ENERGY INDUSTRY DATA AND TRENDS

M&A Activity and the Health of the Market

February, 2017

Welcome to the EnerCom Energy Industry Data and Trends for February 2017. This month, we explore recent M&A activity and what it means for markets.

It is no secret that the Permian Basin, and in particular, the Delaware Basin, has become an extremely active region in the country for M&A activity, but the types of deals being done indicate that markets are beginning to heal.

The rush of capital to the Permian has also sent the per-acre value of M&A deals in the area through the roof, leaving plenty of room for companies to find attractive offers that the markets approve of elsewhere.

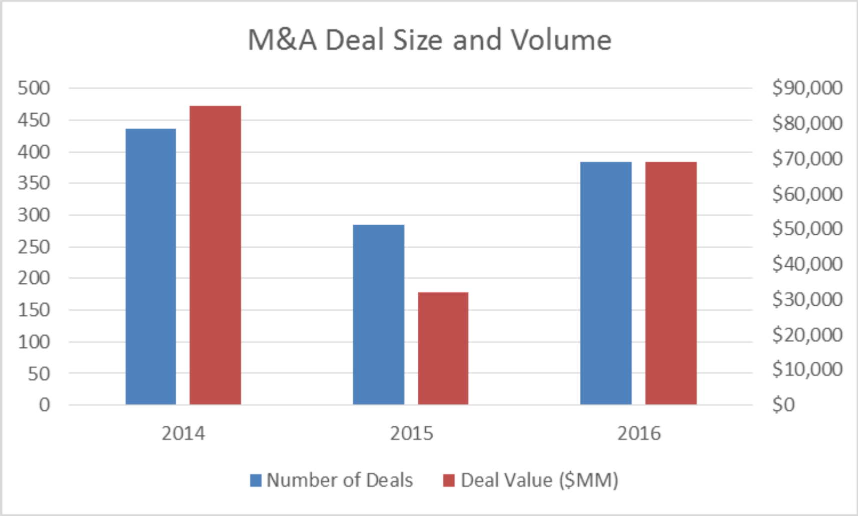
In This Report – Key Summary Points:

- M&A activity made a comeback in 2016, and 2017 is already shaping up to be hotter than last year
- Corporate acquisitions are making a comeback, already passing acreage and property deals in terms of value in 2017
- Equity consideration is becoming an increasingly important piece of the M&A picture as oil prices stabilize
- The markets continue to like Permian M&A deals, but high per-acre costs are opening the door to M&A in other plays in the United States
- There is a great deal more dry powder available to companies through equity markets than following previous downturns
- Worldwide, E&P companies are beginning to cautiously increase capital spending
- Taken together, markets appear to be turning the corner for the better, with more capital available to companies to make deals, and E&Ps looking to increase activity

This Month's Theme – What does recent M&A activity say about the health of the market?

The number of mergers and acquisitions has fallen sharply over the last two years following the decline in crude oil prices. The number of M&A deals executed in 2015 fell to 285 from 437 in 2014 before jumping back to 385 in 2016 as prices recovered.

Oil price volatility left buyers and sellers on completely different pages in 2015, making new M&A deals difficult to execute. Sellers were concerned about letting go of assets at the bottom of the market, and looked to wait out the downcycle to ensure that they were able to get the most out of asset sales.



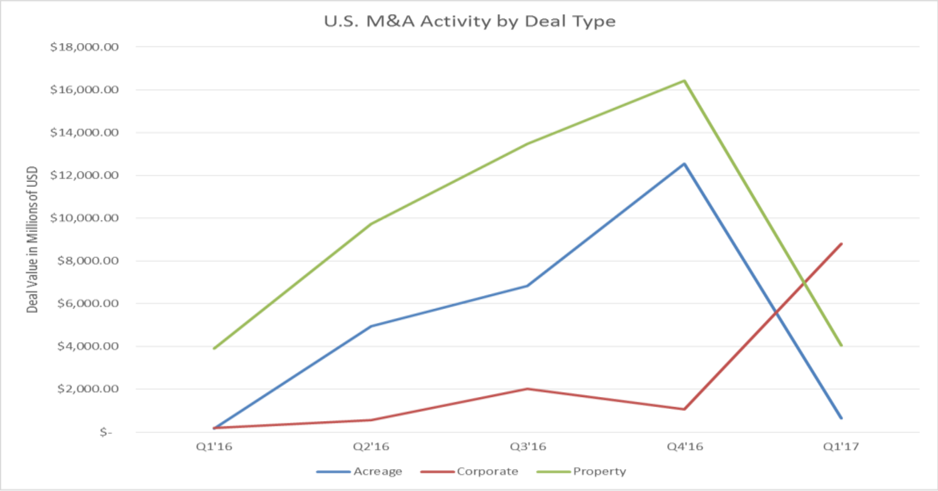
After oil prices bottomed out at $26.19 per barrel on February 11, 2016, markets began to heat up, with the dollar value of deals done in 2016 more than doubling that seen in 2015 at $69 billion. (Note: these deal value exclude large global deals such as Shell/BG's $83 billion deal in 2015 and Repsol/Tailsman's $13 billion deal in 2014)

In the first month of 2017 alone, M&A deal values have already reached $9.4 billion compared to just $0.4 billion in the first month of 2016, suggesting that with a higher and more stable oil price, M&A markets are coming back to life.

The return of the corporate deal

Even with the substantial increase in both deal values and deal volume seen in 2016 compared to the previous year, much of the M&A activity that took place was still focused on buying acreage and production as opposed to entire companies. With so much uncertainty about the where oil prices were headed, many buyers were cautious about taking on any unnecessary debt through corporate transactions.

Cash flow remained a top priority for companies, many of whom already cut back their capital budgets for a second year running after the crash in oil prices. Buying undeveloped acreage was often not the focus as companies looked for deals that would allow them to realize an immediate increase in their cash flow.



Out of a sample set of 200 M&A deals in 2016, just 12 (6%) were corporate deals while 127 deals were executed to purchase assets. In January 2017 alone, two major corporate acquisitions have already taken place out of a total of 12 deals, making up approximately 17% of the M&A deals executed so far this year in terms of deal volume.

Looking at M&A in terms of dollars, the corporate M&A transaction that took place in January 2017 have already exceeded the total dollars spent on M&A in the entire first quarter of last year. As oil prices remain above $50 per barrel, and the oil and gas industry builds confidence that it is starting to come out of the bottom of the commodity cycle, M&A activity is already beginning to boom, with 3.2x the dollar amount spent in the whole first quarter of 2016 on M&A deals already done in January.

Companies becoming more comfortable with using equity

Many of larger deals that took place over the course of 2016 were done in cash as sellers looked for hard currency in exchange for their assets. For example, Antero Resources purchase of 55,000 net acres in the Marcellus Shale for $450 million on June 9, and Synergy Resources $505 million Wattenberg acquisition on May 3, both of which were all-cash deals.

The Antero deal was particularly interesting in that the company was able raise $762 million in an equity deal connected to the acquisition, but the seller still took cash. Markets were clearly behind Antero, so much so that the company was able to raise $312 million more than it needed for the deal, but the seller still decided to cash over equity in Antero.

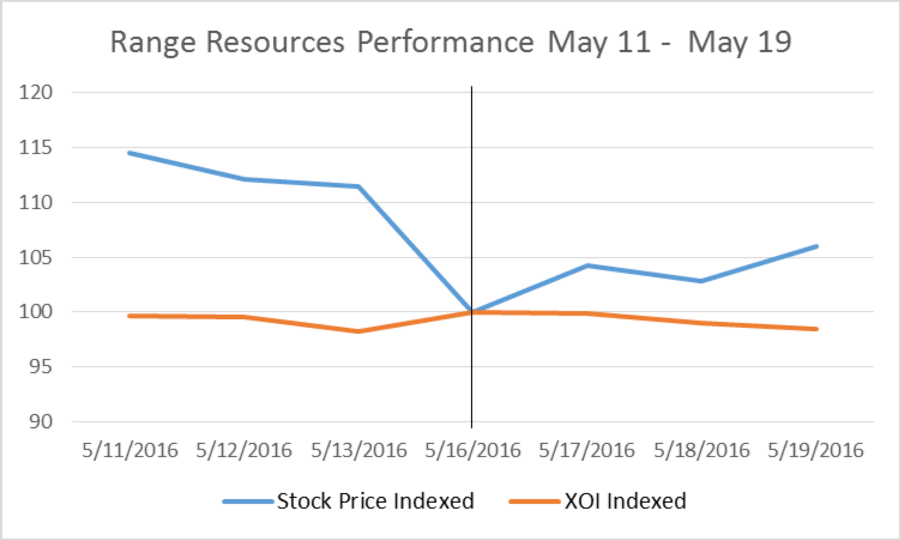
Equity deals did take place over the course of 2016, but sellers were more cautious about taking a position in the purchasing company due to uncertainties about market health. The fall in crude oil prices, compounded by the rapid fluctuations in price, had a negative impact on the stock performance of many companies, making equity a risker option for M&A transactions.

In 2017, however, equity is being used to finance large M&A deals. The two largest M&A deals that took place in January – ExxonMobil's $6.6 billion acquisition of the Bass family's Permian assets, and Noble Energy's $3.2 billion acquisition of Clayton Williams Energy – both consisted primarily of equity.

Market reactions to M&A deals

In order to better understand how markets reacted to M&A transactions when they happened, EnerCom collected stock performance data from a number of M&A deals since the beginning of 2016. To gauge how the markets reacted to each deal, we indexed stock performance against the NYSE ARCA Oil & Gas Index (XOI) on the day of the transaction, and looked at how the stock performed in comparison to the index three days before and after the deal. Looking at stock performance in this frame allows for an understanding of how markets reacted to the deal compared to a relatively stable XOI benchmark.

Starting off with a corporate deal that took place in the second quarter of 2016, EnerCom analyzed Range Resource's acquisition of Memorial Resource Development. Oil prices had begun to recover (WTI crude closed at $47.42 the day of the deal) and Range was able to execute an all-stock deal that markets viewed positively.



The all-stock transaction was valued at $4.4 billion at the time, including the assumption of Memorial's $1.1 billion in debt. The fact that the acquisition took place near the mid-point of the year surprised many, with analysts at SunTrust Robinson Humphrey noting the deal was "one of the first corporate deals we have seen since the 2014 massive decline in commodity prices."

