NGI's Shale Daily™
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M&A NEWS

Montney Producer Painted Pony Cites Lower Natural Gas Prices in $346M Friendly Takeover by Canadian Natural

Canadian Natural Resources Ltd. (CNRL), the nation's top fossil fuel producer, scooped up 434 square miles of the liquids-rich Montney Shale gas formation in northern British Columbia (BC) with a friendly takeover of Painted Pony Energy Ltd.

Painted Pony management recommended stockholder acceptance of CNRL's cash offer of C$0.69/share ($0.52), or C$111 million ($83.3 million) for all 160,995,692 Painted Pony shares, CNRL said Monday.

Counting C$350 million ($262.5 million) in Painted Pony debt, the total transaction value is C$461 ...cont' pg. 3

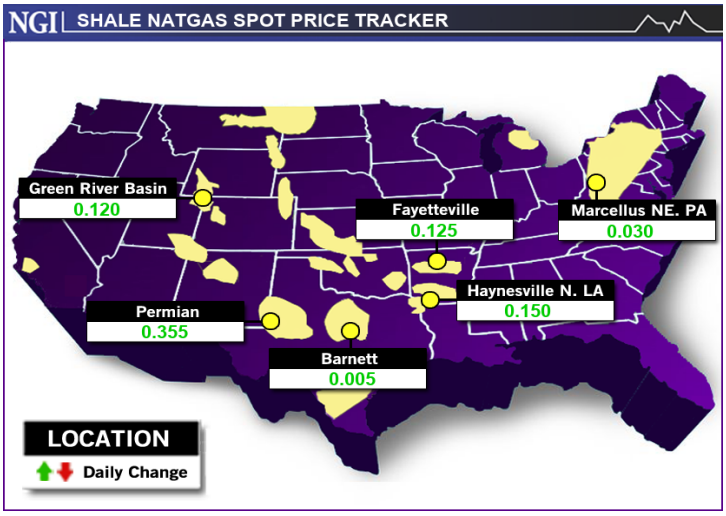
REGULATORY

Colorado Governor's Call for Energy Industry Collaboration Praised by PDC

Colorado's natural gas and oil industry has faced pressure from all sides in recent years, reviled by landowners and litigated by environmental groups, but Gov. Jared Polis has shown he can compromise, PDC Energy Inc. executives said last week.

CEO Bart Brookman discussed second quarter results in a wide ranging conference call that hit on the operating results, while applauding recent comments by the Democratic governor. Brookman shared a microphone with outgoing CFO R. Scott Meyers and Executive Vice President Lance Lauck, who runs Corporate Development and Strategy.

About two weeks ago Polis wrote an ...cont' pg. 5



Trade Date: Aug 10; Flow Date(s): Aug 11

Basin/Region	Range	Avg	Chg	Vol	Deals
Gulf Coast					
Barnett	1.925-1.980	1.955	0.005	49	10
Eagle Ford	2.050-2.125	2.100	0.070	362	44
Haynesville - E. TX	1.900-2.080	1.960	0.035	413	68
Haynesville - N. LA	2.000-2.100	2.075	0.150	154	26
Permian1	0.900-1.720	1.085	0.355	1,426	262
Tuscaloosa Marine Shale	2.110-2.190	2.160	0.070	526	92
Midcontinent					
Arkoma - Woodford	2.020-2.060	2.040	0.100	196	27
Cana - Woodford	1.815-1.885	1.840	0.100	97	9
Fayetteville	1.970-2.040	1.985	0.125	171	30
Granite Wash*	1.750-1.890	1.830	0.120	437	89
Northeast					
Marcellus - NE PA2	1.200-1.350	1.265	0.030	340	87
Marcellus - NE PA: Other3	1.200-1.350	1.270	0.030	225	61
Marcellus - NE PA: Tenn4	1.220-1.300	1.260	0.035	116	26
Marcellus - SW PA/WV	0.850-1.850	1.260	-0.025	2,929	475
Utica5	1.220-2.040	1.550	0.115	428	91
Rocky Mountains / West					
Bakken	--	--	--	--	--
Green River Basin*	1.825-1.925	1.880	0.120	837	166
Niobrara-DJ6	1.820-1.890	1.860	0.120	434	68
Piceance Basin*	1.830-1.875	1.860	0.135	148	22
Uinta Basin*	1.880-1.880	1.880	0.140	9	2
San Juan Basin*	1.840-1.950	1.880	0.200	547	131

