

Haynes and Boone, LLP Borrowing Base Redeterminations Survey: Spring 2019

March 12, 2019

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OBJECTIVE OF THE SURVEY

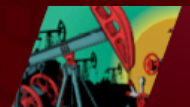
Since April 2015, Haynes and Boone, LLP has conducted nine borrowing base redetermination surveys, including one most recently in February 2019.

Survey respondents included executives at:

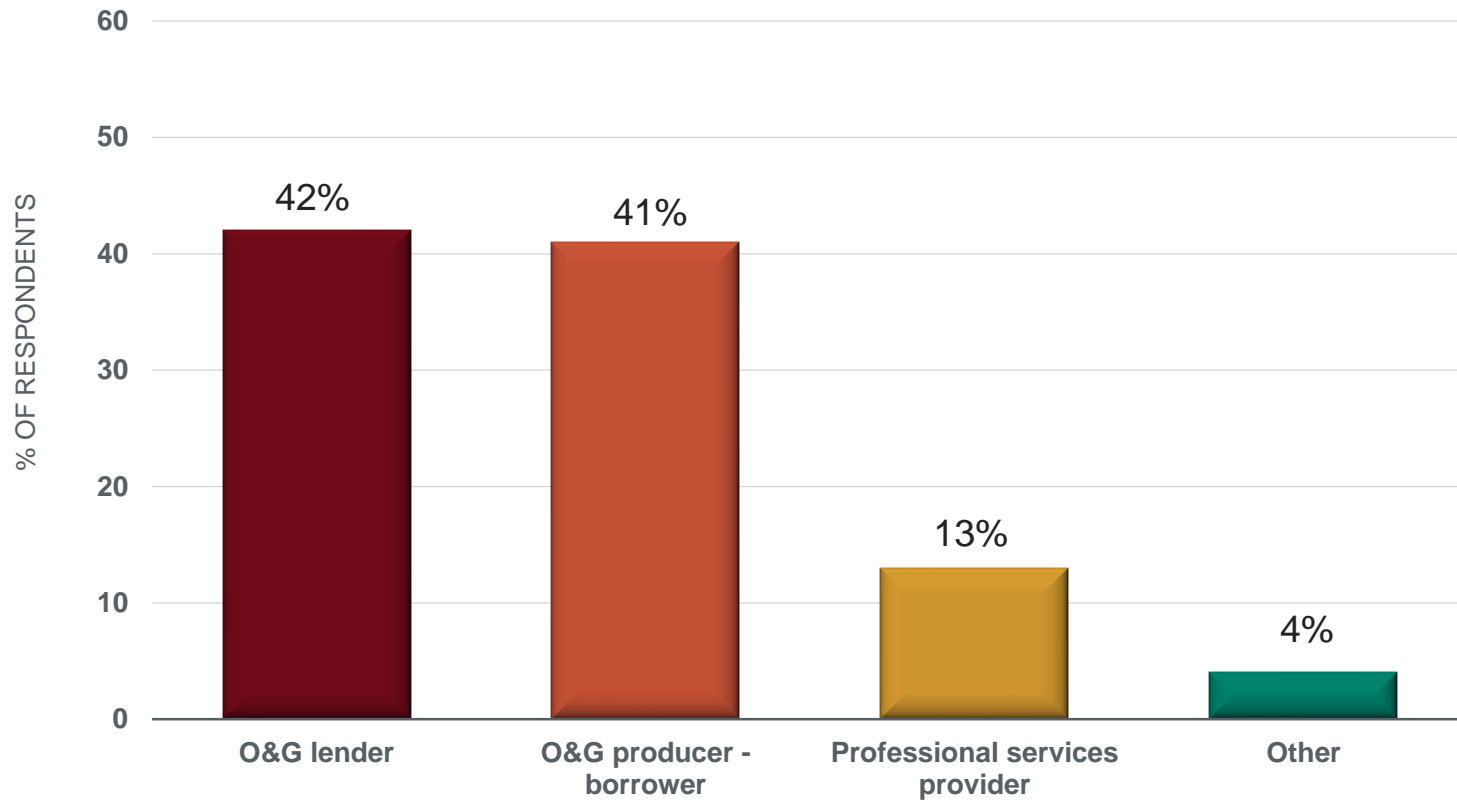
- Oil and gas producers
- Oilfield services companies
- Financial institutions
- Private equity firms
- Professional services providers

The primary objective was to get a forward-looking and clear idea of what lenders, borrowers (oil and gas producers) and others are experiencing regarding borrowing base redeterminations in light of the price uncertainty in the commodity markets.