The deal was seen as a positive for a number of reasons.

- Range was able to acquire Memorial at a 17% premium to its stock price, below consensus of $19 per share at the time
- The deal was accretive to Range's cash flow per share
- The acquisition compressed Range's EV/EBITDA multiples
- It improved Range's projected leverage multiples
- It diversified the company's asset base

It's all about location

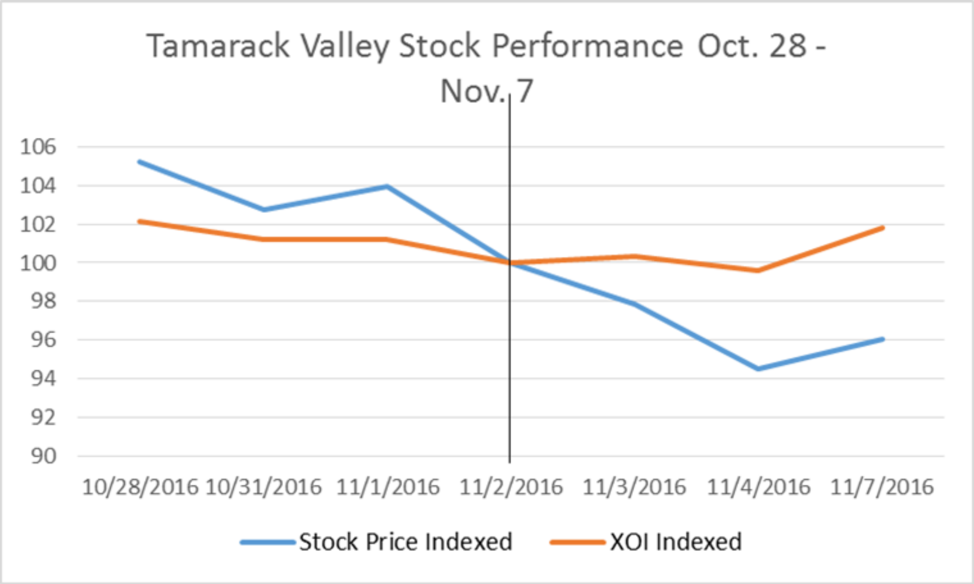
Location is often key when discussing market reaction to M&A deals. Marathon's complementary assets were a positive point for markets when viewing the deal. Companies will always try to acquire assets they believe will build shareholder value, but not all locations elicited as strong, or as quick of a reaction from markets.

Two deals that took place shortly after the Range acquisition help to illustrate this point:

The first was Tamarack Valley's acquisition of Calgary-based operator Spur Resources. Consideration for the acquisition consisted of Tamarack issuing an aggregate of 90.1 million common shares, valued at $324.5 million passed on the previous 10-day VWAP of TVE's share price, $57.3 million in cash, and the assumption of Spur's $25.7 million of debt, meaning 80% of the deal consideration was equity in Tamarack Valley.

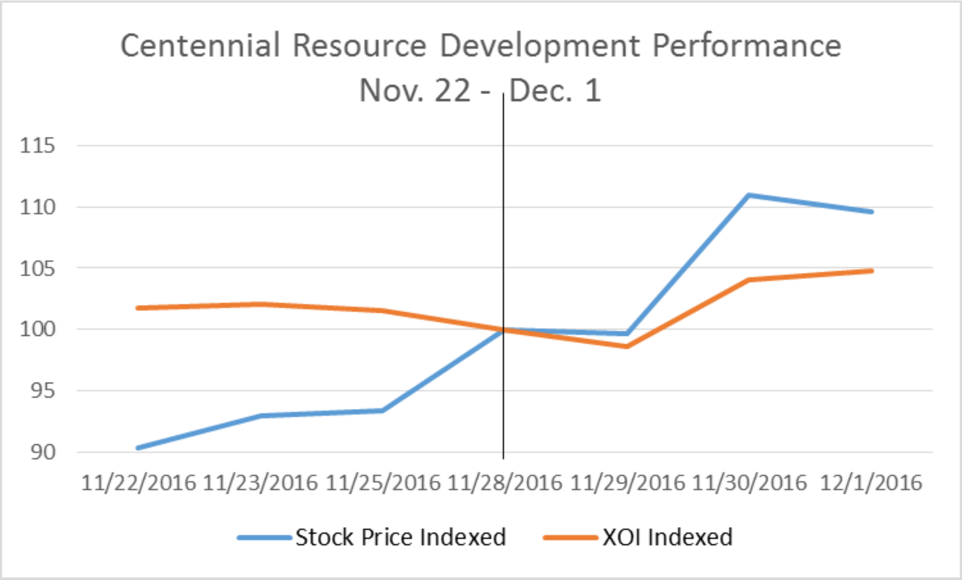
The acquired assets were in the Viking oil play that straddles the border of Alberta and Saskatchewan. At the time of the acquisition, Tamarack expected to drill 100-110 wells on the Spur assets with approximately 80% of the new wells in the Consort and Veteran areas where the company also operates infrastructure.

Looking at the company's stock performance, again indexed against the XOI, for three trading days prior, and after the deal, we can see that Tamarack was outperforming the index prior to the announcement, but preformed below the index in the days that followed. Despite underperforming the XOI immediately after the deal, the company continued to maintain a strong balance sheet following the deal, with net debt-to-2017E cash flow of 0.9x, and the value of the stock through year-end increased 2% from November 2, 2016, when the deal was announced.



The reasons for this could be that markets did not see the necessity for the added assets right away, but came to view them as a long-term growth platform in the weeks that followed the acquisition. It could also be that, because the assets where in the Viking oil play as opposed to the more active plays in the U.S., the positive effects took longer to show themselves in the company's share price.

Shortly after the Tamarack deal, Denver-based Centennial Resource Development announced an $855 million all-cash acquisition of the leasehold interests and related upstream assets from Silverback Exploration, a privately-held company with 35,000 net acres in the Delaware Basin directly offsetting Centennial's existing acreage.



In connection with the acquisition, Centennial also announced that its private equity backer, Riverstone Holdings, committed to invest up to $500 million in combination of the company's common and convertible preferred shares at the common equivalent of $14.54 per share, subject to adjustment. The company financed the remainder of the deal through an additional private placement to third-party investors for a total of $910 million in equity financing.

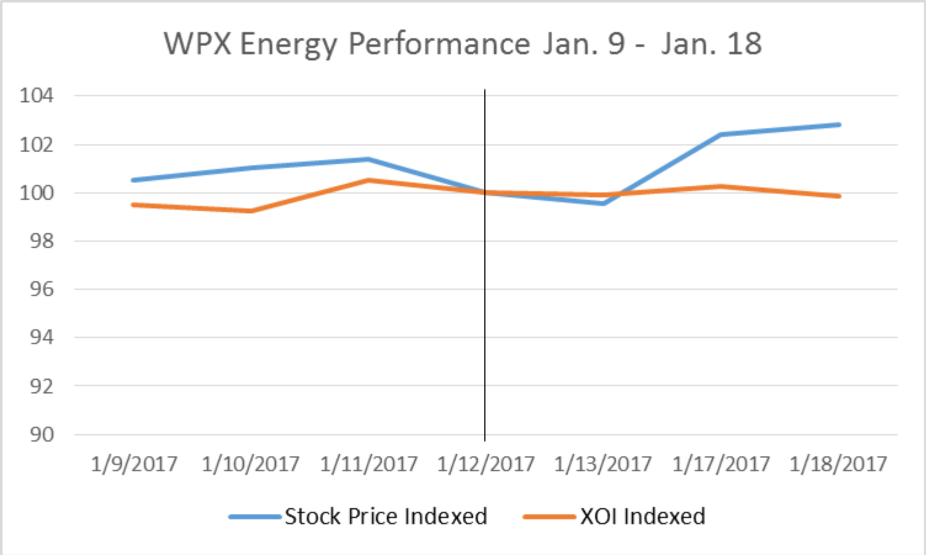
The company's stock performance was flat compared to a slight decline in the XOI immediately following the deal, but saw large jump on November 29, and continued strong performance against the XOI on the first of December. Taking into consideration the company's below-index performance in the days leading up to the transaction, markets viewed the Silverback acquisition in a positive light, giving Centennial a premium to the XOI energy index.

In both the case of Tamarack and Centennial, the acquiring companies purchased acreage as opposed to executing full corporate deals, and both were done primarily with equity. Despite this, markets took a different stance on the two deals, and the key, as it often is, appears to be location.

The Delaware Basin has become a hotbed of M&A activity over the last year. Of the $69 billion spent on M&A during the course of 2016, $18 billion (26%) was spent in the Delaware. The area's high rates of returns have attracted a wide range of E&Ps, and investors are willing to give a premium to companies that are able to gather assets in the region.

The power of the Permian

Many of the largest deals announced in the last year have been located in the Permian, and more specifically, the Delaware Basin. On January 12, 2017, WPX Energy acquired Panther Energy Company II, LLC and Carrier Energy Partners, LLC, expanding its footprint in the Delaware Basin by approximately 18,100 net acres.



WPX was outperforming the XOI in the days leading up to the deal, but realized an even more substantial gain following the Delaware acquisition.