Notes: *Table represents fixed-price delivered-to pipeline transactions in USD/MMBtu. These data are comprised of deals that NGI believe represent trading activity in the respective resource plays and may contain gas that was produced from conventional formations. * Denotes a tight sands formation. Volumes may not total due to rounding. For more information, please see NGI's Shale Price Methodology.*

E&P NEWS

Marathon Oil Slashes Costs, But Says it is Gathering Production Momentum

Marathon Oil Corp. said stabilization in commodity prices enabled the company to raise its full-year oil production outlook even as it keeps costs in check and further lowers its capital expenditure (capex) plans.

Houston-based Marathon — which works in Oklahoma, the Delaware Basin and the Bakken and Eagle Ford shales — raised slightly its 2020 oil production guidance to 190,000 net b/d at the midpoint, inclusive of curtailments.

While the super independent's operations remain largely on hold in Oklahoma and the Delaware following the demand destruction caused by the ...cont' pg. 7

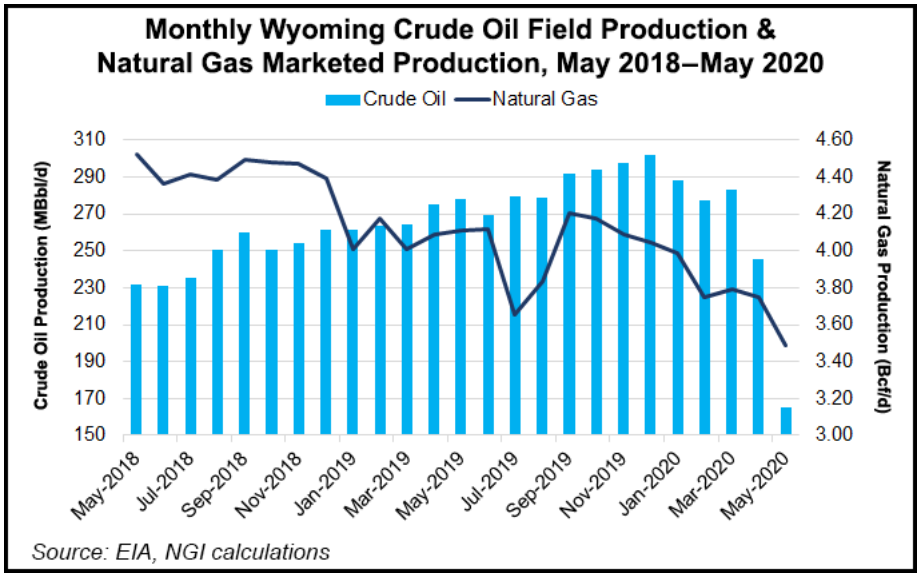
NEWS

Aethon Energy, Burlington Resources Get Green Light to Develop 4,250 Wells as Part of Moneta Divide Project

The U.S. Department of the Interior's Bureau of Land Management (BLM) said it approved the development of up to 4,250 oil and gas wells for the Moneta Divide Project in Wyoming.

The project stretches across more than 327,000 acres of mostly public lands. Aethon Energy Management and Burlington Resources Oil and Gas Company LP proposed the project and won the approval. They plan to drill up to 4,250 vertical, directional and horizontal wells from single and multi-well pads over a 15-year development period.

"I appreciate all the hard work and attention put into this project," Duane Spencer, the BLM's Wyoming acting state director, said in a statement.



The project could generate an estimated $182 million per year in federal royalties, $87.5 million per year in severance taxes for the state of Wyoming, and $106 million per year in county taxes, according to the BLM.

In total, the BLM said the Moneta Divide Project could span 65 years and generate approximately 18.16 Tcf of natural gas and 254 million oil bbl of oil.

While the decision gives Aethon and Burlington the thumbs up to launch development, the BLM said it will still require review and approval for each individual well as part of its application for permit to drill process.

Approximately 67% of the project area is on BLM-managed public lands, 10% is on state of Wyoming and state parks land, and 23% is on private land.

The project is 13 years in the making. It is an expansion of a previous project known as the Gun Barrel, Madden Deep, and Iron Horse Natural Gas Development Project (GMI Project). The BLM said it began preparing an Environmental Impact Statement for the GMI Project in 2008.

