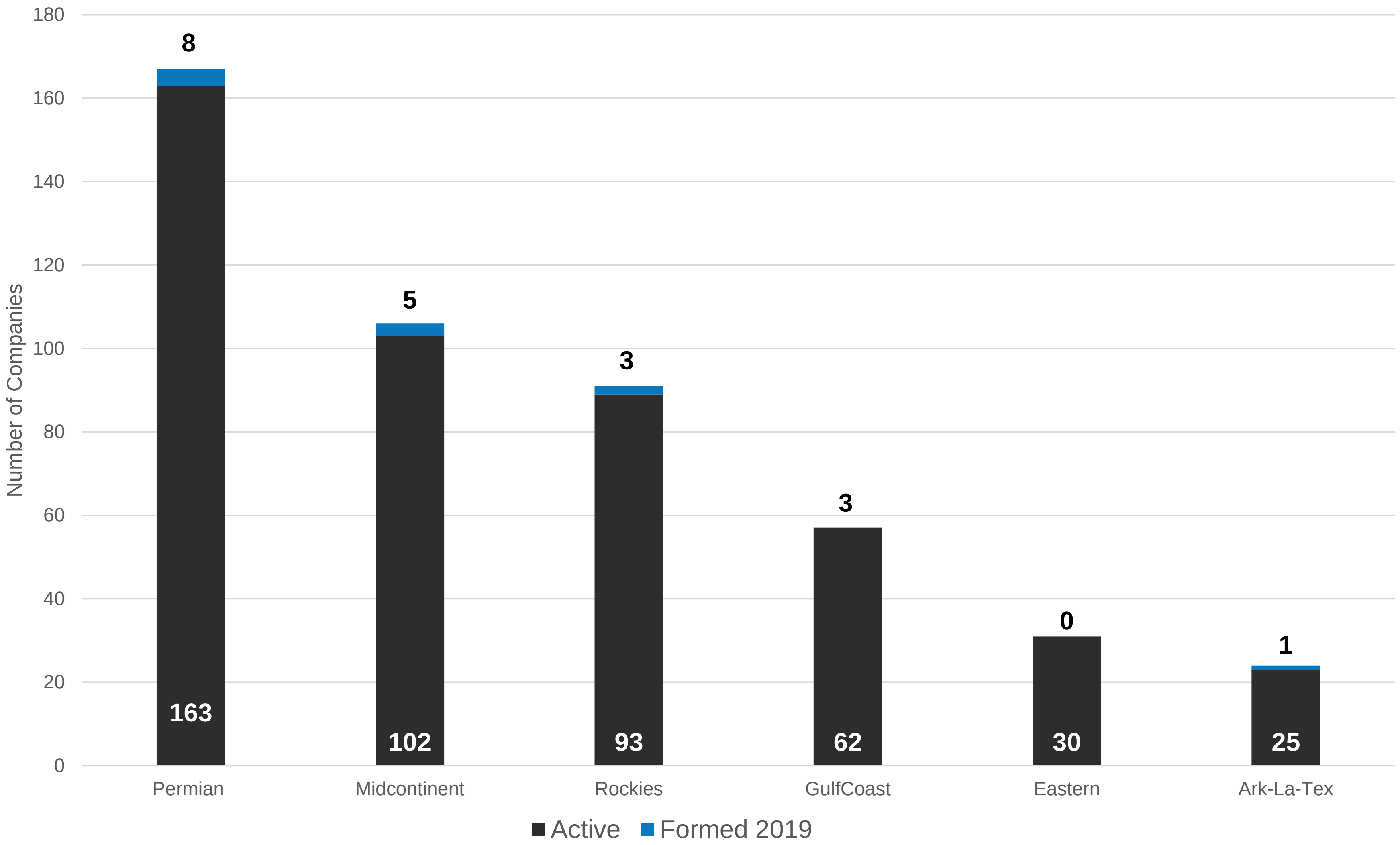


Private Equity Timeline

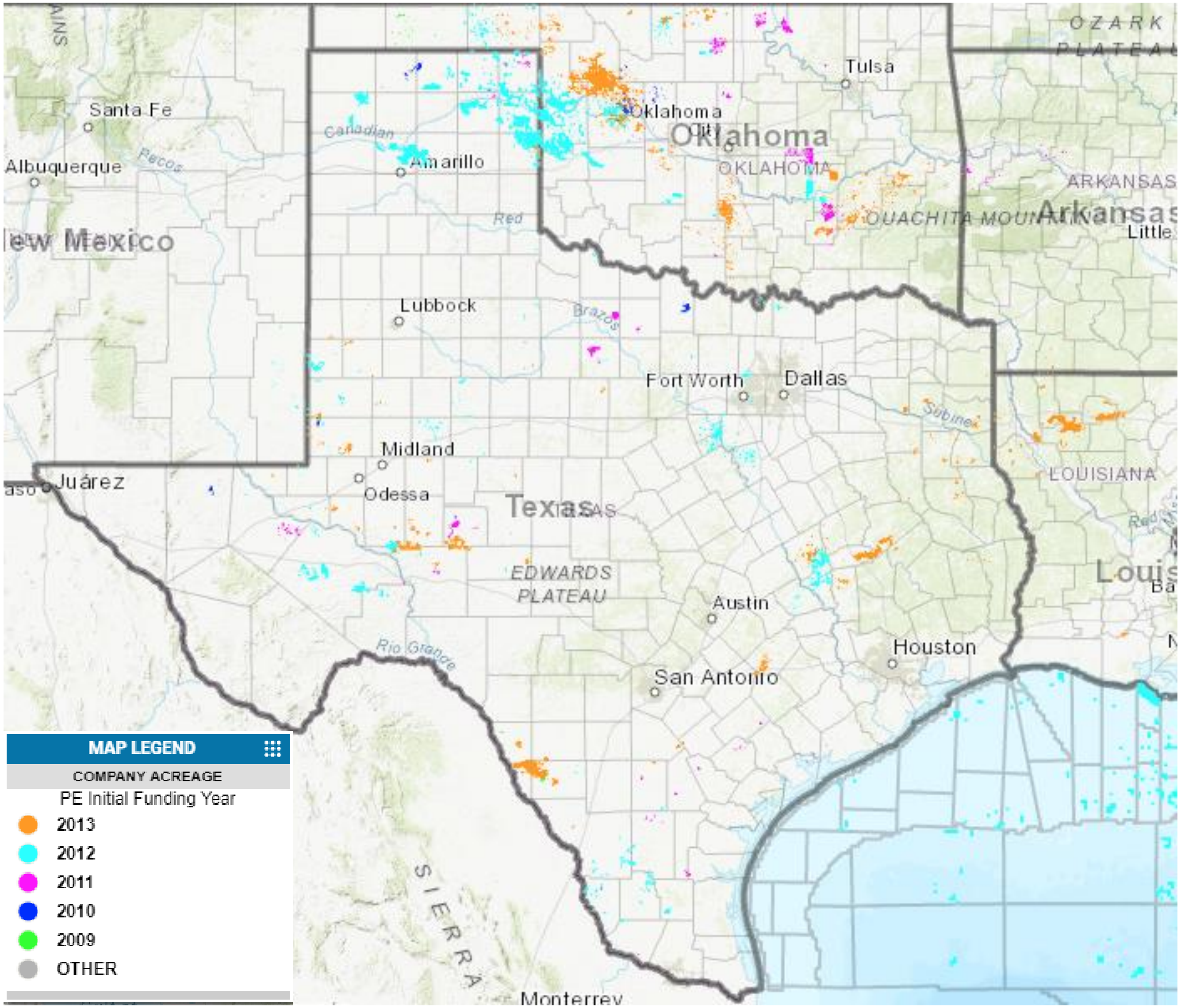
- 1990-2000: Buy PDP from majors, cut LOE and flatten decline curve