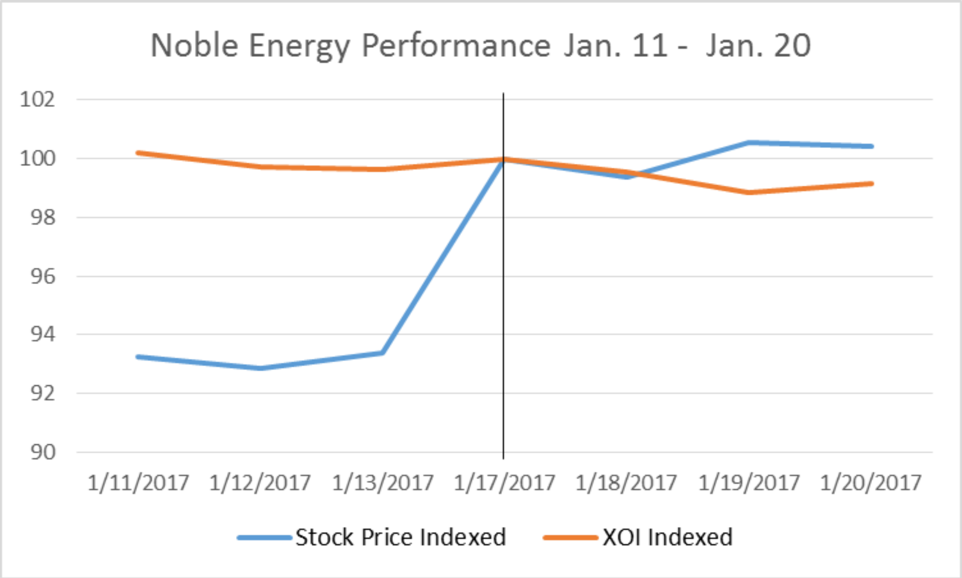
Including the Panther transaction, WPX has added approximately 32,000 net acres in the core of the Delaware Basin at an average cost of $18,600 per acre (excluding flowing production) since its purchase of RKI Exploration and Production in August 2015, which marked a shift in focus to the Delaware.

Highlights from the acquired assets included:

- Projected IRR on wells ranging from 55%-95% at current strip pricing
- Estimated acreage cost excluding flowing production of ~ $28,500 per acre
- Transaction valued primarily on three zones with upside in five additional zones
- EUR's of ~ 1.0 MMBOE for Wolfcamp A and X/Y 1-mile laterals (55% oil)
- Increased WPX's total gross drillable Delaware locations from ~5,500 to ~6,400
- New drillable locations include more than 150 long laterals (1.5-2 miles)
- Provided a growth platform for the company for the 2017-2020 time period

In order to finance the deal, WPX used a combination of cash on hand and the proceeds of a 45 million share equity offering. While the equity offering increased WPX's share count by 12%-14%, the company's ability to build a large footprint in the most desirable play in the U.S. at a relatively low cost left markets feeling positively about the deal despite the dilution of equity.

Five days after the WPX deal, Noble Energy announced the corporate acquisition of Clayton Williams for $3.2 billion, $2.0 billion of which was covered by Noble common stock. The combined company has more than 4,200 drilling locations on approximately 120,000 net acres in the Delaware Basin, making Noble one of the largest operators in the area.



Noble was performing well below the XOI leading up to the deal on January 17, 2017, but began outperforming the benchmark index in the days that followed.

Markets appeared to take no issue with the fact that Noble financed the deal with 55 million shares in the company, plus a $665 million cash payment. The deal also included the assumption of Clayton Williams' $500 million in debt, which made the deal risker for Noble than simply purchasing more acreage near its Delaware Basin operations.

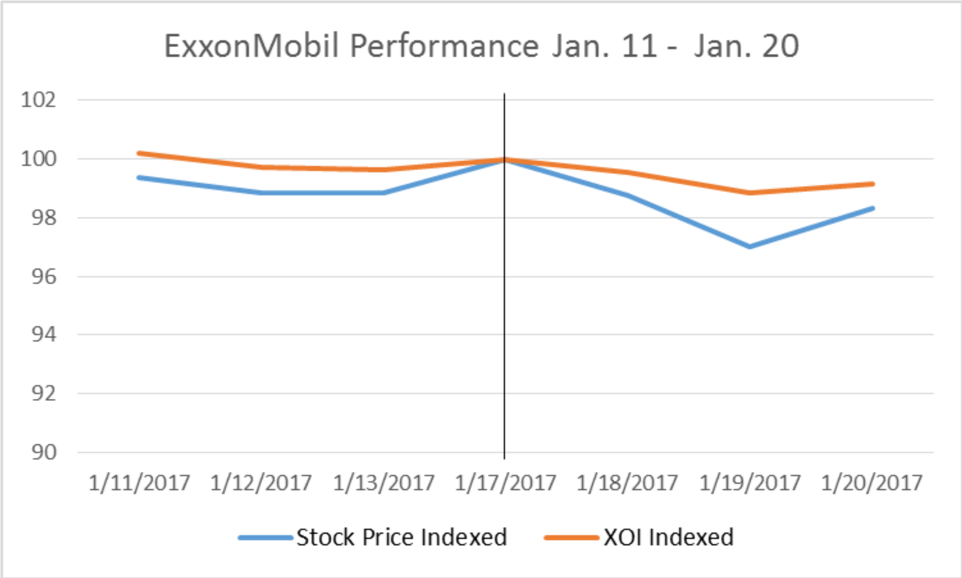
Sometimes even the Delaware is not enough to move the needle...

While the market reaction to the majority of Delaware Basin acquisitions, both corporate and for acreage, was positive over the course of the last year, sometimes even buying into the premier U.S. basin was not enough to move stock prices higher.

ExxonMobil announced the acquisition of companies owned by the Bass family of Fort Worth, Texas, on the same day as the Noble deal, more than doubling the size of the company's Permian footprint.

The company made an upfront payment of $5.6 billion in ExxonMobil shares, and a series of additional contingent cash payments totaling up to $1 billion, to be paid beginning in 2020 and ending no later than 2032 commensurate with the development of the resource. Using the closing price from the day before the deal of $86.35 per share as a benchmark, the portion of the deal to be paid in equity was made up of approximately 64.9 million shares in Exxon.

Despite being a large Delaware Basin corporate acquisition, ExxonMobil's share price went a leg lower compared to the XOI two days following the deal, before coming back to about the same performance the company saw leading up to the deal.

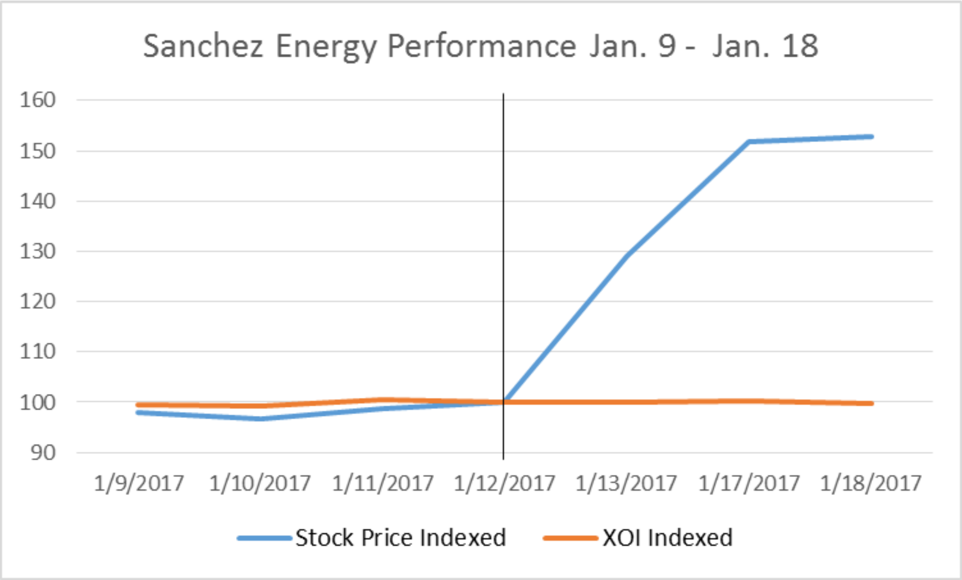


When talking about a company like Exxon, even a 250,000 acre acquisition in the Delaware is not always enough to significantly move the needle on stock price. Another important point to consider is that, while Exxon purchased a significant chunk of Delaware assets, they are located outside of what is considered the core of the basin, whereas Noble's acquisition was primarily in Reeves County, at the heart of the play.

… And sometimes, you don't need the Delaware at all to make a splash

Given the mad dash to the Delaware Basin, it is not surprising that the companies that are able to execute on M&A in the region are often seeing strong stock performance compared to the rest of the market, but in the deals that EnerCom analyzed for this report, the deal that had the largest positive effect took place not in the Permian, but the Eagle Ford.

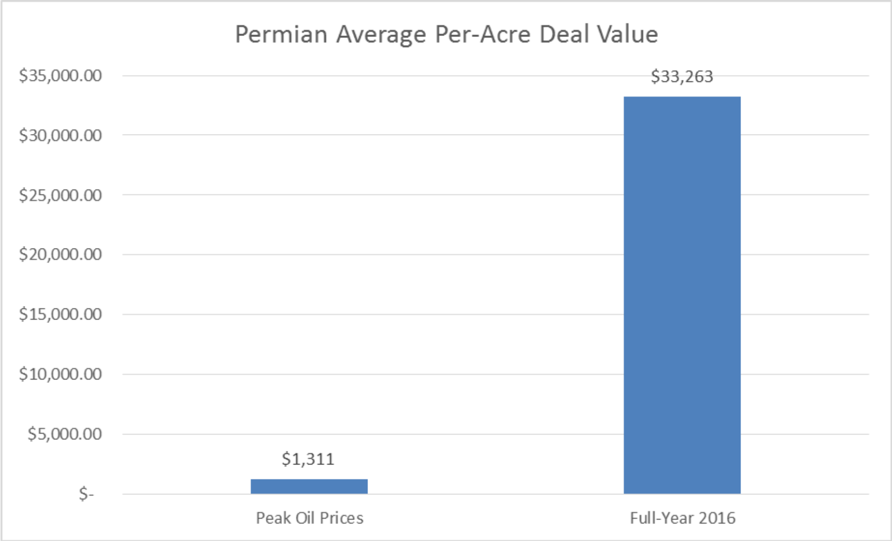
Sanchez Energy Corporation and funds managed by Blackstone Energy Partners entered into a strategic 50/50 partnership and signed a definitive purchase agreement to acquire Anadarko Petroleum Corporation's working interest in approximately 318,000 gross operated acres in the Western Eagle Ford for approximately $2.3 billion on January 12, 2017.



The surging prices in the nearby Delaware left a lot of room to execute on deals in other plays, and Sanchez reaped the rewards of focusing on the Eagle Ford as opposed to the Permian. The deal established the company as an Eagle Ford operator with strong assets in large volume. The company said the drilled uncompleted (DUC) well inventory alone amounted to 132 wells with IRRs in excess of 100%, with current production of 67 MBOEPD and 20 years of additional, economic, drilling inventory at January strip pricing, according to the company.