At that time, Aethon's predecessor for the Moneta Divide Project, Encana Oil & Gas (USA) Inc., and Burlington, along with Noble Energy Inc., proposed to drill approximately 1,370 new wells within a 146,000-acre project area in the GMI federal units. ■

…cont' pg. 2

Montney Producer Painted Pony Cites Lower Natural Gas Prices in $346M Friendly Takeover by Canadian Natural

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million ($346 million).

In its recommendation to stockholders, Painted Pony attributed the takeover to "weak prices for natural gas over the past three years and a recent decline in natural gas liquids." Painted Pony had been searching for a purchaser.

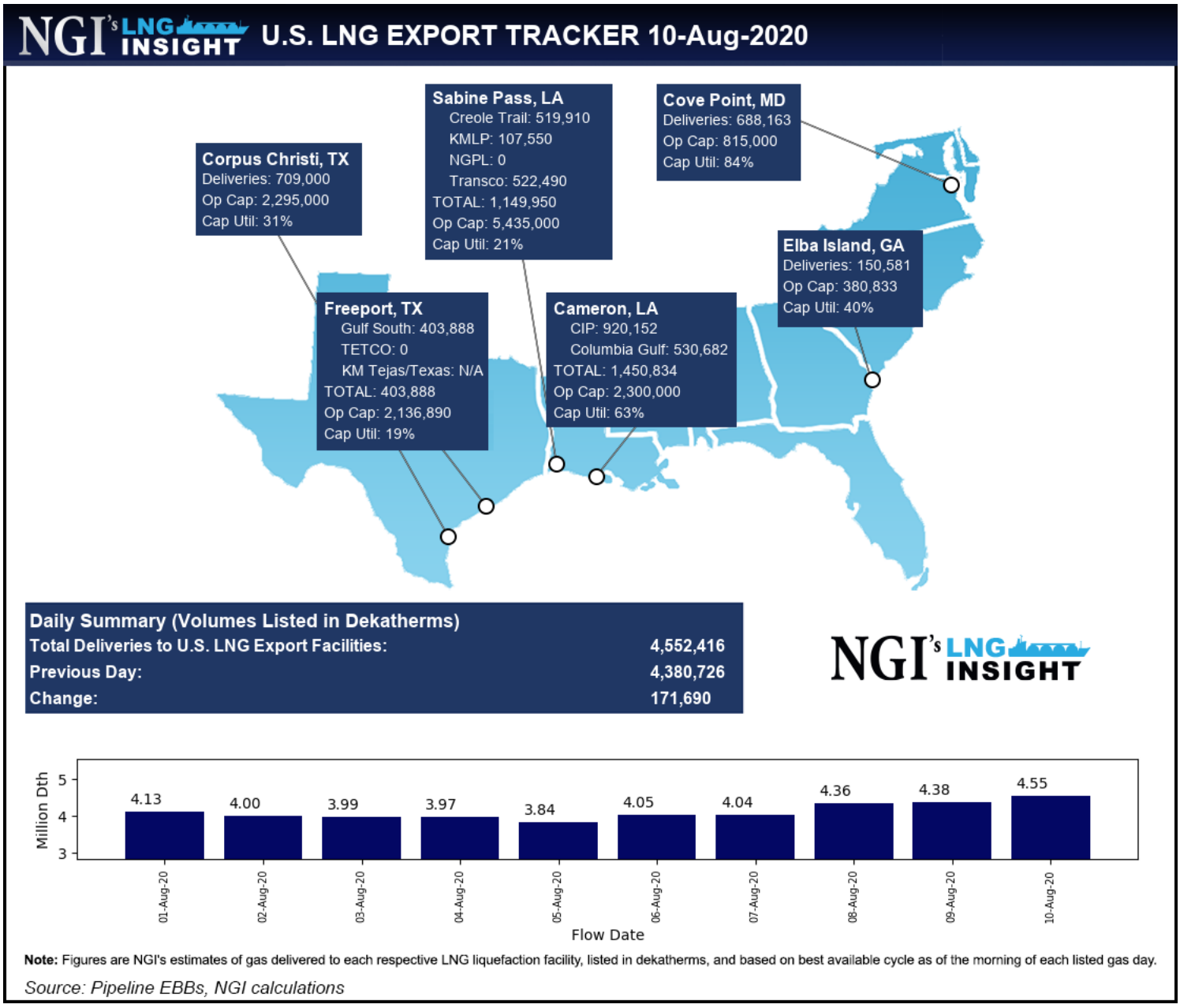
In combination with soft investment markets for fossil fuel company shares, severe energy price lows inflicted by the Covid-19 virus pandemic "deprived Painted Pony's asset base of the capital necessary to fund meaningful development," it said.