- 2000-2008: Buy leases, drill a few wells to prove a concept and sell
- 2008-Present: Shale revolution in full effect, buy and flip leases



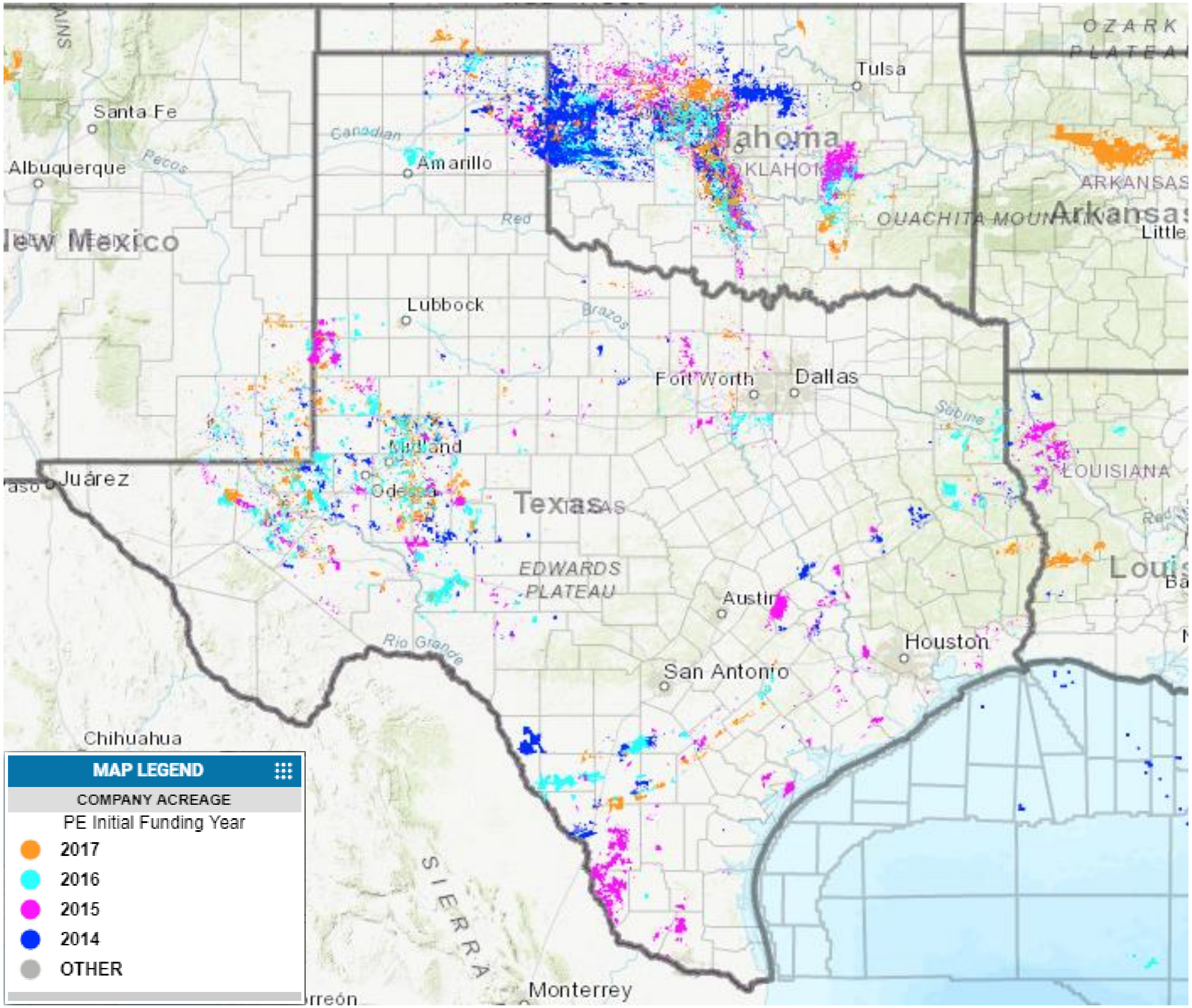
Private Equity Backed Companies by Basin