Sanchez had been performing relatively in-line with the wider XOI benchmark leading up to the deal, but outperformed by more than 50% in the three days that followed their announcement even as the XOI's performance stayed flat.

The Permian has become an increasingly expensive play to buy into as capital rushes in the region. Comparing the per-acre price of deals in 2013 and early-2014 -- when oil prices were at their peak -- to 2016, Permian deal prices have skyrocketed more than 25x despite the decline in the value of oil.



Markets are willing to give a premium to companies in the Permian, as we discussed in the January monthly, but the high cost of entry does leave a lot of room for companies to execute in other plays to great effect, much the way Sanchez did in the Eagle Ford.

Bottom line: equity is becoming available for M&A

While the stock performance of acquiring companies in M&A transactions varied in large part due to the assets they were purchasing, an overarching theme does appear in the deals done since the middle of last year. As oil prices begin to recover, markets are beginning to see a brighter future for oil and gas companies, and are more comfortable with equity offerings in transactions.

A number of deals were done in cash throughout the beginning of 2016 as oil prices reached their lowest point of the downcycle and started to recover. As prices improved and stabilized above $50 per barrel, companies became more comfortable both with using equity to finance the majority of their M&A transactions, and with taking on the balance sheets of other companies through corporate acquisitions.

Markets are willing to reward companies for issuing additional equity for acquisitions if the assets are right. For many companies, that has meant acquisitions in the Delaware Basin, but companies like Sanchez also showed that there is a great deal of opportunity outside the Permian as well, if the deal makes sense.

As corporate acquisitions make a comeback, there may be a wave of consolidation that never came during the downturn. With oil prices above $50 per barrel, companies appear to be more comfortable taking on added debt from acquisitions, and we may see larger acquisitions as equity becomes increasingly available to acquiring companies.

Funding a Capital Intensive Industry

1

In 2016, Companies Raised More Than $110 Billion in Capital

U.S. and Canadian Offerings	2012	2013	2014	2015	2016	2017 YTD
Initial Public Offerings	$5,710MM	$6,670MM	$8,210MM	$1,390MM	$3,230MM	$96MM
Follow-on Offerings	$18,350MM	$20,260MM	$22,380MM	$24,540MM	$42,330MM	$4MM
Debt Offerings	$78,634MM	$53,783MM	$73,586MM	$107,155MM	$64,634MM	$5,829MM
Totals	**$102,694MM**	**$80,713MM**	**$104,176 MM**	**$133,085MM**	**$110,194MM**	**$5,929MM**
U.S. & Canada M&A Announcements	$220B/ 865 deals	$123B/ 770 deals	$264B/ 1040 deals	$102.9B/ 492 deals	$135.5B/ 549 deals	$20.4B/ 50 deals
Global M&A Announcements	$319B/ 1,326 deals	$215B/ 1,303 deals	$373B/ 1,694 deals	$305.1B/ 1,021 deals	$286.4B/ 1,078 deals	$27.3B/ 85 deals

Source: Bloomberg. Oil & Gas and Oil & Gas Service industries.

www.enercominc.com ENERCOM CONSULTING www.oilandgas360.com

Looking at 2016, there is a clear jump (1.7x year-over-year) in the amount of follow-on offerings in the energy industry. The total amount of capital available to U.S. and Canadian companies through equity and debt offerings fell from 2015, but the spike in follow-on offerings suggest that markets were more willing to offer capital in exchange for a position in a company.

Other signs markets are taking a turn for the better

In addition to the increased availability of equity for M&A, other trends that the oil and gas market are healing are beginning to emerge. A survey of 215 oil and gas companies worldwide conducted by Barclays found that upstream spending is likely to increase 7% worldwide year-over-year in 2017, and will increase 27% in North America.

Increased spending is certainly good news, although Barclays notes in their research that the 7% increase is the smallest post-downturn increase in spending in the last 32 years. Spending increased 10% and 11% year-over-year following the downturn in 2000 and 2009, respectively. The cuts in spending were also much deeper in the most recent downcycle than in the past two, and companies appear more cautious spending their cash flow moving forward.

In North America, Barclays believes large-cap and small to mid-cap companies will spend 105% and 130% of cash flow, respectively. Large-cap companies spent an average of 111% of cash flow from 2010-2014 while small to mid-cap companies averaged 156% over the same time period.

Looking at the equity side of the equation, however, much more dry powder is being offered to oil and gas companies compared to past downturns. Follow-on offers totaled $2.1 billion and $15.4 billion in 2001 and 2010, respectively. The $42.3 billion in follow-on offers done in the North American energy space in 2016 was 2.7x larger in terms of offer values, meaning equity markets are more open to companies coming out of this most recent downturn.

While companies appear to be taking a cautious look at 2017, there are several indications that the market finally turned a corner. With a sharp increase in M&A dollars spent already this year, particularly those being spent in corporate transactions, and positive market response in a number of primarily-equity financed deals, it appears that the health of the oil and gas market in general has finally turned a corner.

With increased access to equity than in past downturns, and accretive opportunities both in the Permian and elsewhere, 2017 could turn out to be an exciting year for M&A transactions.

A Word of Thanks

Thank you again for putting your trust in EnerCom. Please do not hesitate to contact us with questions or additional needs. And, remember that you can get frequent updates and analysis on Oil & Gas 360® at www.OAG360.com

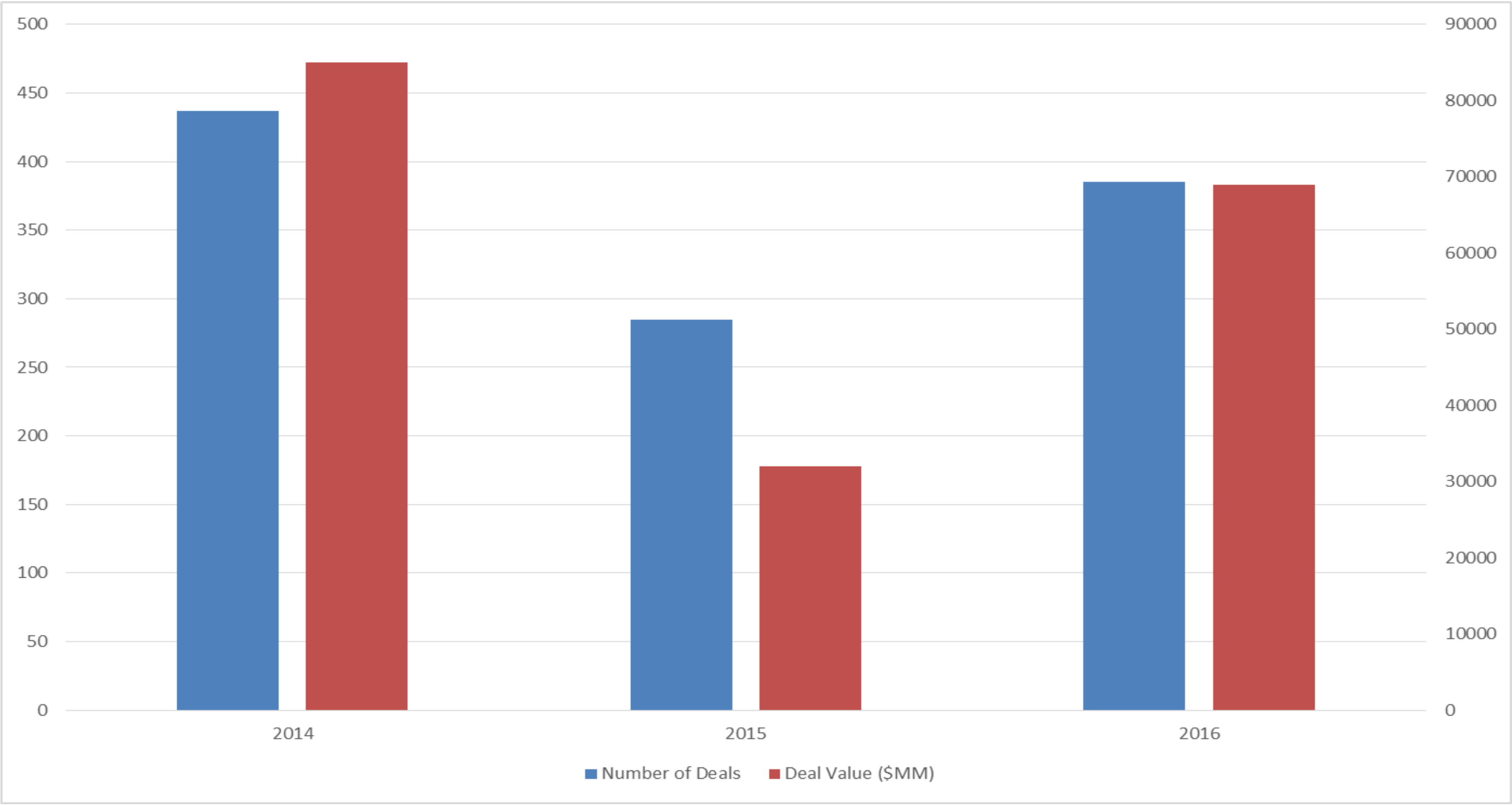
M&A Activity and the Health of the Market