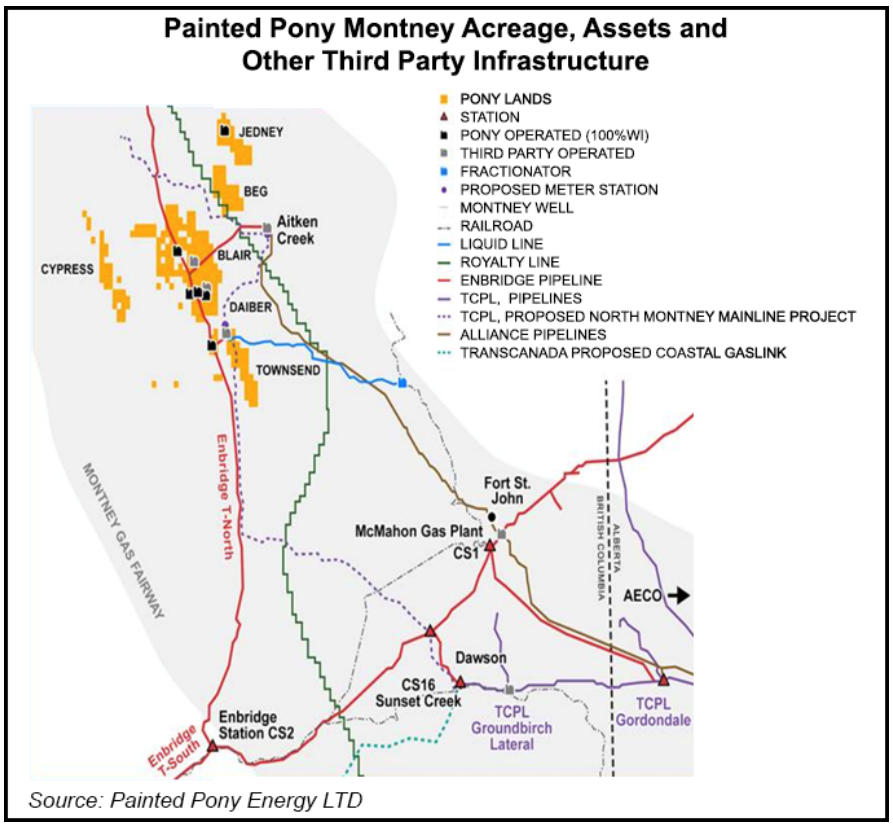
CNRL, with first-half 2020 daily production of 1.4 Bcf of gas and 930,286 bbl of oil, dwarfs Painted Pony's 270 MMcf of gas and 4,600 b/d of gas liquids entirely from its Montney properties.

A western Canada-wide and international asset portfolio enables CNRL to survive through market lows in anticipation of eventually resuming growth.

"Painted Pony's land and production are located within Canadian Natural's core area, providing opportunity to leverage synergies with a significant amount of pre-built infrastructure and transportation available," said CNRL.