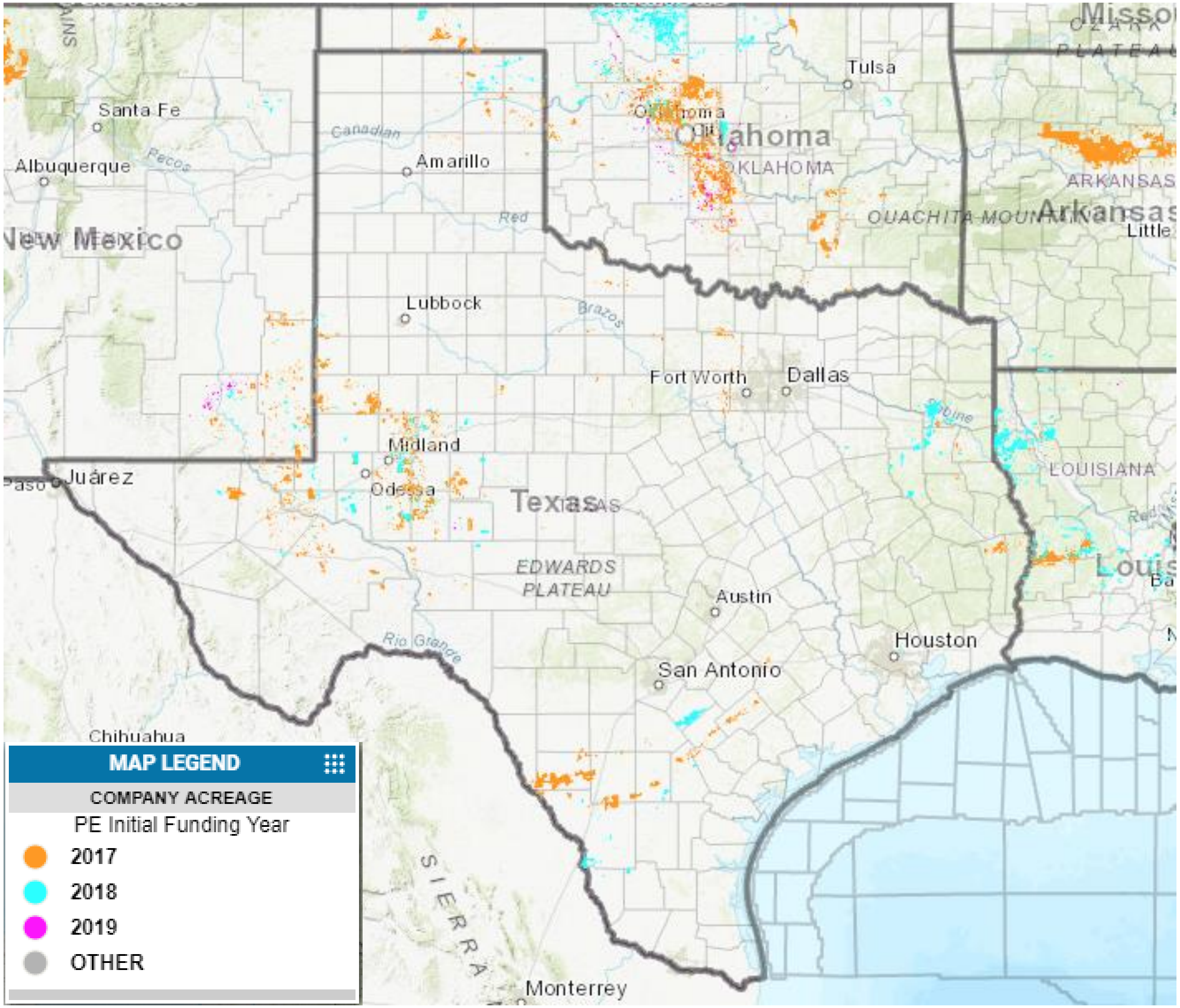
PE Funding 2009-2013



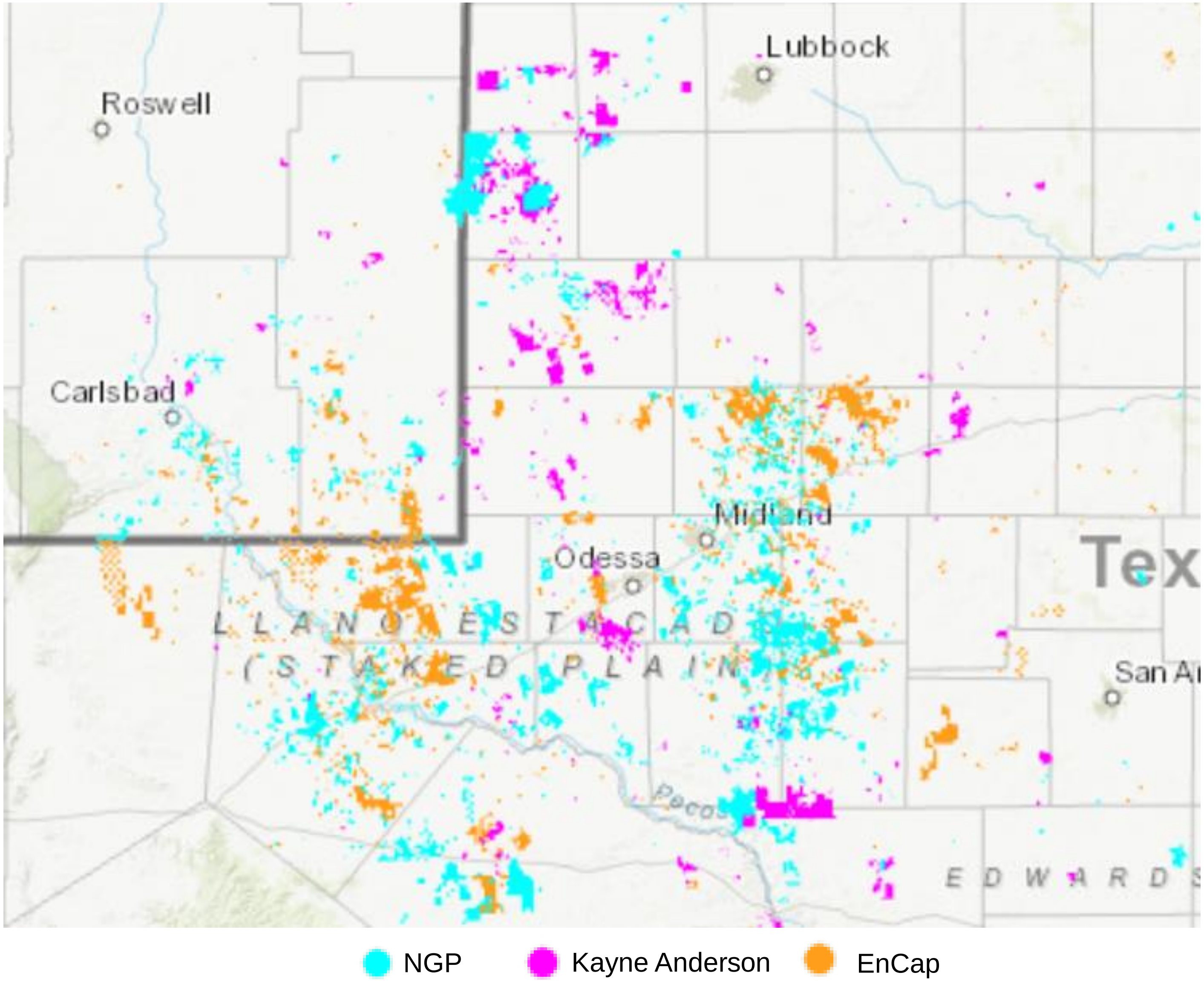
PE Funding 2014-2017



PE Funding 2017-2019



Permian Basin: EnCap, Kayne and NGP Portfolio Companies



Source: Data compliments of Enverus as of 12/1/19

Today's trends in private equity

- Majority of funds focused on $100+ Million investments
  - When you raise a multi-billion dollar fund, you need to make multi-hundred million dollar commitments