February 2017

Table of Contents

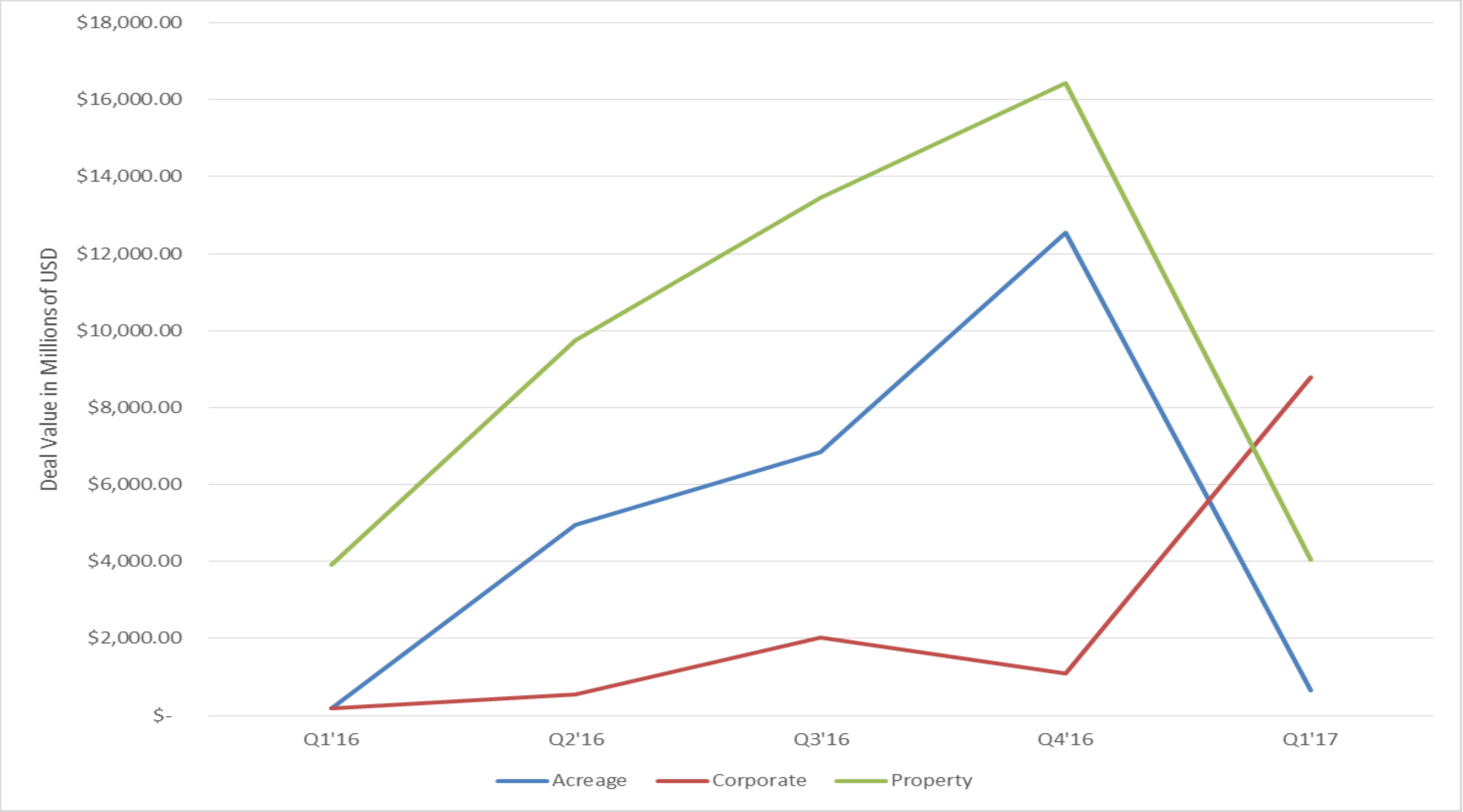
M&A Charts

M&A Deal Size and Volume



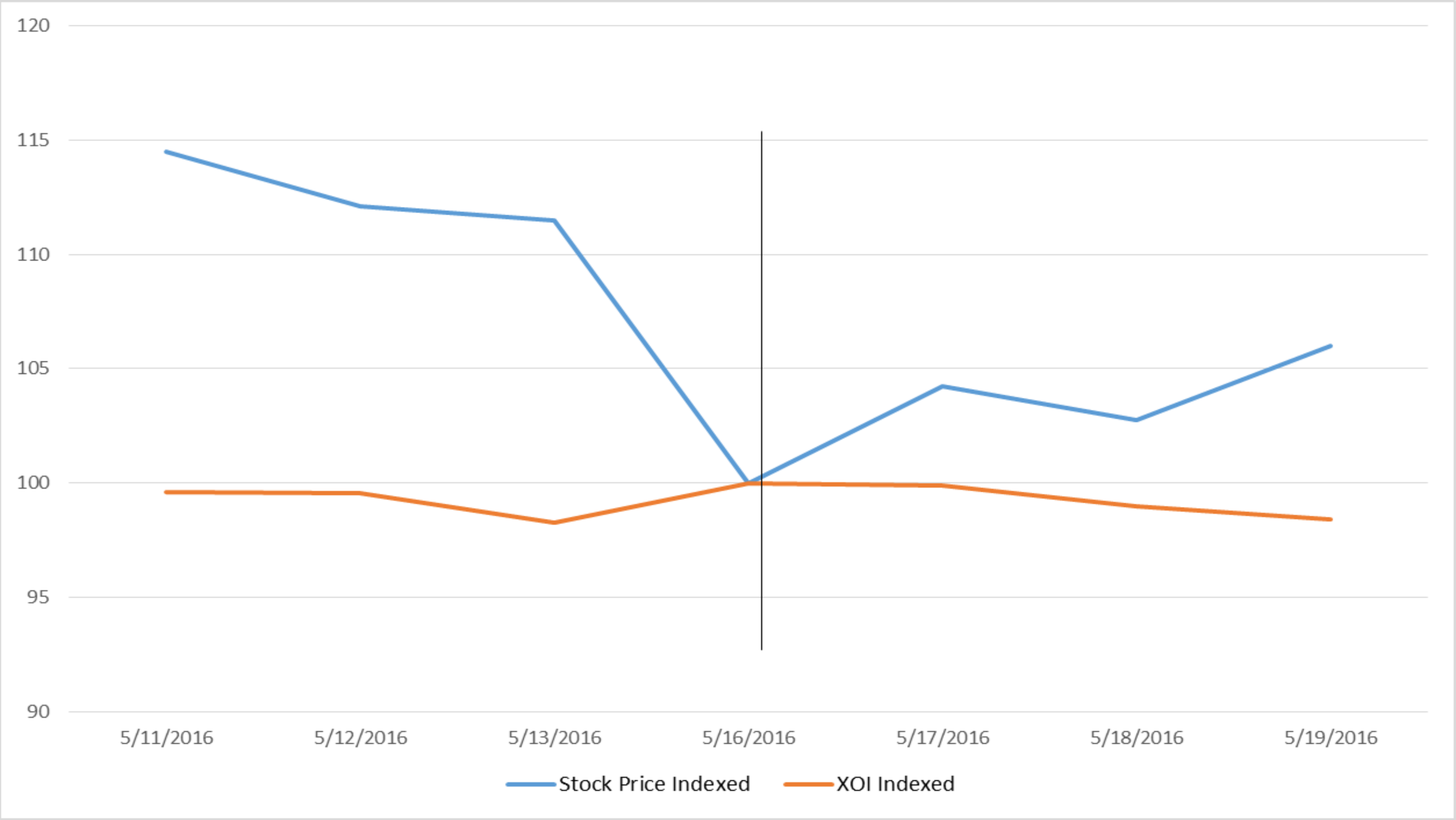
Data: PLS, compiled by EnerCom

U.S. M&A Activity by Deal Type



Data: Bloomberg and EnerCom Analytics

Range Resources Stock Performance Against the XOI

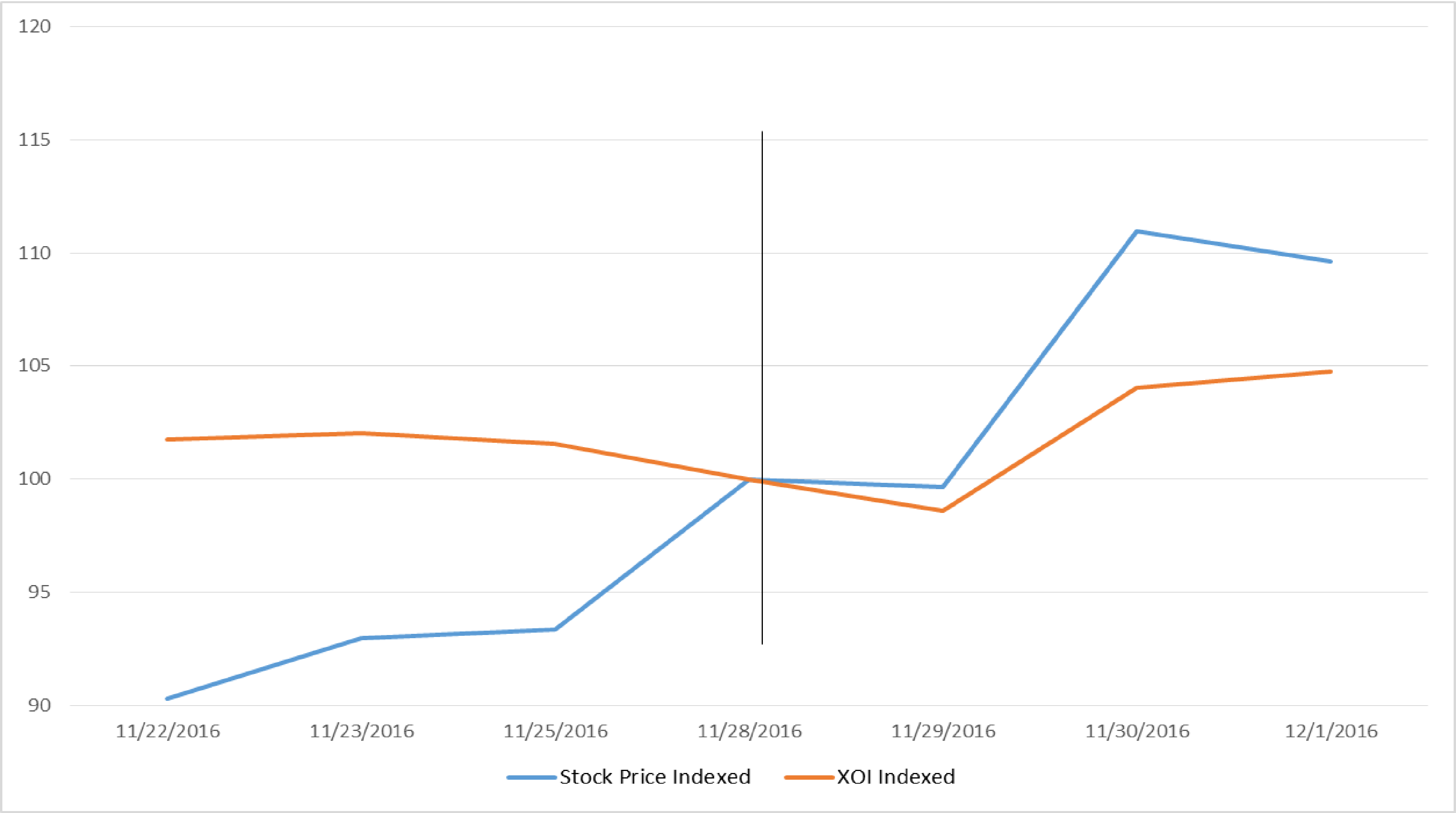


Data: Bloomberg and EnerCom Analytics

Tamarack Valley Stock Performance Against the XOI

Data: EIA compiled by EnerCom Analytics

Centennial Resource Development Stock Performance Against the XOI

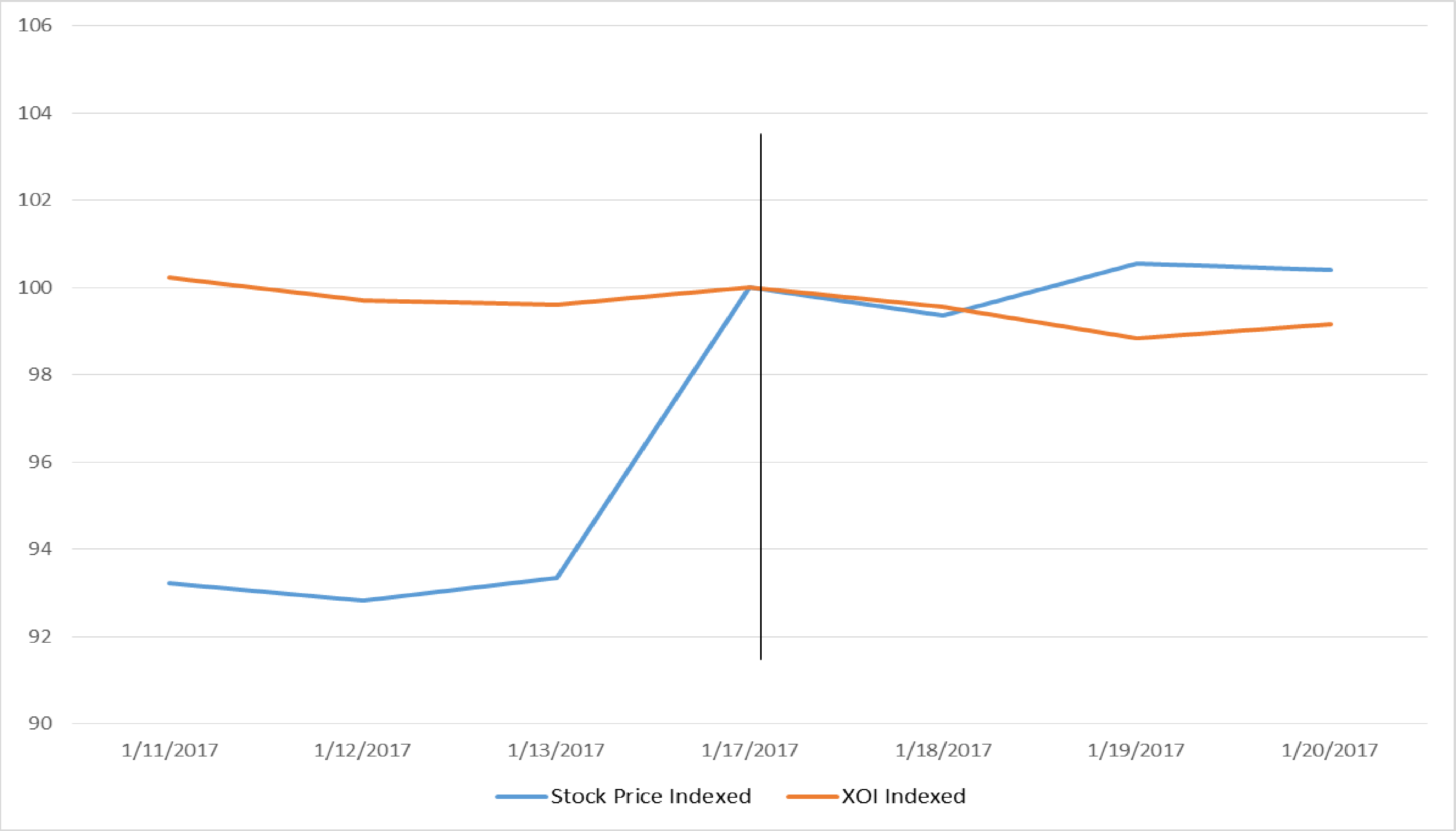


Data: Bloomberg and EnerCom Analytics

WPX Energy Stock Performance Against the XOI

Data: Bloomberg and EnerCom Analytics

Noble Energy Stock Performance Against the XOI

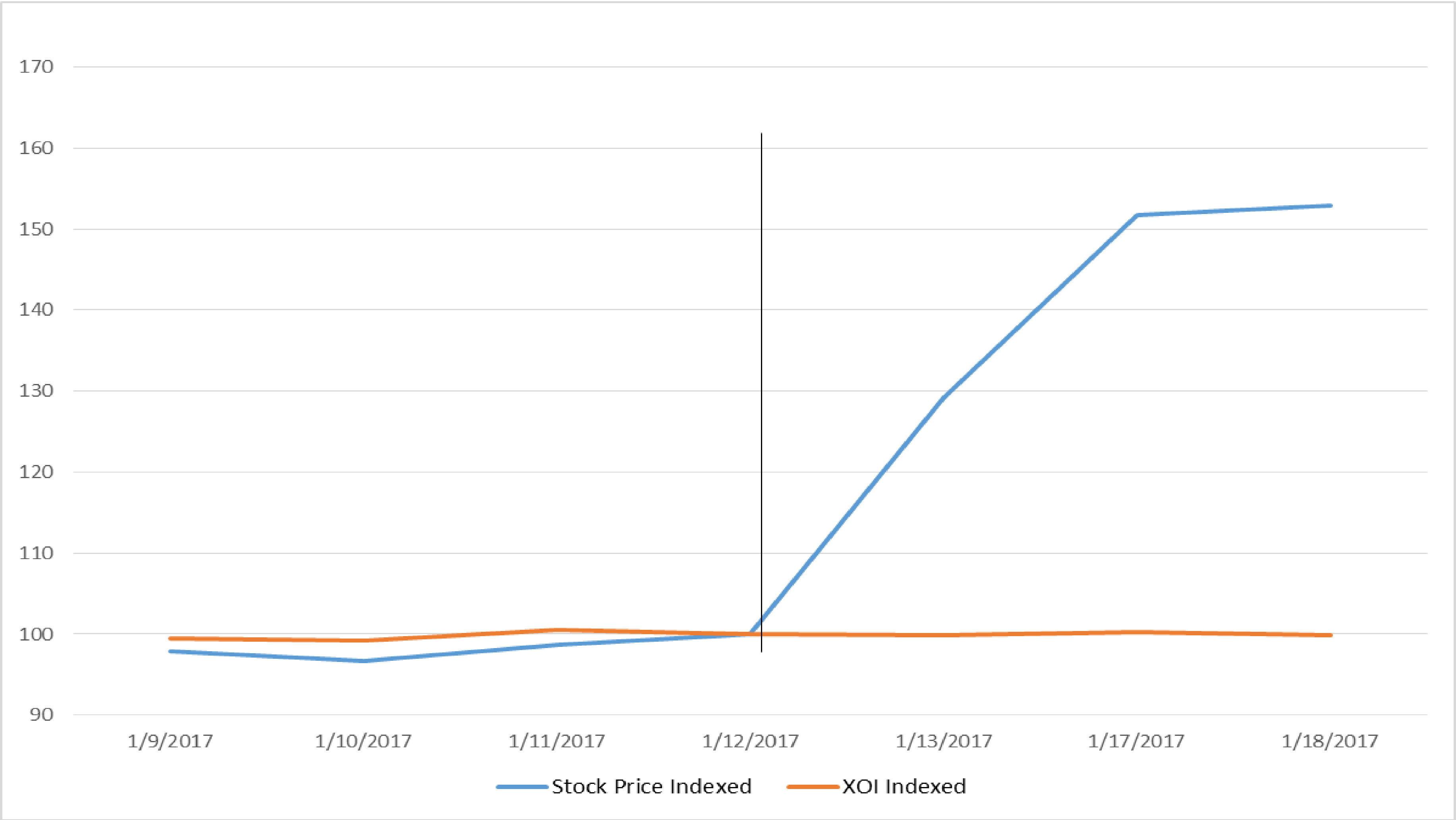


Data: Bloomberg and EnerCom Analytics

ExxonMobil Stock Performance Against the XOI