The following is a summary of the February 2019 survey results and an analysis of the responses.



Question 1:
Which of these best describes you?



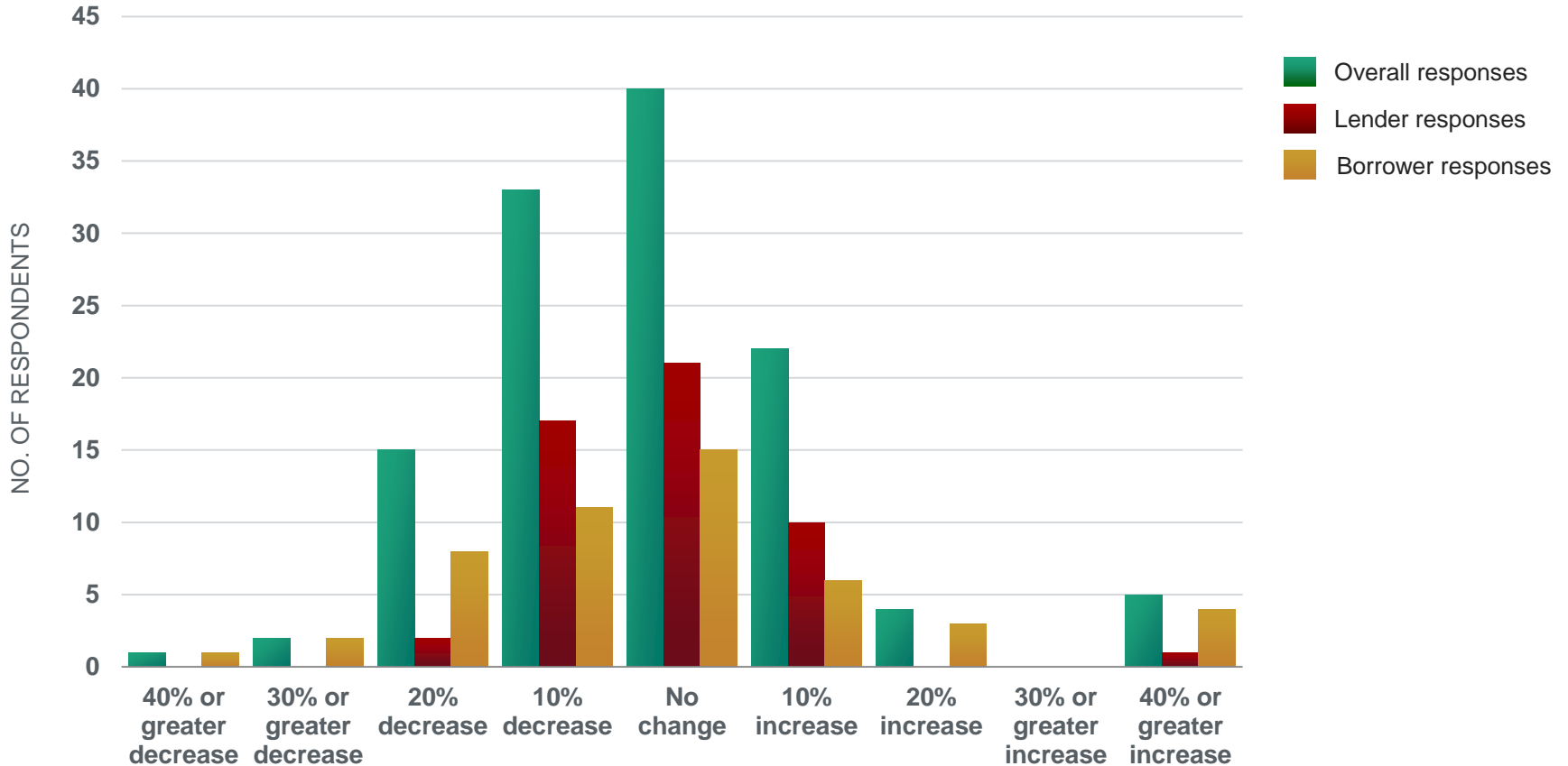
121 respondents



Question 2:

What percentage do you expect borrowing bases to change in spring 2019 as compared to fall 2019?

