

OGIB INTERIM BULLETIN #498 - July 13th 2016

RESOLUTE UPDATE

PARTIAL PORTFOLIO SALES LIGHT OIL

CONFERENCE CALL TUESDAY JULY 19TH AT 1:15(PDT) WITH NEIL KOEHLER CEO PACIFIC ETHANOL

First, the good news. Diamondback--the premier small intermediate producer in the Permian--just did their first acquisition in the Delaware basin where Resolute is. It was a large \$560 million deal and tells me EXACTLY what Resolute is worth.

The numbers are shocking. But they won't mean much in this rapidly declining oil tape.

"ACQUISITION HIGHLIGHTS:

- 19,180 net surface acres primarily in Reeves and Ward counties
- Approximately 1,000 boe/d of current net production based on data provided from the seller
- Net proved developed reserves, based on internal estimates as of July 2016, were approximately 2.2 MMboe
- 290 net identified potential horizontal drilling locations across four zones with additional upside potential in other zones and through downspacing
- Contiguous position supports average lateral lengths of approximately 9,500 feet

Here's how brokerage firm KLR valued the transaction:

"Assuming the company paid ~\$40k per flowing Boe and ~\$15 million for the SWD assets, the transaction equates to ~\$26.3k per net acre or ~\$1.74 million per horizontal location."

Now let me apply those metrics to Resolute:

I'm going to value the non-Permian assets--very low decline light oil, at \$50K per flowing boe:

$6230 \text{ boe/d} \times 50,000 = \311.5 million

Then the 15K bopd production at this \$40K that KLR says:

$15000 \times 40,000 = \$600 \text{ million}$

they say the FANG acquisition gave \$1.74 million for each future net horizontal location. So...

$\$1,740,000 \text{ per location} \times 147 \text{ net locations for Resolute} = \256 million

add them all up:

$256 + 311.5 + 600 = \$1,167.5 \text{ million Enterprise Value}$

$\$1,167.5 - \$487.5 \text{ million debt} = \$680 \text{ million market cap}$

$\$680 \text{ million market cap} / 15.5 \text{ million shares} = \mathbf{\$43.87/\text{share}}$

That may sound silly folks, but I could not have got a more real, up to date and accurate valuation on a Resolute comparison than the deal Diamondback did this morning.

Somebody is going to buy Resolute for a lot more money than it's trading at now.

I have never seen a more compelling risk reward since Pacific Ethanol in November 2013, and maybe Crius in June 2015.

The big caveat is...one of my oft repeated market musings..the Market

always recognizes value, but rarely if ever in the time frame you expect. In this declining oil tape, it's tough to say when people cotton on to this dramatic mis-pricing.

Now the bad news--US production was up this week, though Lower 48 was down marginally, and inventories are not declining as we approach the time that refineries will reduce their throughputs for the fall.

For me, oil production around the world would have to take a huge dive of some 1 M bopd plus, and inventories in the US would have to decline some 4-5 M barrels per week for a month to see oil up at \$55.

So I'm selling 3000 Whitecap at \$9.90 (70 cent gain/share) and 9000 Tamarack Valley at \$3.57. These are partial sales.

There is nothing wrong with any of these companies; this is a macro call on my part. Just raising cash in anticipation of further declines through the next few weeks if not months.

Again, refineries plan 6 weeks in advance. They start buying September crude next week. Oil and gasoline inventories are not going down despite US driving demand being up some 750K bopd over the last two years.

There is some producer discipline happening but it's not enough--yet.

CONFERENCE CALL INFO FOR NEXT TUESDAY

PARTICIPANT TELEPHONE NUMBERS (For Distribution)

Vancouver Toll: +1-604-235-2082

Toronto Toll: +1-416-915-3227

Canada/USA TF: 1-800-319-8560

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-Keith