Data: Bloomberg and EnerCom Analytics

Sanchez Energy Stock Performance Against the XOI



Data: Bloomberg and EnerCom Analytics

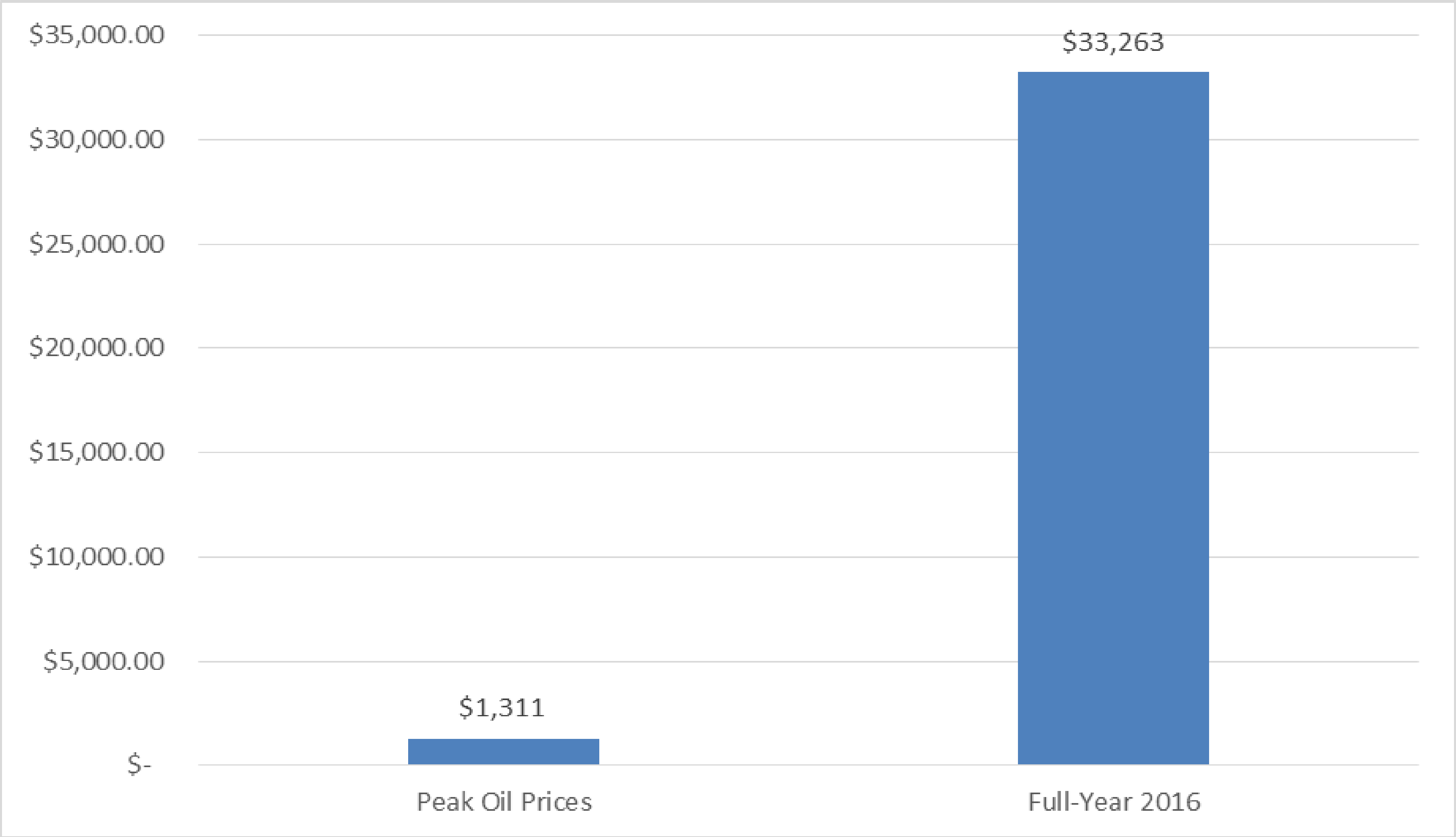
Stock Performance by Company

Purchasing Company	Date	Region	Total Consideration ($MM)	% Equity	(Under) or Outperformance of the XOI 3 Days After the Deal
Range Resources	5/16/2016	Terryville	$ 4,400	75%	7.59%
Tamarack Valley	11/2/2016	Viking Oil	$ 408	80%	(5.77%)
Centennial Resource Development	11/28/2016	Delaware	$ 885	0%	4.89%
Sanchez Energ	1/12/2017	Eagle Ford	$ 2,300	0%*	51.43%
WPX Energy	1/12/2017	Delaware	$ 775	77%**	2.10%
ExxonMobil	1/17/2017	Delaware	$ 6,600	85%	(0.83%)
Noble Energy	1/17/2017	Delaware	$ 3,200	64%	1.25%

* Sanchez Energy's contribution to the acquisition was covered by drawing on reserves based lending and preferred equity.
** $600 million of the deal was covered by an equity offering from WPX Energy

Source: Bloomberg.

