



# Oil Price and the Southern Midland Basin

J. Ross Craft / Chairman, President and CEO

May 20, 2015

# Forward-looking statements

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included in this presentation that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future are forward-looking statements. Without limiting the generality of the foregoing, forward-looking statements contained in this presentation specifically include the expectations of management regarding plans, strategies, objectives, anticipated financial and operating results of the Company, including as to the Company's Wolfcamp shale resource play, estimated resource potential and recoverability of the oil and gas, estimated reserves and drilling locations, capital expenditures, typical well results and well profiles, type curve, and production and operating expenses guidance included in the presentation. These statements are based on certain assumptions made by the Company based on management's experience and technical analyses, current conditions, anticipated future developments and other factors believed to be appropriate and believed to be reasonable by management. When used in this presentation, the words "will," "potential," "believe," "intend," "expect," "may," "should," "anticipate," "could," "estimate," "plan," "predict," "project," "target," "profile," "model" or their negatives, other similar expressions or the statements that include those words, are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond the control of the Company, which may cause actual results to differ materially from those implied or expressed by the forward-looking statements. In particular, careful consideration should be given to the cautionary statements and risk factors described in the Company's most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Any forward-looking statement speaks only as of the date on which such statement is made and the Company undertakes no obligation to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

## Cautionary statements regarding oil & gas quantities

The Securities and Exchange Commission ("SEC") permits oil and gas companies, in their filings with the SEC, to disclose only proved, probable and possible reserves that meet the SEC's definitions for such terms, and price and cost sensitivities for such reserves, and prohibits disclosure of resources that do not constitute such reserves. The Company uses the terms "estimated ultimate recovery" or "EUR," reserve or resource "potential," and other descriptions of volumes of reserves potentially recoverable through additional drilling or recovery techniques that the SEC's rules may prohibit the Company from including in filings with the SEC. These estimates are by their nature more speculative than estimates of proved, probable and possible reserves and accordingly are subject to substantially greater risk of being actually realized by the Company.

EUR estimates, identified drilling locations and resource potential estimates have not been risked by the Company. Actual locations drilled and quantities that may be ultimately recovered from the Company's interest may differ substantially from the Company's estimates. There is no commitment by the Company to drill all of the drilling locations that have been attributed these quantities. Factors affecting ultimate recovery include the scope of the Company's drilling project, which will be directly affected by the availability of capital, drilling and production costs, availability of drilling and completion services and equipment, drilling results, lease expirations, regulatory approval and actual drilling results, as well as geological and mechanical factors. Estimates of unproved reserves, type/decline curves, per well EUR and resource potential may change significantly as development of the Company's oil and gas assets provides additional data.

Type/decline curves, estimated EURs, resource potential, recovery factors and well costs represent Company estimates based on evaluation of petrophysical analysis, core data and well logs, well performance from limited drilling and recompletion results and seismic data, and have not been reviewed by independent engineers. These are presented as hypothetical recoveries if assumptions and estimates regarding recoverable hydrocarbons, recovery factors and costs prove correct. The Company has limited production experience with this project, and accordingly, such estimates may change significantly as results from more wells are evaluated. Estimates of resource potential and EURs do not constitute reserves, but constitute estimates of contingent resources which the SEC has determined are too speculative to include in SEC filings. Unless otherwise noted, IRR estimates are before taxes and assume NYMEX forward-curve oil and gas pricing and Company-generated EUR and decline curve estimates based on Company drilling and completion cost estimates that do not include land, seismic or G&A costs.