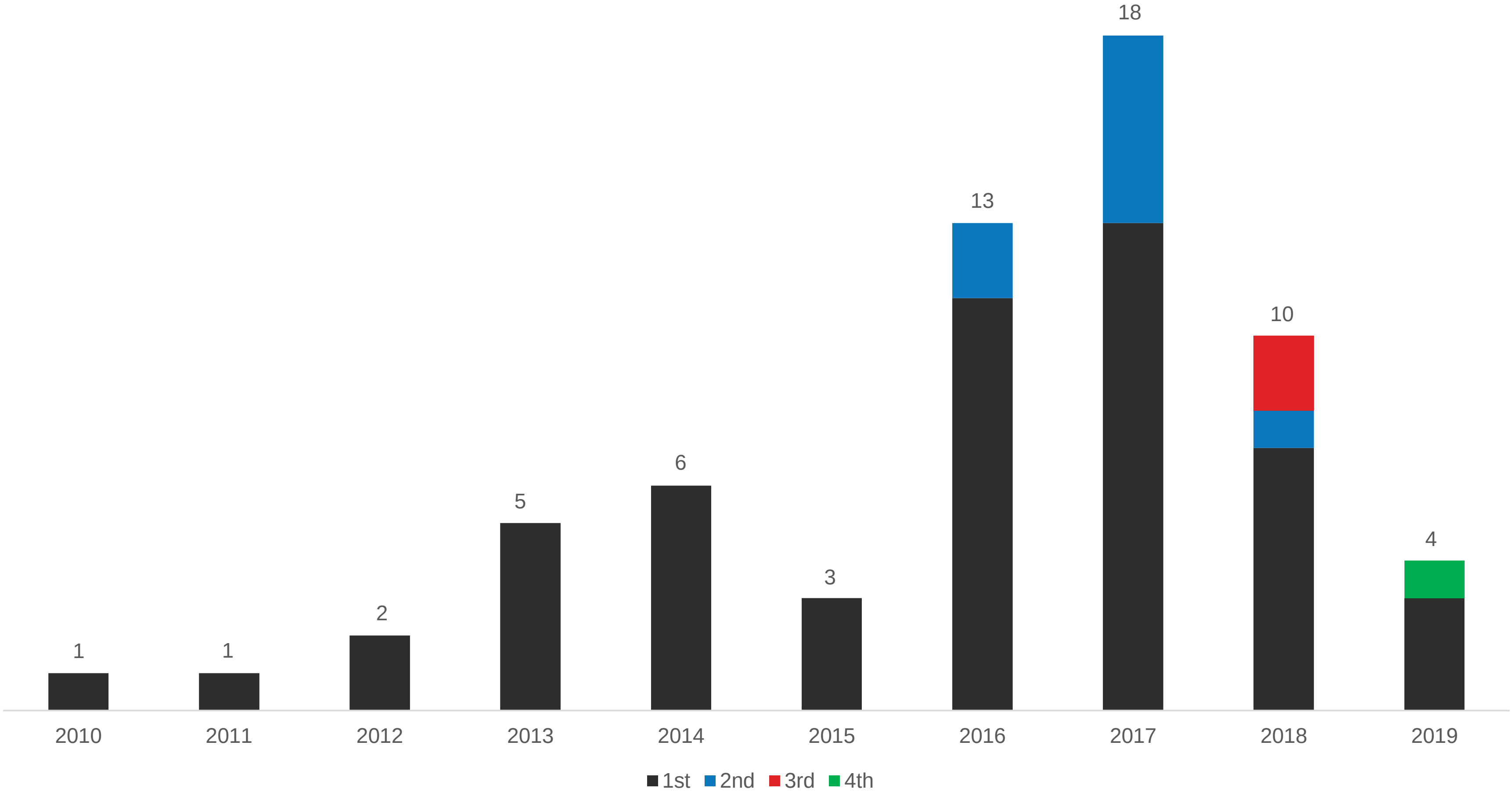
- Blank check commitment harder to find – need an asset
  - Sponsor wants to know the money is going to work immediately on a project, not on overhead

- Focused primarily on Core of the Core unconventional properties

- Growing number of funds/PE portfolio companies focused on minerals

Minerals & Royalty PE Sponsor Commitments

- Thirty-six sponsors have made sixty-two commitments to the minerals and royalty companies
- Eleven of these commitments represent a second, third or fourth iteration investment with a given company



Trends in private equity, continued

- More difficult to raise capital
  - Raise the money, deploy, sell assets, raise next fund
  - Money hasn't been returned to investors
  - Concentration issues
- Private equity needs path to a public exit
  - More challenging with the market effectively closed to IPOs
  - Sale to public companies difficult in current environment
- Money was spent to acquire leasehold; need drilling dollars
  - Drillco and mezz funds focused on funding PUD drilling
- Consolidation of management teams

Why are we in this mess?

MONEYBEAT

Energy Stocks Fall Faster Than Oil Prices

Fed-up investors dump shares after years of disappointment

By Ryan Dezember
Oct. 16, 2019 8:00 am ET

Horrific. Terrible. Abysmal. The worst. Those are terms equity analysts are using to describe investors' attitude toward energy stocks.

Shares of exploration-and-production companies, along with oil-field-service firms, have fallen even more than crude prices this year. A five-year slump in oil prices as well as even longer bouts of rock-bottom natural-gas sales and profligate spending has caused investors to sour on the sector.