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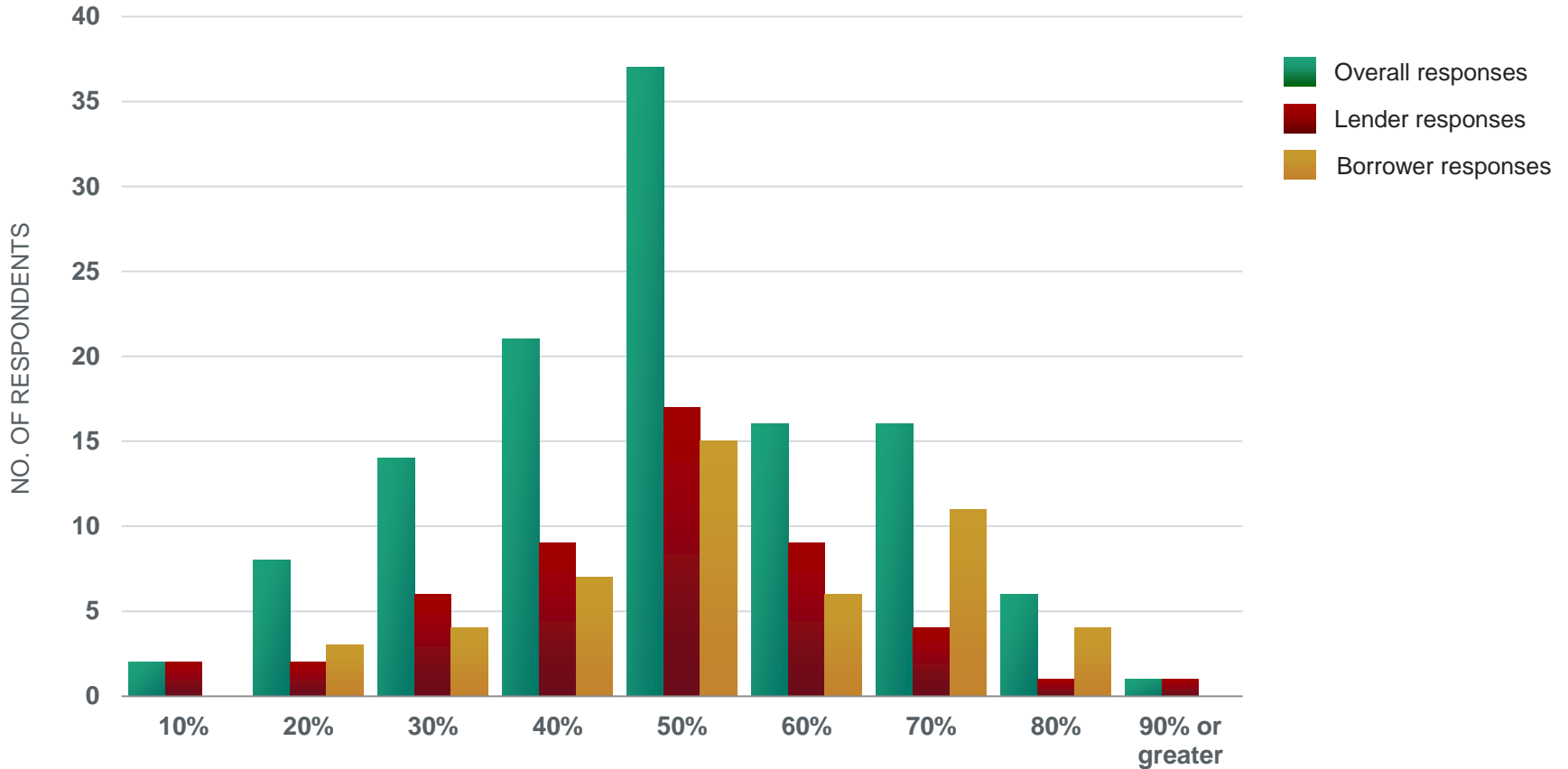
Despite significant oil price declines at the end of 2018, most respondents expect borrowing bases to stay the same or decrease just slightly.

Haynes and Boone
Borrowing Base Redeterminations
Survey: Spring 2019



Question 3:

On average, what percentage of anticipated future production have reserve-based credit facility borrowers hedged for the next 12 months?