# Company overview

## AREX OVERVIEW

Enterprise value \$804MM

### High-quality reserve base

146 MMBoe proved reserves

66% Liquids, 38% oil

\$1.4 BN proved PV-10

### Permian core operating area

147,000 gross (134,000 net) acres

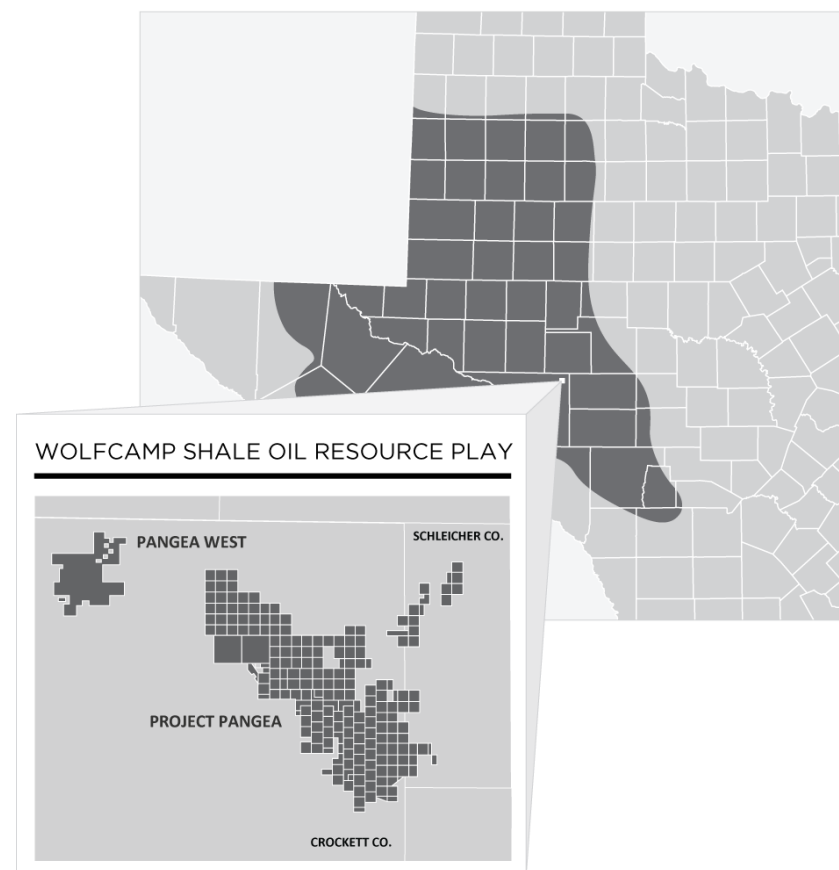
~1+ BnBoe gross, unrisks resource potential

~2,000 Identified HZ drilling locations targeting  
Wolfcamp A/B/C

### 2015 Capital program focused on flexibility and returns

Running an average of 1 HZ rig in the Wolfcamp shale  
play with a capital budget of approximately \$160 MM