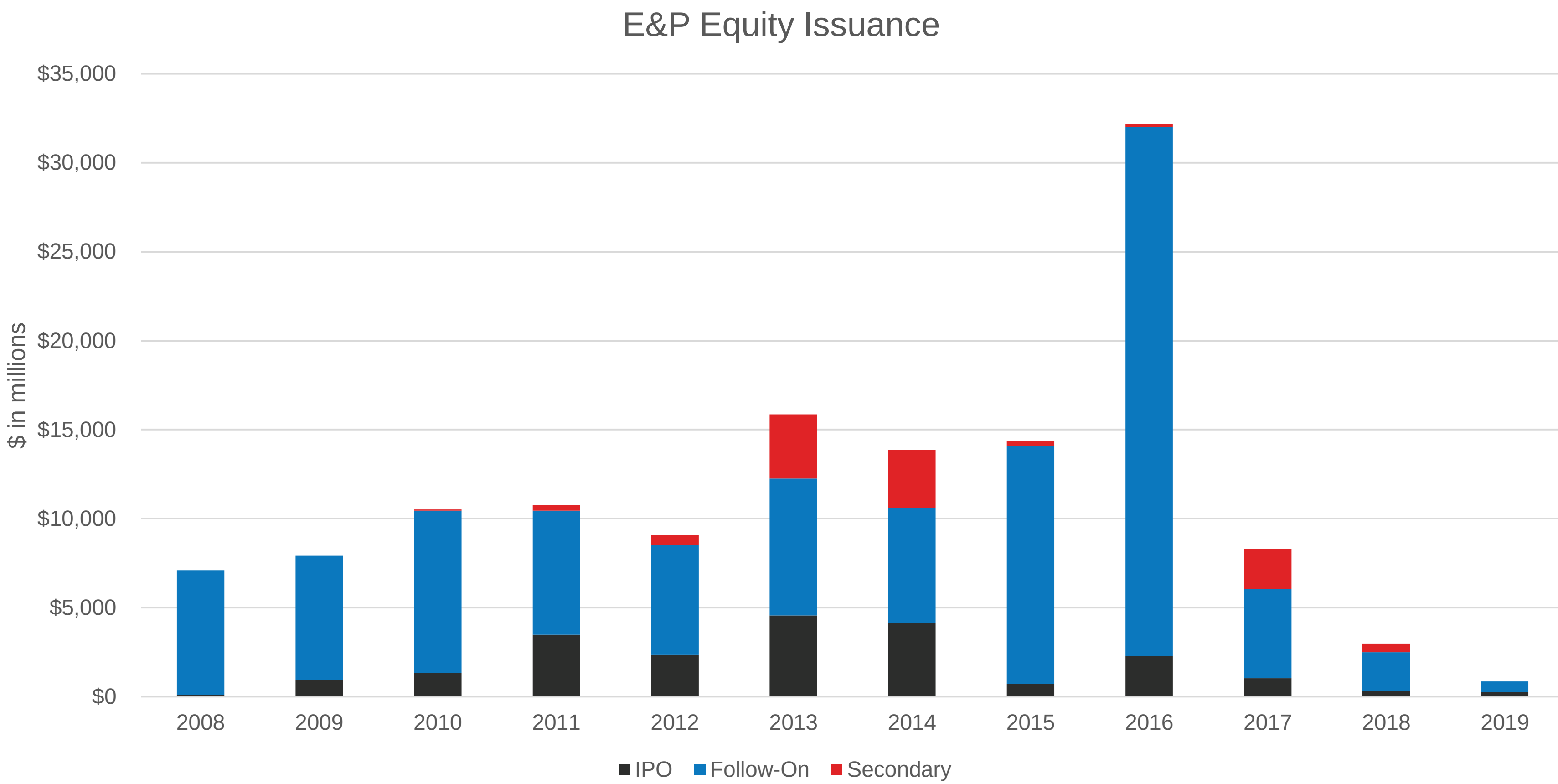
While U.S. oil prices have lost about 26% over the past year, the SPDR S&P Oil & Gas Exploration & Production exchange-traded fund, a widely cited barometer, has lost nearly half of its value, accounting for dividends. Meanwhile, the PHLX Oil Service Index, a basket of 15 companies that help oil producers unearth oil and gas, is down 54%.

Source: Wall Street Journal

E&P Equities Continue to Underperform

Source: Bloomberg as of 12/31/19. E&P Index represented by SPDR S&P Oil and Gas Exploration and Production ETF (XOP).

Public Equity Markets Largely Closed for E&Ps



Equity issuance for upstream companies running at record low rate. IPO market for upstream companies remains slow, with only one IPO pricing over the last twelve months

Source: Bloomberg as of 9/4/19.