The location of the acquired assets, 277,568 *...cont' pg. 4*





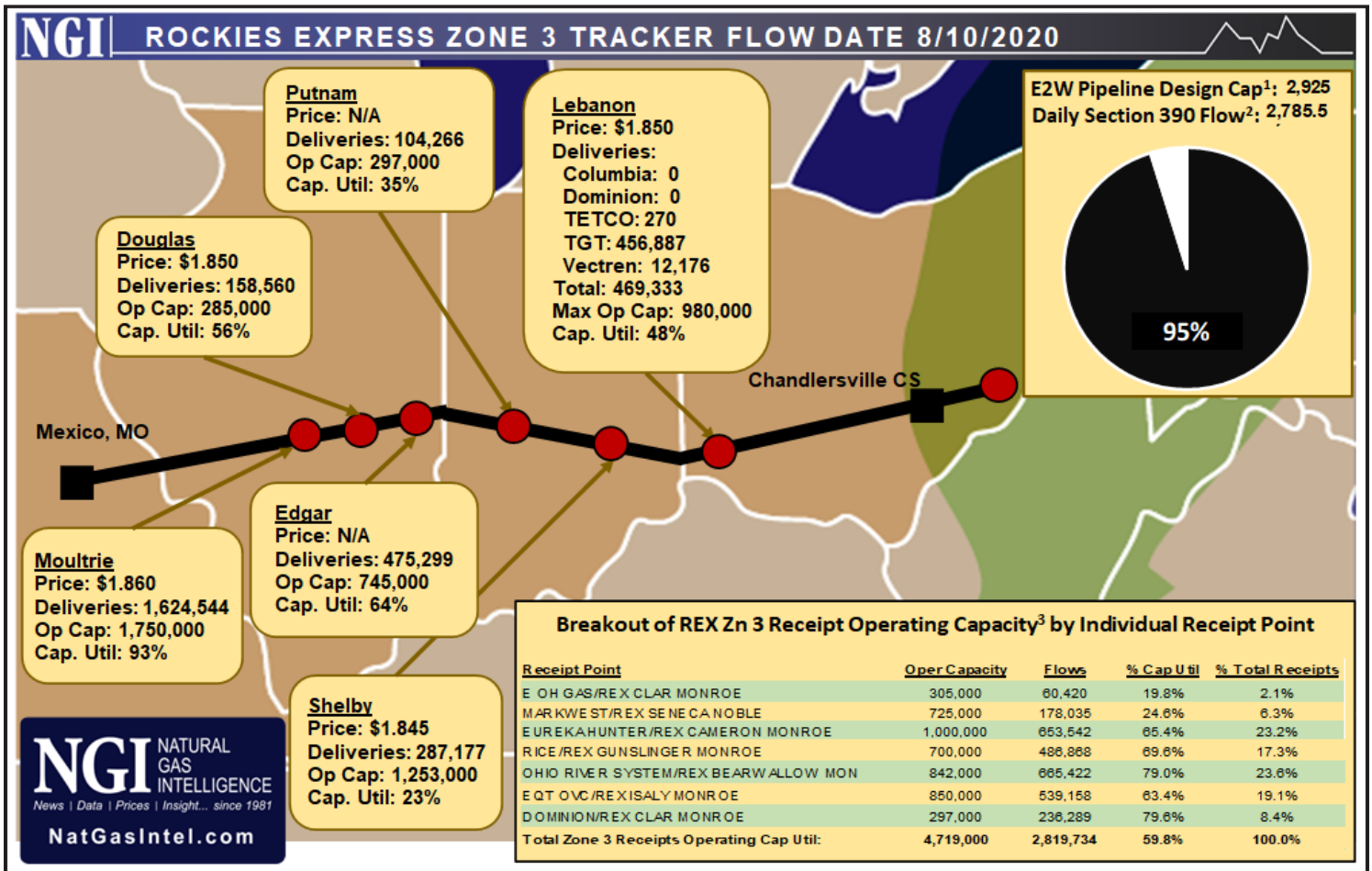
Source: Painted Pony Energy LTD

acres of Montney drilling targets beside the Alaska Highway near Fort St. John, positions the company to become supply sources for the LNG Canada export terminal under construction on BC's northern Pacific coast.

"This transaction also allows us to further insulate against natural gas costs in our oil sands operations," said CNRL president Tim McKay.

Nearly three-quarters of the company's current liquids production comes from the northern Alberta oil sands, including 220,555 b/d from thermal plants that use gas-fired steam injection for underground bitumen extraction.

The takeover deal is scheduled to close before the end of this year, following a vote by Painted Pony stockholders. ■



Breakout of REX Zn 3 Receipt Operating Capacity³ by Individual Receipt Point

Receipt Point	Oper Capacity	Flows	% Cap Util	% Total Receipts
E OH GAS/REX CLAR MONROE	305,000	60,420	19.8%	2.1%
MARKWEST/REX SENECA NOBLE	725,000	178,035	24.6%	6.3%
EUREKAHUNTER/REX CAMERON MONROE	1,000,000	653,542	65.4%	23.2%
RICE/REX GUNSLINGER MONROE	700,000	486,868	69.6%	17.3%
OHIO RIVER SYSTEM/REX BEARWALLOW MON	842,000	665,422	79.0%	23.6%
EQT OVC/REX ISALY MONROE	850,000	539,158	63.4%	19.1%
DOMINION/REX CLAR MONROE	297,000	236,289	79.6%	8.4%
Total Zone 3 Receipts Operating Cap Util:	4,719,000	2,819,734	59.8%	100.0%

Source: Tallgrass Energy LP, NGI calculations. For more info and daily 10am ET updates of this chart, go to natgasintel.com/rextracker.