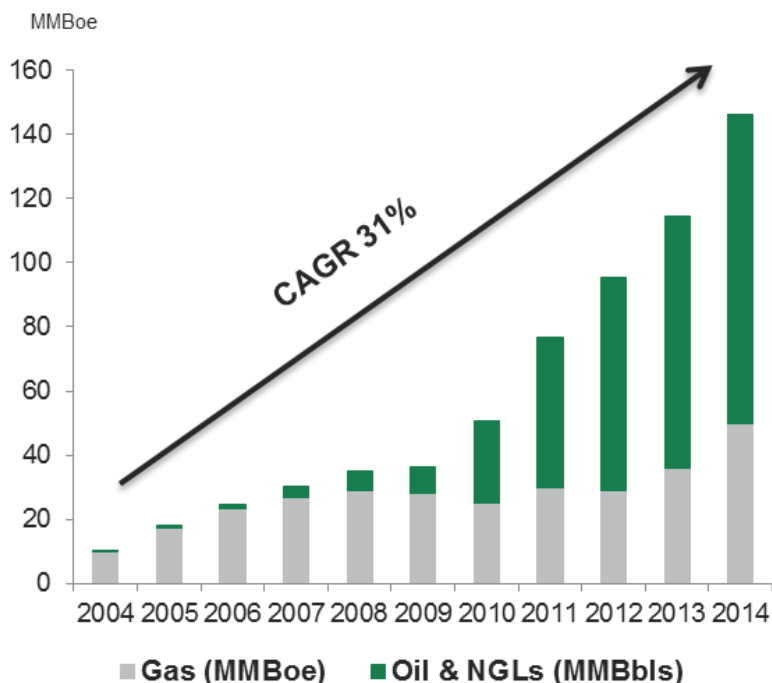
## ASSET OVERVIEW



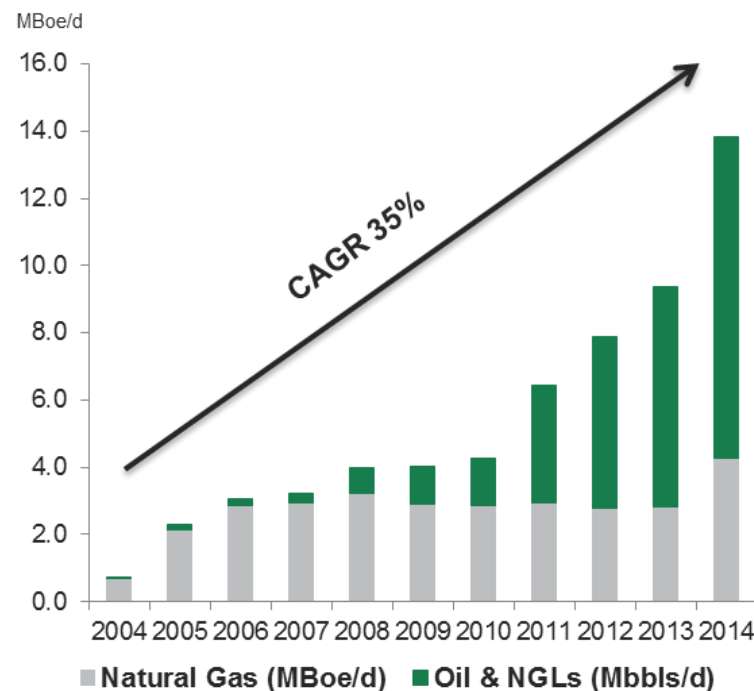
Note: Proved reserves as of 12/31/2014 and acreage as of 3/31/2015. All Boe and Mcfe calculations are based on a 6 to 1 conversion ratio. Enterprise value is equal to market capitalization using the closing share price of \$8.48 per share on 5/5/2015, plus net debt as of 3/31/2015. See "PV-10 (unaudited)" slide.

# Strong track record of reserve and production growth

## RESERVE GROWTH



## PRODUCTION GROWTH



- YE14 reserves up 27% YoY
- Replaced 819% of produced reserves at a drill-bit F&D cost of \$8.94/Boe
- 124.8 MMBoe proved reserves booked to HZ Wolfcamp play