Rigs vs. Room Rates in Midland/Odessa

Private Equity Response

- Sponsor fewer teams with higher average commitments
- Focus on PDP assets with cash flow and low risk development: return money to the LP's
- Concentrate on lowering cost and improving operational efficiencies
- Consolidate existing portfolio teams
- Lower return thresholds and longer hold periods
- Adapt from "Build and Flip" to a "Build a Business"

Source: RBC Capital Markets Richardson Barr

Firm and Strategy Overview

PetroCap was founded in 1992 and is 100% employee owned

Approximately $800 million of Committed Capital

- Over $800 million of capital raised across 3 funds since 2010
- Have invested in 16 projects with 14 operators to-date
- $25 to $75 million investment target (acquisition and drilling capital net to PetroCap)
- New investments being made out of Fund III

PetroCap is a Project Investor

- Direct investments in working interest rather than backing management teams
- Strategy focused on Upstream/E&P segment
- PetroCap seeks to own a majority interest in projects and has approval authority over development program

Preferred Project Profile

- Little to no current production (0% to 30% of investment) with development upside (70% to 100% of investment)
- Fund returns capital quarterly and typically does not use leverage
- Typically holding period is 3-5 years

PetroCap vs. Traditional Energy PE

Traditional PE	PetroCap

• Sponsor makes an equity commitment to company and is the majority shareholder
• Sponsor has complete control of company and employees
    • Management signs non-compete agreements
    • Determines when to buy/sell
• Sponsor sits on board of directors
• Provide overhead coverage for full team
• Typically have multiple operators in each basin
• Management team earns back-in through IRR and ROI hurdles
	• Working interest partner on a existing project or new acquisition
	• PetroCap has an internal technical team to complement operator's team
	• Interfaces like another operator
	• Only control over project/AMI
	    • Operator has freedom to work on other projects with other partners
	    • Cannot drag interest/force sale
	• Pays project-level overhead
	• PetroCap typically has one operating partner per basin
	• Operator earns back-in after ROI hurdles

Built Like An Oil And Gas Company

In-house technical team keeps diligence costs low and provides operational expertise for our operating partners

Partners and Members of the Investment Committee

Lane Britain
Partner

Doug Evans
Partner

David Hopson
Partner

Marc Manzo
Partner

Founders and Senior Advisors

Dick Rinehart
Senior Advisor

John Sears
Senior Advisor

Technical and Investment Team

Chase Summers
Director of Engineering

Philip Kreick
Vice President of Operations

Will Ridgway
Vice President - Investments

Patrick Mayne
Operations and Completion Engineer

Steve Fremgen
Geologist

Erin Devlin
Manager of Land and Business Development

Accounting and Finance

Amanda Coussens
Chief Financial Officer & Chief Compliance Officer

Brian Pfitzinger
Controller

Lynne Fiske
Accountant

Brandon Fleischmann
Accountant

Kelli Donaldson
Executive Assistant and Office Manager

PetroCap Investments

PetroCap Catamount, LLC and Four Rivers Resources, LLC

Basin: San Juan Basin

Counties: La Plata and Archuleta

Description: Two joint ventures with Catamount Energy Partners, a Denver-Based operator, to acquire and develop San Juan Basin gas fields with multi-lateral horizontal wells targeting the Fruitland Coal and Mancos formation.

Falcon E&P Six, LLC and Falcon Four Holdings, LLC

Basin: Eastern Shelf of Permian Basin, Arkoma Basin and Powder River

Counties: Sheridan and Campbell

Description: Joint venture with Redbud E&P, a Houston-based operator, to develop a gas field in Wyoming. Falcon/Redbud bought out Falcon's previous operating partner, Bearcat Energy.

Cold Ridge Resources, LLC

Basin: Williston Basin

County: Burke

Description: Joint venture with Windridge Oil & Gas, a San Antonio-based operator, to acquire and develop a North Dakota property prospective for Midale-Nesson.

Falcon E&P Two, LLC

Basin: Hugoton

Counties: Ellis, Kiowa, Lane, Graham, Phillips and Norton

Description: Joint venture with TexKan Exploration, a Dallas-based operator to acquire and develop a Kansas oil field targeting LKC and Arbuckle formations.

Falcon E&P Five, LLC

Basin: Hugoton

County: Stafford

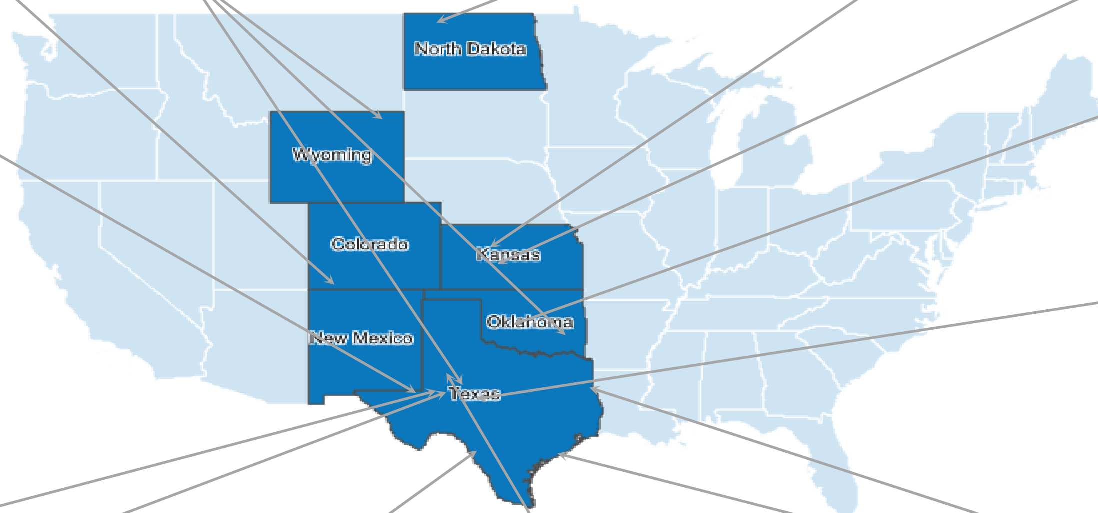
Description: Joint venture with Lasso Energy, a Kansas-based operator, to acquire and develop a small, producing oil property in Kansas.