Colorado Governor's Call for Energy Industry Collaboration Praised by PDC

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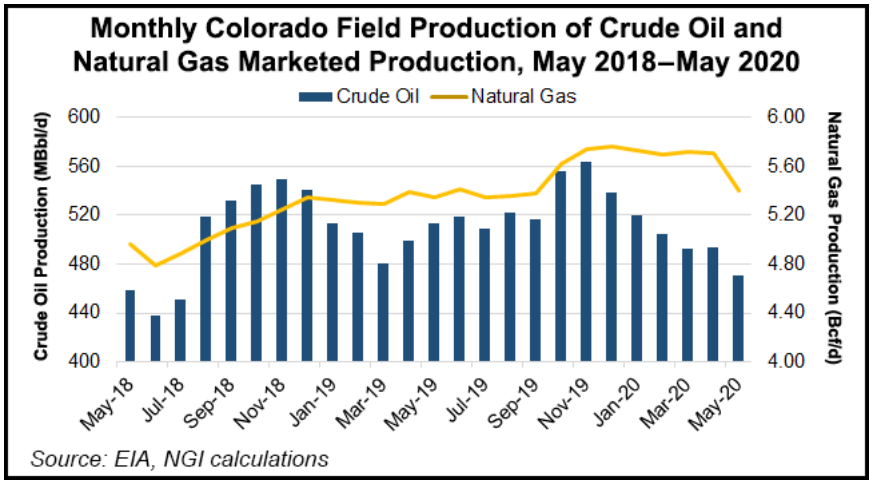
editorial piece published in the political and public policy news journal, *Colorado Politics*. He noted that in recent years the conflicts between the energy industry, landowners and environmental groups have resulted in "expensive, divisive fights at the ballot box and the courtroom," none of which satisfied the opposing parties. However, there is a path forward, he said.

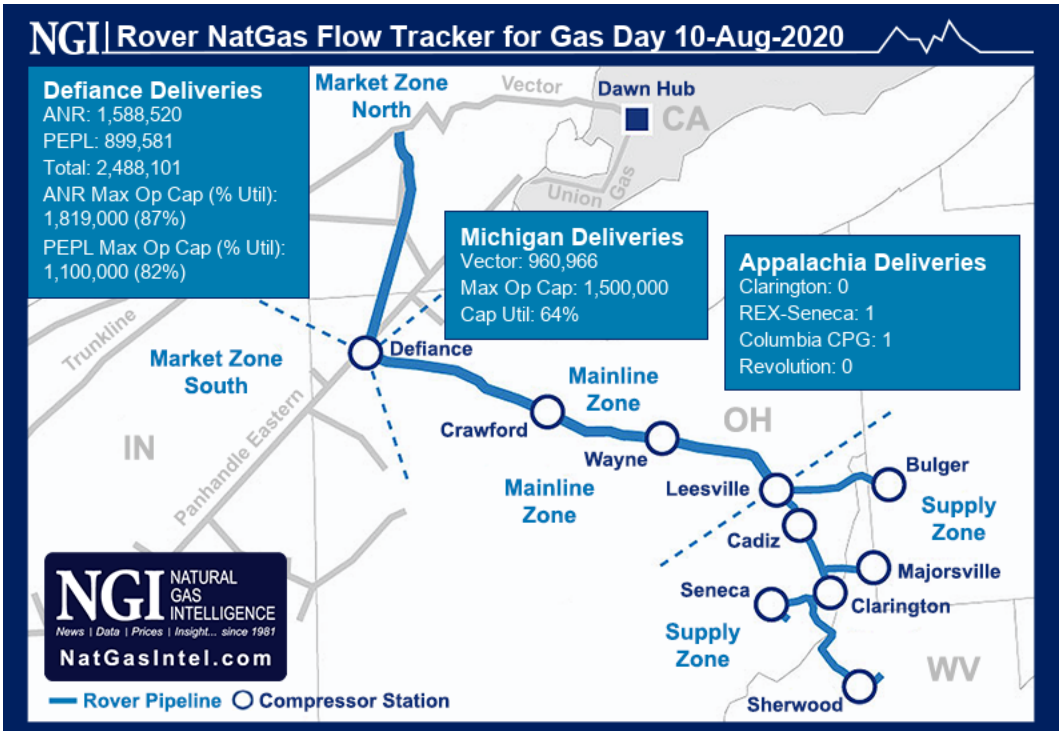
"In conversations I've had with industry and environmental groups, both have committed to me a willingness to let Senate Bill (SB) 181, the landmark oil and gas legislation enacted in 2019, work through the regulatory process," Polis wrote. "These groups have committed to withdraw current ballot measures filed for 2020 and have expressed a willingness to work together to prevent future ballot measures through 2022."