Permian Average Per-Acre Deal Value



Data: Bloomberg and EnerCom Analytics

Funding a Capital Intensive Industry

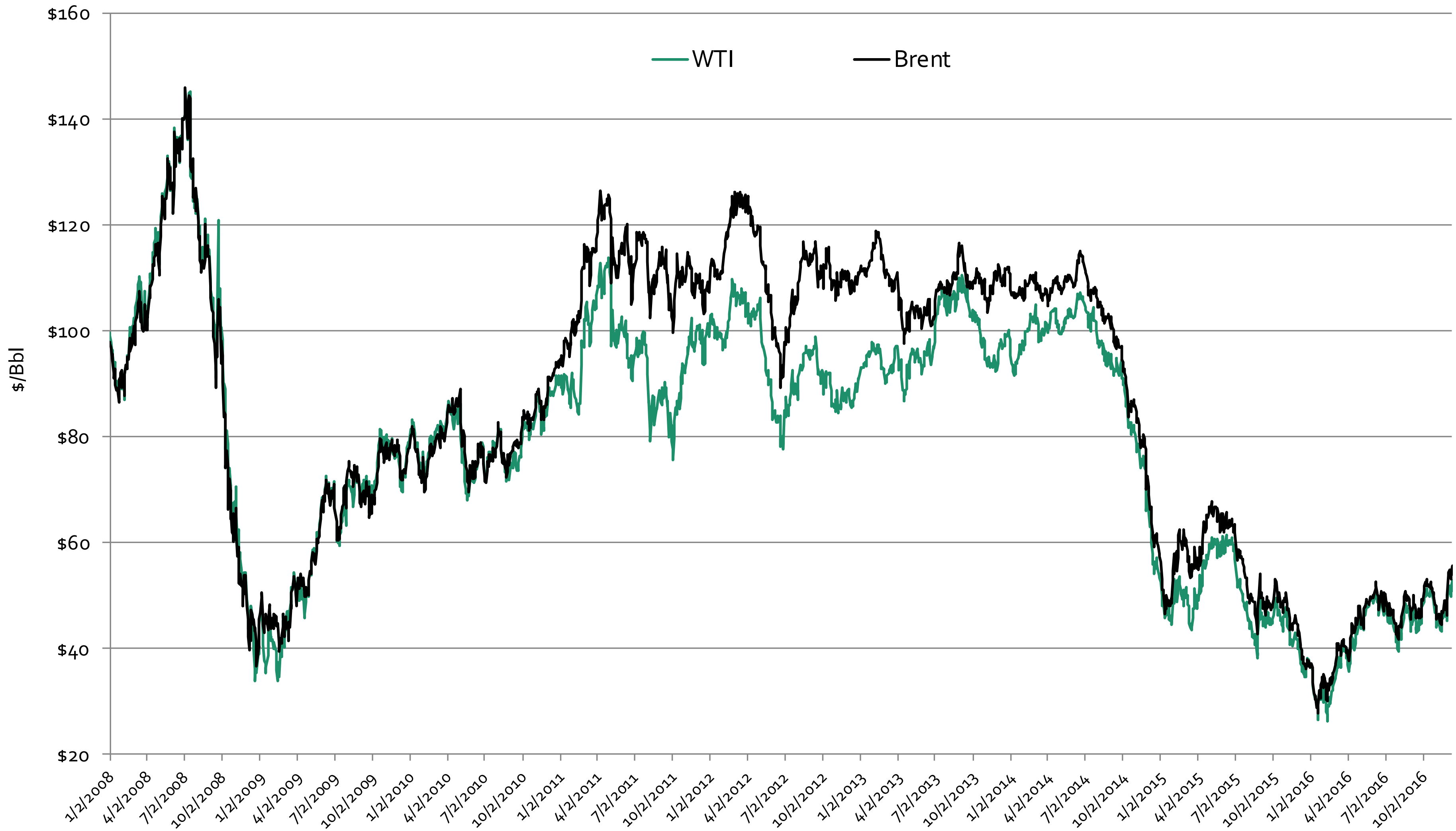
In 2016, Companies Raised More Than $110 Billion in Capital

U.S. and Canadian Offerings	2012	2013	2014	2015	2016	2017 YTD
Initial Public Offerings	$5,710MM	$6,670MM	$8,210MM	$1,390MM	$3,230MM	$96MM
Follow-on Offerings	$18,350MM	$20,260MM	$22,380MM	$24,540MM	$42,330MM	$4MM
Debt Offerings	$78,634MM	$53,783MM	$73,586MM	$107,155MM	$64,634MM	$5,829MM
Totals	$102,694MM	$80,713MM	$104,176 MM	$133,085MM	$110,194MM	$5,929MM
U.S. & Canada M&A Announcements	$220B/ 865 deals	$123B/ 770 deals	$264B/ 1040 deals	$102.9B/ 492 deals	$135.5B/ 549 deals	$20.4B/ 50 deals
Global M&A Announcements	$319B/ 1,326 deals	$215B/ 1,303 deals	$373B/ 1,694 deals	$305.1B/ 1,021 deals	$286.4B/ 1,078 deals	$27.3B/ 85 deals

Source: Bloomberg. Oil & Gas and Oil & Gas Service industries.