PetroCap CPX, LLC

Basin: Permian – Delaware Basin

County: Reeves

Description: Joint venture with CP Exploration II, a Dallas-based operator, to acquire, develop and earn acreage in a farmout in a core Wolfcamp area of Reeves County.



Bobcat Resources, LLC

Basins: SOHOT and STACK areas of the Anadarko Basin

County: Caddo

Description: Joint venture with Lynx Energy Partners to acquire and develop an acreage position targeting the Marchand interval of the Hoxbar Group

Falcon E&P Three, LLC

Basin: Permian – Central Basin Platform

Counties: Ector and Andrews

Description: Joint venture with BVX Operating, a Midland-based operator to acquire, lease and develop acreage targeting Clearfork formation.

Falcon E&P One, LLC

Basin: Permian – Eastern Shelf

Counties: Tom Green and Irion

Description: Joint venture with Banner Resources, a Dallas-based operator, to acquire and develop a conventional oil field in West Texas targeting vertical San Andres and Cisco/Canyon.

Falcon E&P Seven, LLC

Basin: Permian – Midland Basin

Counties: Glasscock and Martin

Description: Joint venture with Opus Operating, a Midland-based operator, to lease and develop acreage prospective for the Wolfcamp.

PetroCap Ageron, LLC

Basin: South Texas – Eagle Ford Trend

Counties: Frio, Zavala, Dimmit, La Salle, Karnes and Live Oak

Description: Joint venture with Ageron Energy, a San Antonio-based operator, to acquire, lease and develop acreage in the northwest part of Eagle Ford trend in South Texas.

Lamesa Oil & Gas, LLC

Basin: Permian – Central Basin Platform

Counties: Dawson and Gaines

Description: Joint venture with Steadfast Oil & Gas, a Midland-based operator, to build an acreage position and target the San Andres formation with horizontal drilling.

PetroCap Brazoria, LLC

Basins: Texas Gulf Coast

County: Brazoria

Description: Joint venture with XOG Resources, a Houston-based operator, to acquire and develop a conventional oilfield targeting the Frio Sands, Upper Houston Farms, Alibel, and other stacked zones.

Meridian Natural Resources, LLC

Basin: East Texas

County: Panola

Description: Joint venture with Sponte Resources, a Dallas-based operator, to acquire and develop East Texas oil and gas fields targeting the Cotton Valley and Haynesville Shale.

PetroCap

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- Upon the failure of a Limited Partner to contribute any portion of its commitment when that portion is called by the General Partner in accordance with the Limited Partnership Agreement, the General Partner may, in its sole discretion, declare the Limited Partner to be in default, and the General Partner may undertake various remedies with respect to the defaulting Limited Partner, including but not limited to requiring the forfeiture of all or a portion of the defaulting Limited Partner’s interest in the fund.

- Private funds may be subject to significant tax risks. In addition, Limited Partners may be subject to special tax and tax filing obligations due to an investment in the fund. It is possible that a Limited Partner may incur income tax liabilities in excess of actual cash distributions made prior to the date the relevant liability arises or the relevant tax is due. For tax-exempt and non-U.S. investors, an investment in a fund may give rise to unrelated business taxable income (for tax-exempt investors) and/or income effectively connected with a U.S. trade or business (for non-U.S. investors).

- The risks of an investment in a fund arise both from the risks associated with portfolio investments and from the risks related to the fund’s ability to achieve its investment objectives. These risks will be described more fully in a Private Placement Memorandum and include, but are not limited to, the following: There can be no assurance that the fund will identify suitable investment opportunities and achieve targeted returns, or that the fund will be able to fully invest its committed capital. The fund may make a limited number of investments. A consequence of a limited number of investments is that the aggregate returns realized by the partners of the fund may be substantially adversely affected by the unfavorable performance of a small number of these investments. The business of investing in oil and gas is highly competitive and the fund may not be successful in identifying suitable oil and gas properties, acquiring those properties on favorable terms or diversifying its investments. Prices for oil and gas are volatile – decreases or increases may negatively impact the fund’s results of operations and the amount of cash that the fund may distribute. Environmental laws and other legislation and governmental regulations may adversely affect the fund’s operations, including restricting drilling. Because private oil and gas investments are illiquid, the fund may have difficulty disposing of its investments at optimal times or at optimal value. Because the fund intends to rely on the business experience and contacts of the principals to execute the fund’s investment strategy, the departure of any of those principals may make it more difficult for the fund to achieve its investment goals. Investing in securities, such as the interests, is highly speculative and carries a high degree of risk. Anyone investing should be able and prepared to bear a loss of his, her, or its entire investment. The information in this presentation is not designed to be used as the basis for an investment decision. You should confirm to your own satisfaction the veracity of any information prior to entering into any investment. The decision to make any investment is done purely at the investor’s own risk.