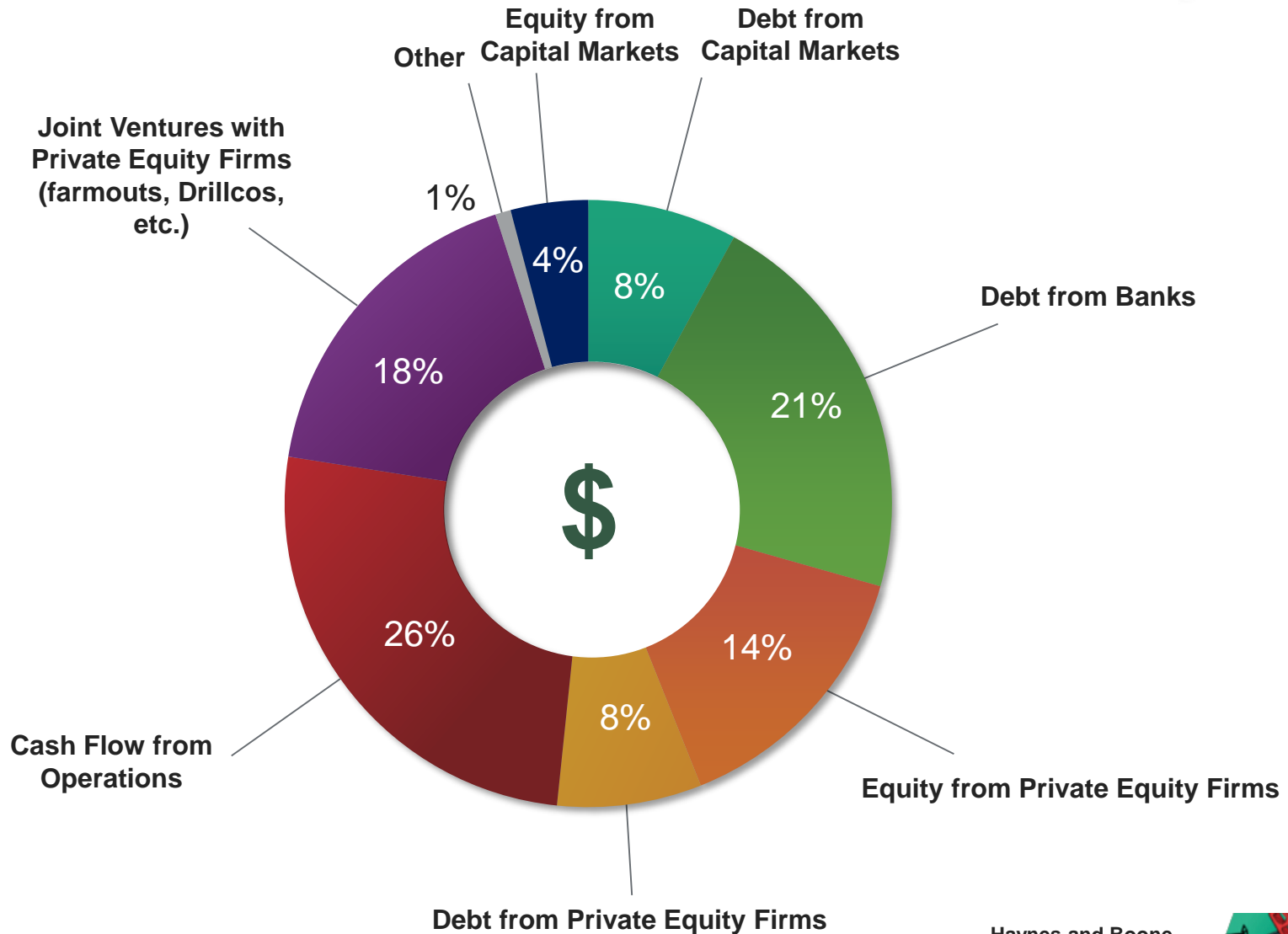


The survey indicates that producers continue to favor hedging in 2019, maintaining hedging volumes seen in our 2018 surveys.



Question 4:

Where are producers planning to source capital from in 2019?*

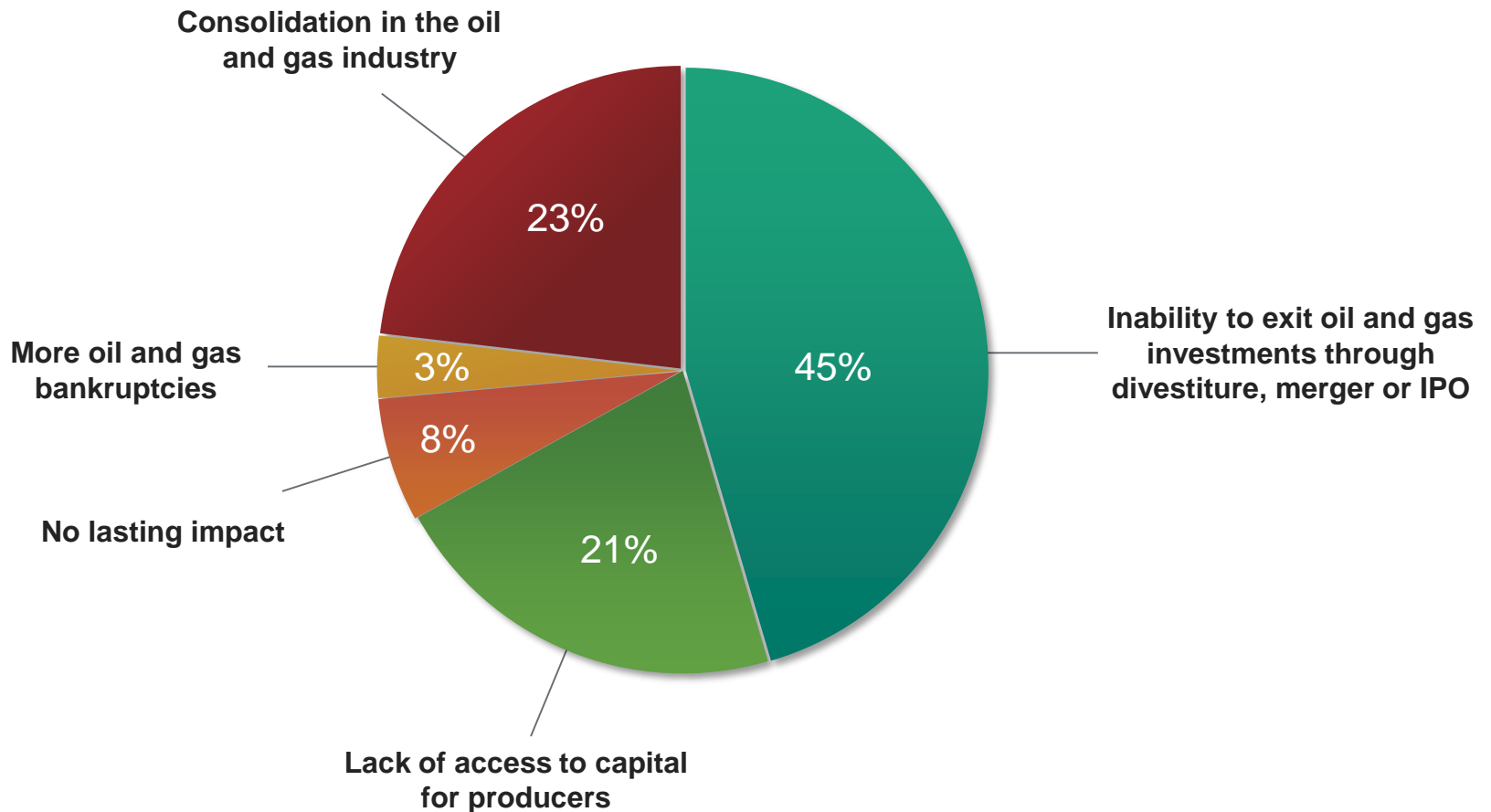


*Respondents could select more than one option. We collected 364 responses. The figures in the chart above indicate the percent of total responses for each option.



Question 5:

What will be the biggest impact of commodity price volatility at the end of 2018?

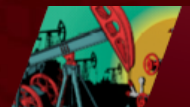


The survey indicates that oil and gas companies looking to “cash out” in 2019 will struggle to do so.



KEY TAKEAWAYS


- Respondents do not expect banks setting spring 2019 borrowing bases to take a knee-jerk reaction to late 2018 oil price declines. Most respondents expect borrowing bases to remain the same or decline just slightly. Some respondents are even predicting modest increases.
- Producers have hedged a significant amount of their 2019 production – 40 to 60 percent. This hedging coverage may explain why respondents are not expecting dramatic changes to borrowing bases.
- Capital markets – both equity and debt – have fallen significantly out of favor as sources of capital. There is increased interest in 2019 in sourcing capital through joint venture transactions (farmouts, Drillcos, etc.).
- Though respondents do not expect recent commodity price volatility to cause oil and gas companies to head into bankruptcy, the survey makes clear that 2019 will be a difficult year to monetize oil and gas investments.




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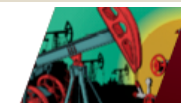
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