SB 181 established a full-time, professional Colorado Oil and Gas Conservation Commission (COGCC), which is overseeing the regulatory framework. The governor said the COGCC must be allowed to do its job

"Therefore, I will actively oppose ballot initiatives related to oil and gas extraction in 2020 and 2022 from both sides," Polis wrote. Disagreements about projects now are to be resolved by the COGCC "and by the decision makers closest to the ground — local city councils, mayors, commissioners — who are deeply involved in all land-use decisions that impact the quality of life of their constituents."

Brookman, who with his peers has faced ballot ...cont' pg. 6





Rover Receipt Points	Op Cap	Receipt Vol	% Util
BERNE	350,000	329,350	94%
CADIZ-MW	300,000	162,000	54%
CADIZ-ORS	1,070,000	742,855	69%
CLARINGTON-EUREKA	350,000	235,000	67%
CLARINGTON-OVC	300,000	259,866	87%
CRAWFORD-UGS	350,000	0	0%
HARMON CREEK	400,000	181,000	45%
MADISON	400,000	88,071	22%
MAJORSVILLE	400,000	384,008	96%
REVOLUTION	525,000	0	0%
SENECA	800,000	53,742	7%
SHERWOOD	800,000	699,347	87%
SUNDANCE	372,000	342,629	92%
	System Cap*	**TSQ**	**% Util**
Total Rover Receipts	3,250,000	3,477,868	107%
Total Rover Deliveries	3,250,000	3,449,069	106%

*Represents stated full system capacity. All units in dekatherms.

Source: Rover EBB, NGI calculations & estimates

initiatives that have sought to allow local jurisdictions to dictate to the industry, saluted the governor's support.

"While this doesn't guarantee the opposition won't attempt to gather signatures in two years, it is clearly the...most public support the industry has had from the governor's office in recent memory," the CEO said. The support "should go a long way and limit the outside funding and support that is necessary to run an anti-industry campaign."

Additionally, he said, PDC expects to have more than 400 combined drilled but uncompleted (DUC) wells and approved permits, "which equates to over three years of future turning inlines. We look forward to working closely with the COGCC and its new commissioners as SB 181 is implemented and the rulemaking process continues forward....

"The takeaway here is that the recent news from the governor's office, combined with our anticipated permit and DUC count, positions PDC to safely and effectively develop our position and deliver clean and affordable energy for years to come."

'Comfortably Comply'

Some rules under SB 181 have been finalized, which included establishing a "full-time, professional" COGCC, Brookman said. "We feel comfortable with all of the negotiations" and optimistic with oversight by a professional rulemaking group.

"We're going to be able to comfortably comply," Meyers said. "It's obvious we didn't get everything we wanted, but again, the compliance is what we're most focused on, and so that'll start here in the very near future."

The next rulemaking process is slated to be completed in October "if everything stays on schedule," Meyers said, but the pandemic "has made this very difficult...But that's what we're expecting. We'll get a real feel for how that entire relationship goes with the commission...as we go through that process."

Brookman said Polis stressed "collaboration," and he intended PDC to do the same. "I look forward to working with his administration on this mission."

Regarding second quarter performance, the CEO said there were "multiple challenges," but the revamped business plan as the coronavirus eclipsed demand was quickly adapted by employees.

"From a risk perspective, we are experiencing a much improved midstream, operating and regulatory backdrop in Colorado that enhances our confidence in achieving our business objectives."