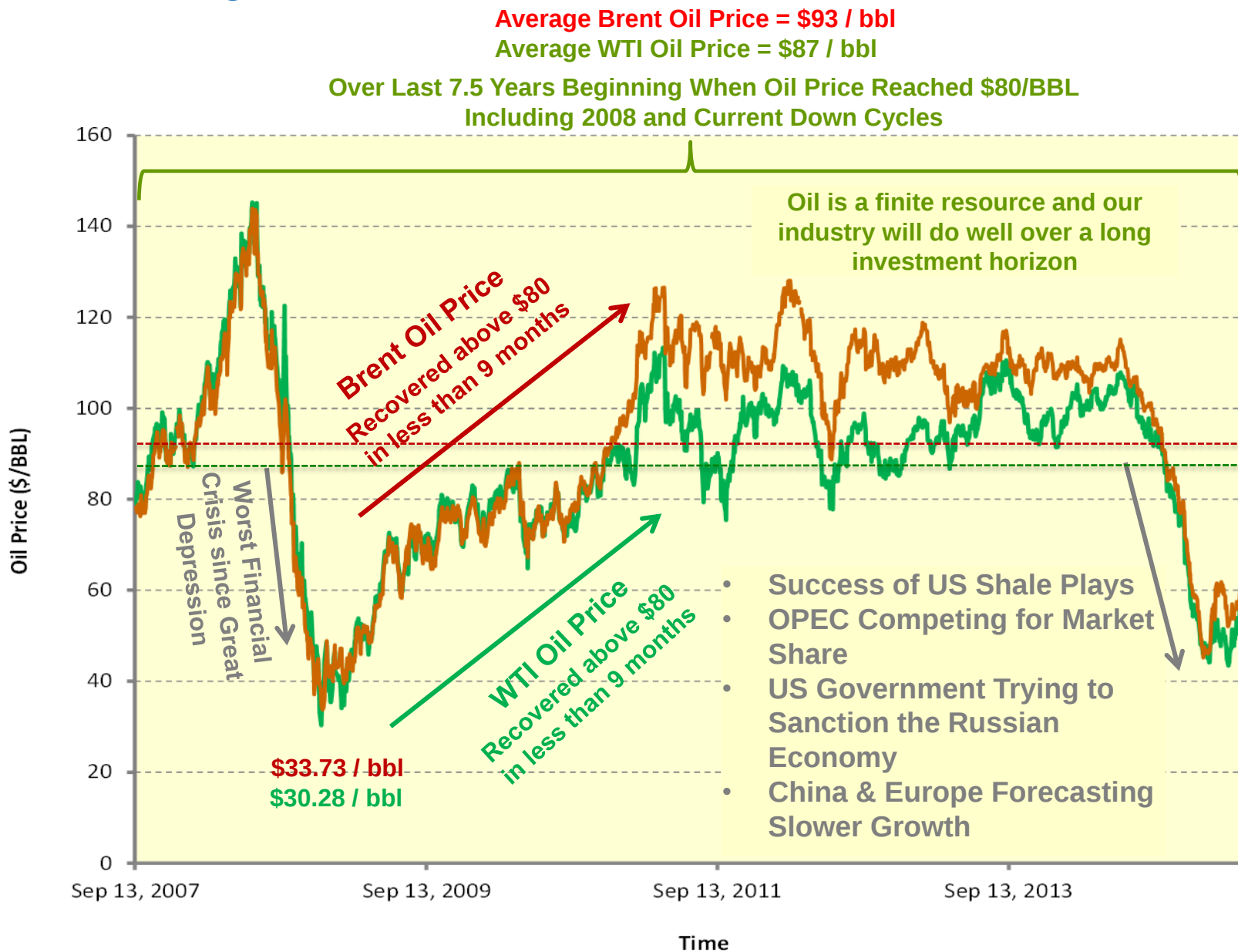
- 2014 Production increased 47% YoY
- Targeting 10-14% production growth in 2015

Note: See "Drill-bit F&D cost (unaudited)" slide.