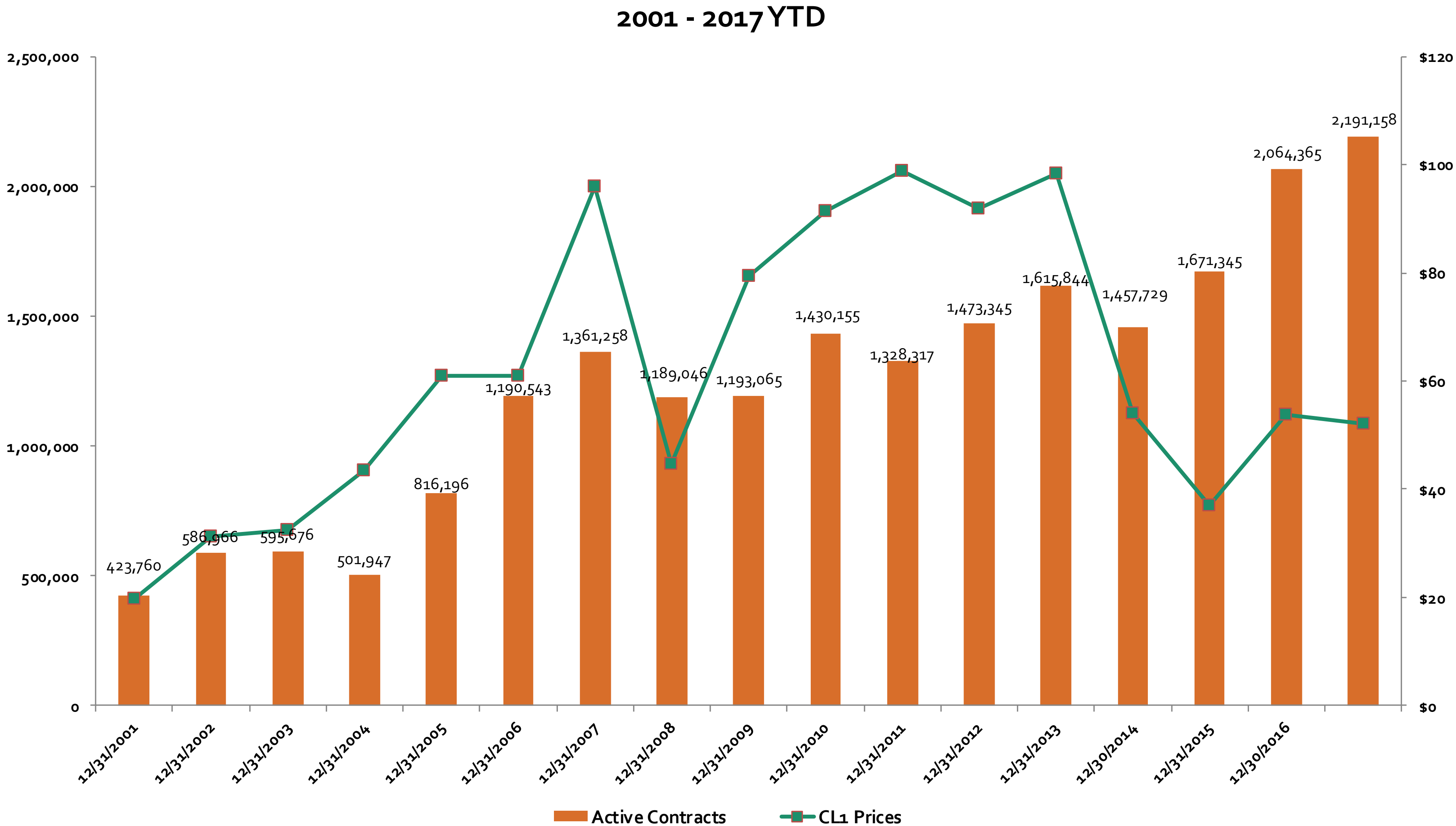
Supplemental Market Slides

Oil Prices – WTI and Brent



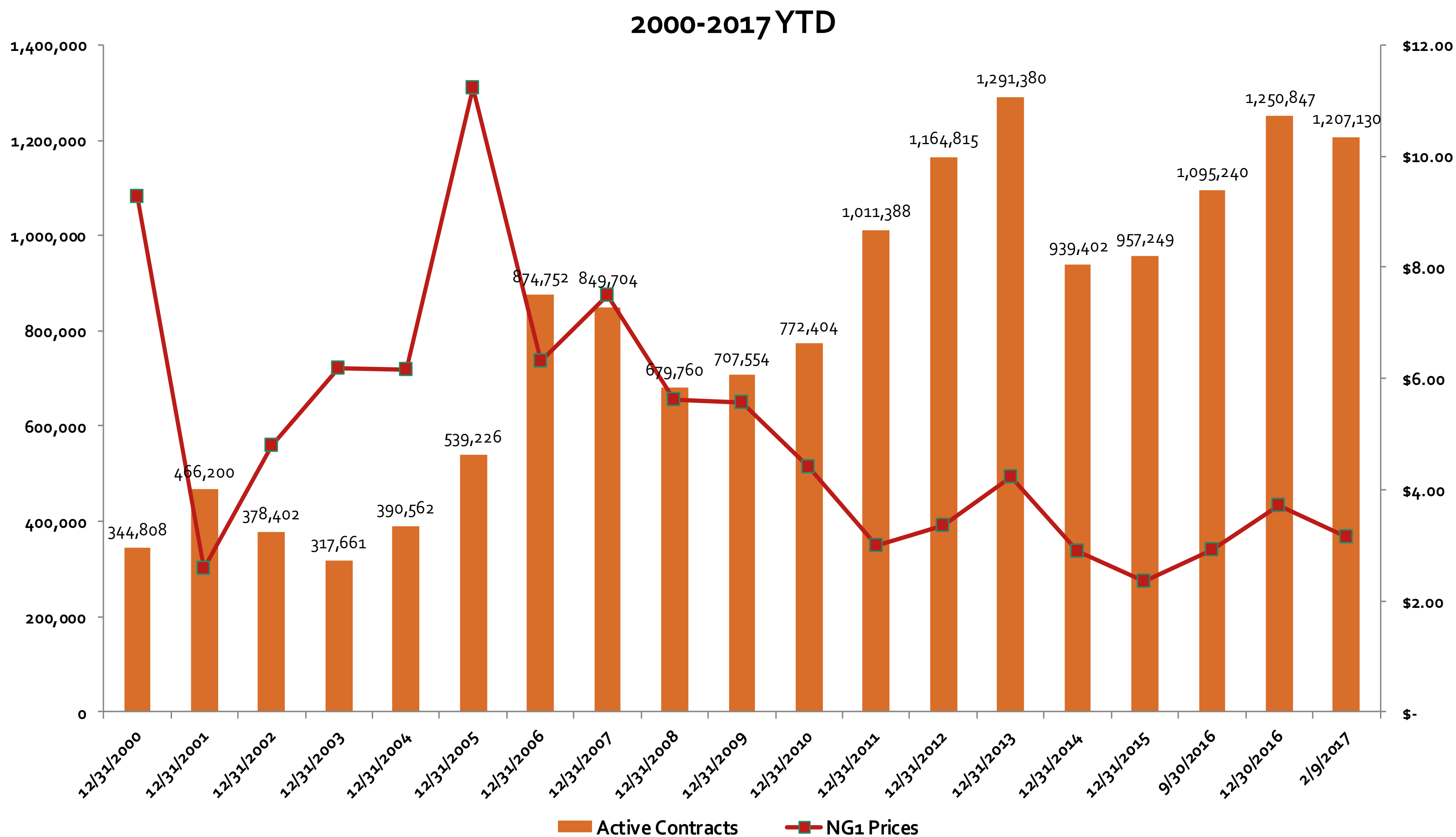
Source: Bloomberg.

Active NYMEX Crude Oil Contracts



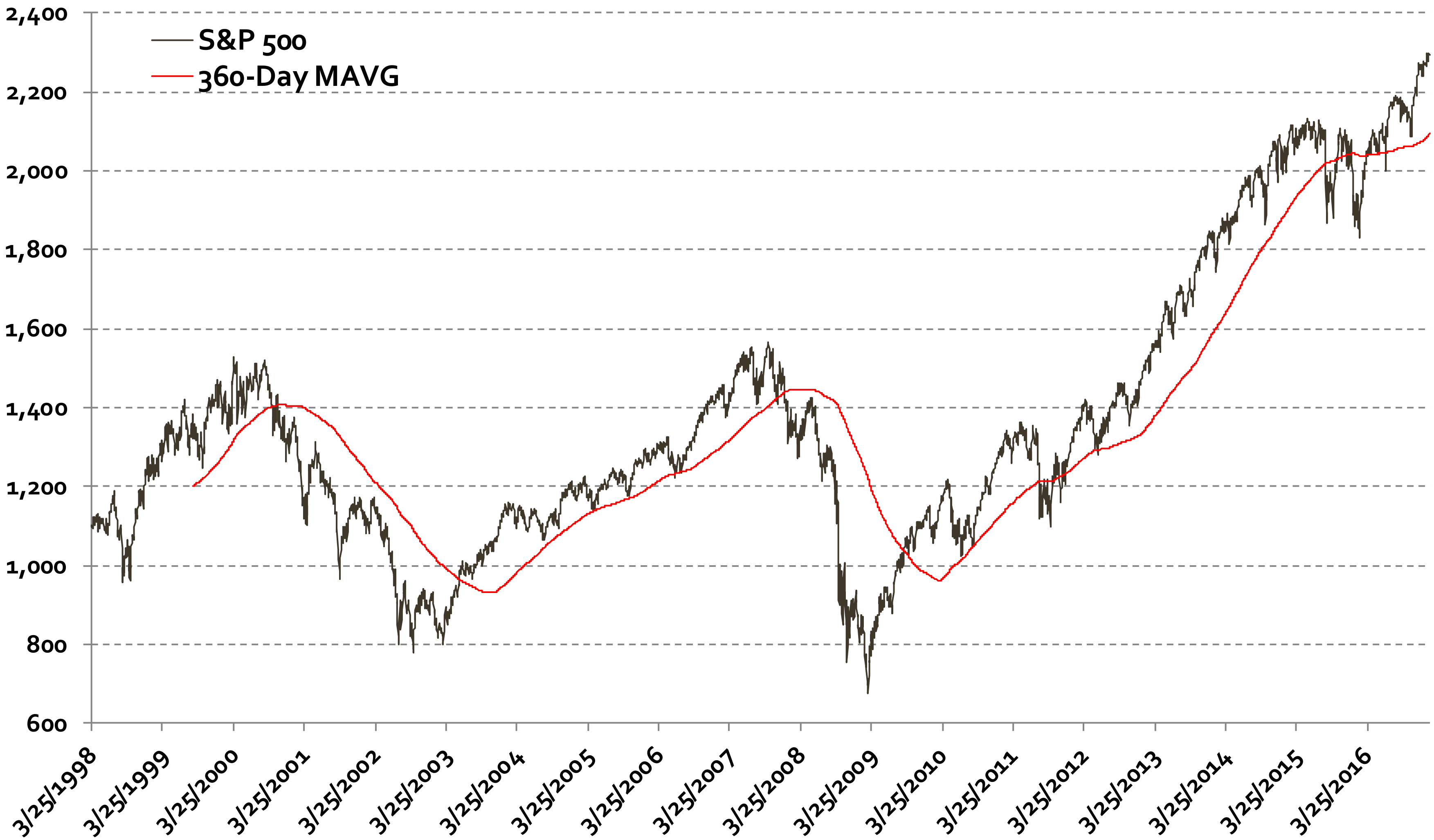
Sources: Bloomberg

Active Natural Gas Contracts



Sources: Bloomberg

S&P 500 vs. 360-Day MAVG (Long-Term)



Source: Bloomberg.