PDC exited June with no completion crews. There was one rig working the Wattenberg field in the Denver-Julesburg (DJ) Basin and none running in the other major platform, the Permian Basin's Midland formation.

Production in the quarter averaged 17.2 million boe, or 1,900 boe/d, 39% higher year/year primarily from the takeover last year of fellow DJ operator SRC Energy Inc.

Production for this year is estimated at around 67 million boe/d, which is the midpoint of guidance, Brookman noted.

Going forward from a cost perspective, the company is expected to be under $5.00/boe for combined lease operating and general/administrative expenses. Capital expenditures for the year are now set at $500-$550 million, 50% lower than original guidance provided in February and off 5% from an updated forecast in May.

In the Wattenberg, PDC plans to operate one rig for the rest of the year. DUCs should begin to be turned online "late in the third quarter, assuming commodity pricing supports such a decision," the CEO said.

In Delaware, the capital program "was largely completed for the year in the second quarter, with the expectation to spend less than $20 million on various leasing and other projects the remainder of the year."

PDC is projecting it will reach more than $300 million of free cash flow by the end of the year at $2.00/Mcf gas prices, $35/bbl West Texas Intermediate oil, and natural gas liquids realizations of about $9.00/bbl.

The 2020 oil production forecast has been increased by 5% to 64,000-68,000 b/d, with total volumes estimated at 175,000-185,000 boe/d. PDC expects "immaterial curtailments for the remainder of the year."

"From a production standpoint, it's important to remember that we entered the quarter operating two Wattenberg completion crews and continued at that pace for a period of time before exiting June with no crews," Meyers said.

The curtailments enacted during the quarter "were a bit biased toward oil" he said, with around 15% of volumes shut-in, but overall, only 10% of total output. As it nears the third quarter halfway mark, most of the curtailments have been lifted.

Net losses in 2Q2020 were $222 million (minus $2.23/share), compared with year-ago profits of $69 million ($1.04). The year/year loss was attributed to the decline in sales volumes and a commodity price risk loss on hedging. ■

Marathon Oil Slashes Costs, But Says it is Gathering Production Momentum

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coronavirus pandemic, it is ramping back up in the Bakken and Eagle Ford.

"After a pause and completion in drilling activity during the second quarter, in July, we successfully transitioned back to work and are currently running three rigs and two frac crews across the Eagle Ford and Bakken," CEO Lee Tillman said during a second quarter earnings call with analysts.

With West Texas Intermediate crude oil prices recovering to around $40/bbl, Tillman said the third quarter "will be the trough for our 2020 production profile…Our volumes will be on an improving trend by the fourth quarter" and the company expects to "exit 2020 with strong momentum from a core of capital-efficient, high margin production that will provide us with a solid foundation for success as we enter 2021."

The company reported 2Q2020 capex of $137 million and lowered its full-year capital spending guidance to $1.2 billion from $1.3 billion, about half what it spent in 2019.

"We drove U.S. unit production cost down to $4.09/bbl" in the second quarter, the lowest level since becoming an independent exploration and production company, and "we drove average completed well cost per lateral foot down 10% relative to 2019," Tillman said.

"We expect to drive further improvement over the second half of the year. Case in point, second half 2020 well cost per lateral foot is expected to be down by more than 20% in comparison to 2019, the result of concentrated capital allocation to the Eagle Ford and Bakken and targeted efforts to continue reducing our costs," the CEO added. "These reductions are due to a combination of specific well design improvements, execution efficiency, supply chain optimization and commercial leverage. We expect the majority of these gains to prove durable through the cycle."

Tillman also said the company had implemented a cash cost reduction program and is on track to realize $260 million of savings in 2020, inclusive of second-quarter severance payments. Earlier this year, the company announced pay cuts and layoffs, and slashed its contractor base by 70%.

Marathon this year is driving run rate general and administrative (G&A) costs down 17% from the 2019 average and down 25% from the 2018 average, "continuing a multi-year trend," according to Tillman. "With the obvious commodity price challenges during the second quarter, we pulled all levers to reduce production costs as quickly and aggressively as possible."

Marathon's second quarter net loss was $750 million (minus 95 cents/share), compared with a profit in the year-ago period of $161 million (20 cents).

Total liquidity at the end of June was about $3.5 billion, which consisted of an undrawn revolving credit facility of $3.0 billion and $522 million in cash and cash equivalents. ■

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