# Four significant downturn cycles during past 20 years



# Wall Street is focusing on next quarter, but we need to focus on long term



# Is this time really different from 2008-2009 downturn?

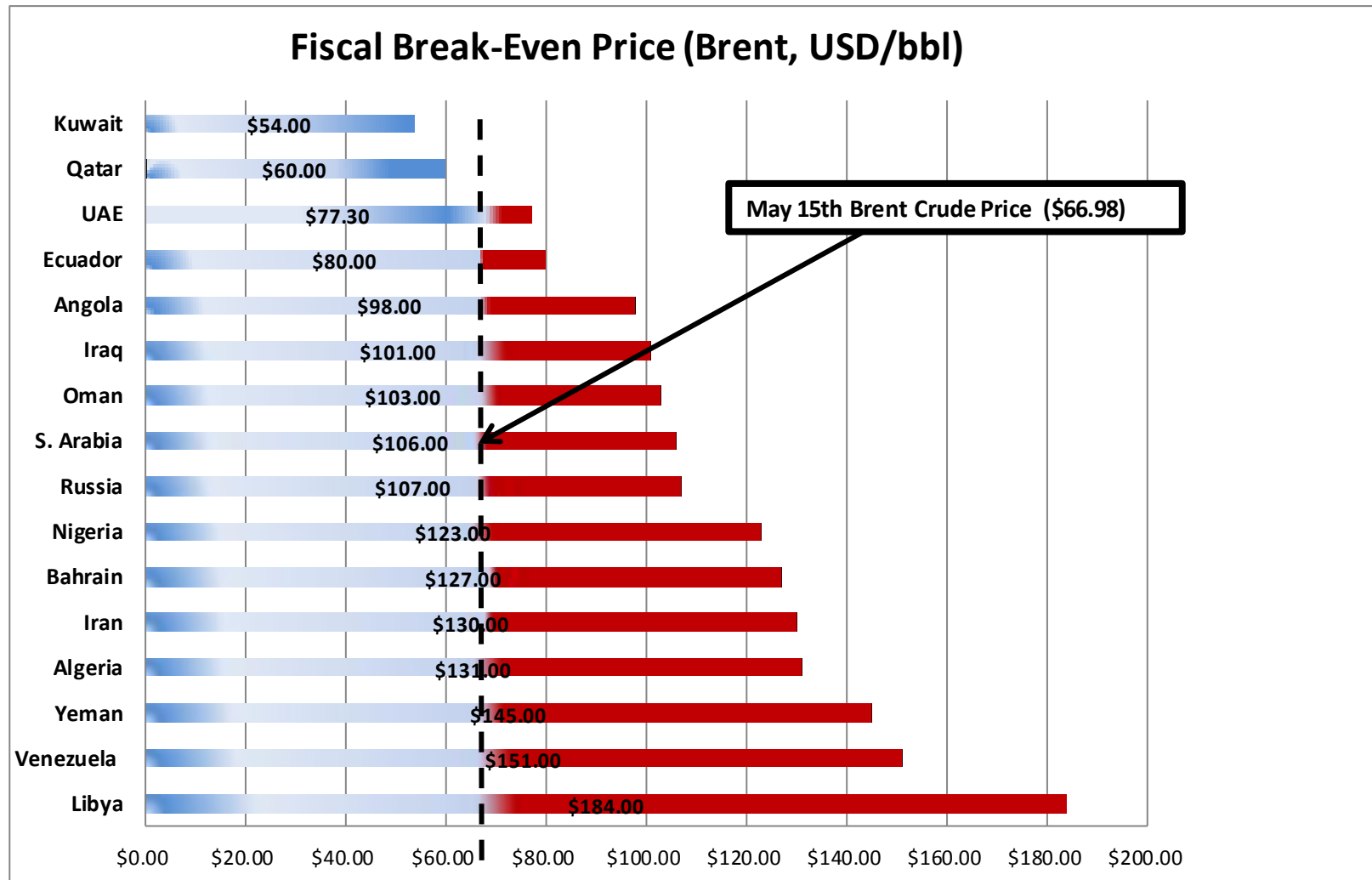


# Fraclog and Refrac

| Play / Basin / State | Uncompleted Wells as of Feb, 2015 (Bloomberg) | Oil Play     | Uncompleted Wells as of 2nd Quarter, 2011 (Halliburton) |
|----------------------|-----------------------------------------------|--------------|---------------------------------------------------------|
| Bakken               | 632                                           | Yes          | <b>3,500</b>                                            |
| DJ                   | 243                                           | Yes          |                                                         |
| Permian              | 1,540                                         | Yes          |                                                         |
| Eagle Ford           | 1,250                                         | Yes          |                                                         |
| Oklahoma             | 341                                           | Yes          |                                                         |
| Ohio                 | 324                                           | No           |                                                         |
| Pennsylvania         | 401                                           | No           |                                                         |
| <b>Total</b>         | <b>4,731</b>                                  | <b>4,006</b> |                                                         |

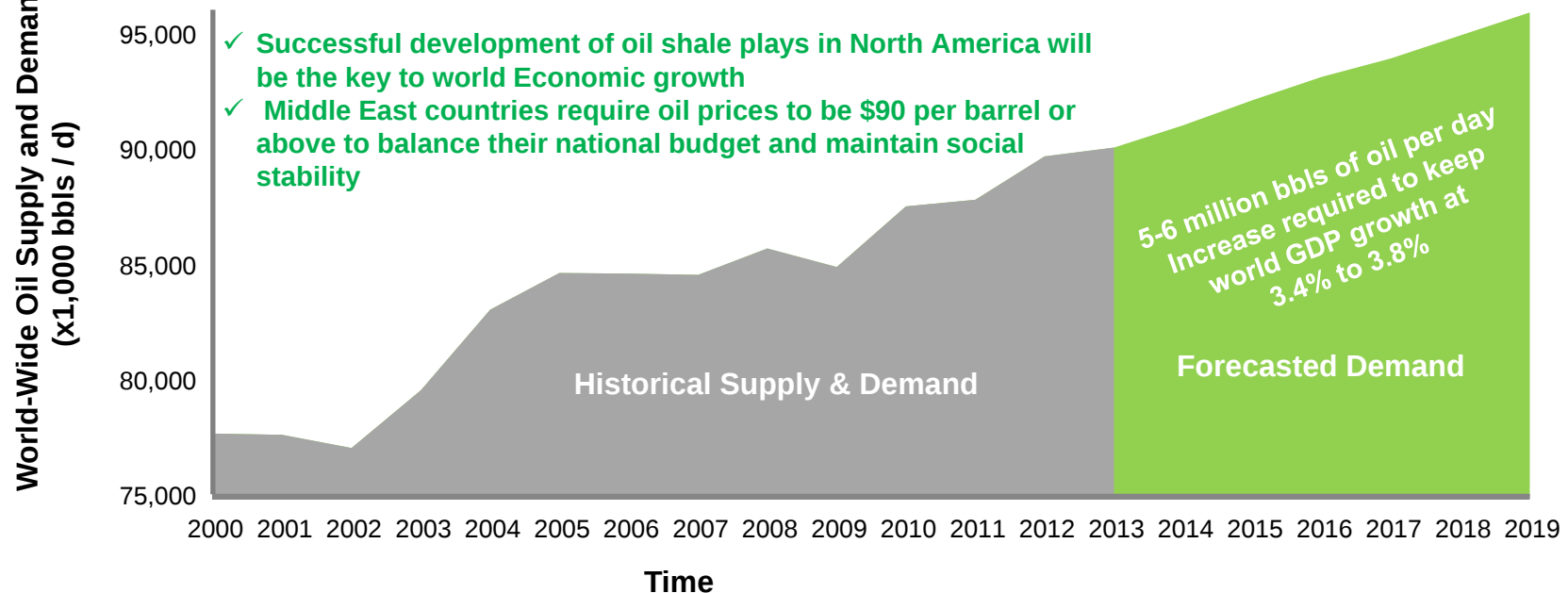
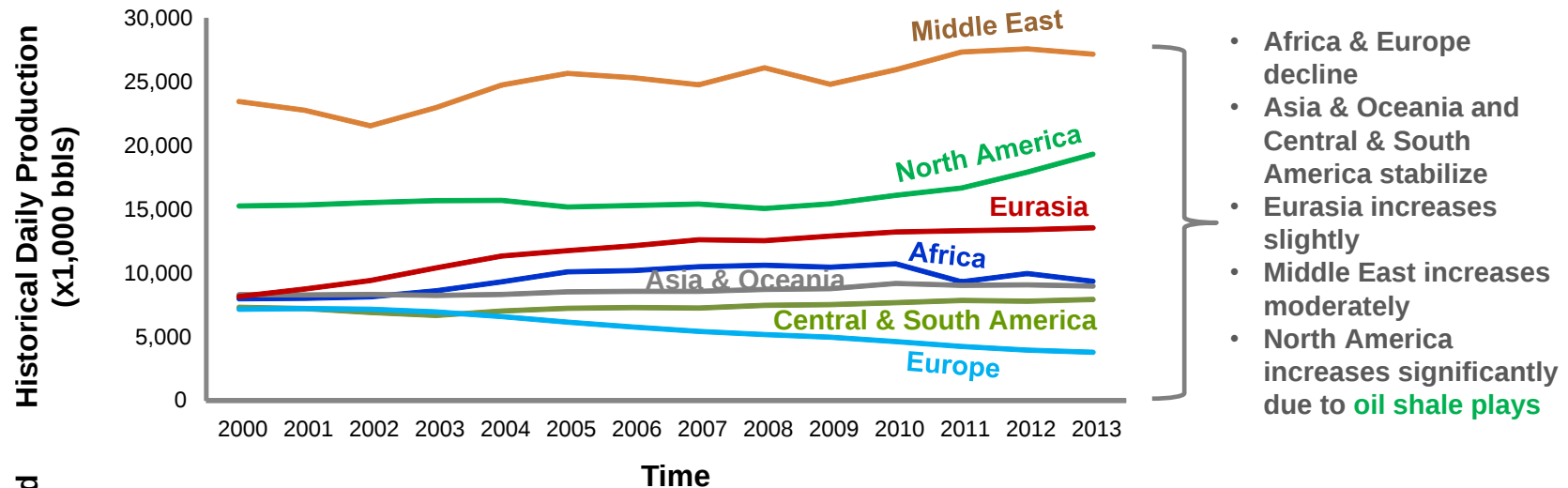
- There has, is and will always be drilled, but uncompleted wells in our normal course of business
- During the 2<sup>nd</sup> quarter of 2011, Halliburton reported 3,500 wells were uncompleted in the US
- The uncompleted wells in Ohio and Pennsylvania are mainly gas wells and will have no or minimum impact to oil production
- Uncompleted oil wells will require over \$10 billion of additional capital investment to complete
- Even if all the 4,731 wells are turned to sales simultaneously, the impact on global supply is 0.3%
- The impact of refrac to global supply is even less

# How long can OPEC sustain the price war for market share?



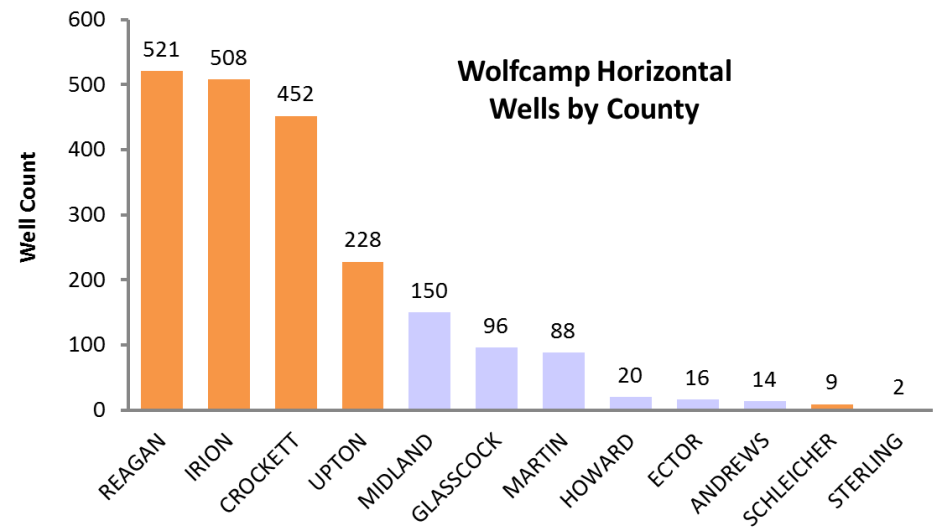
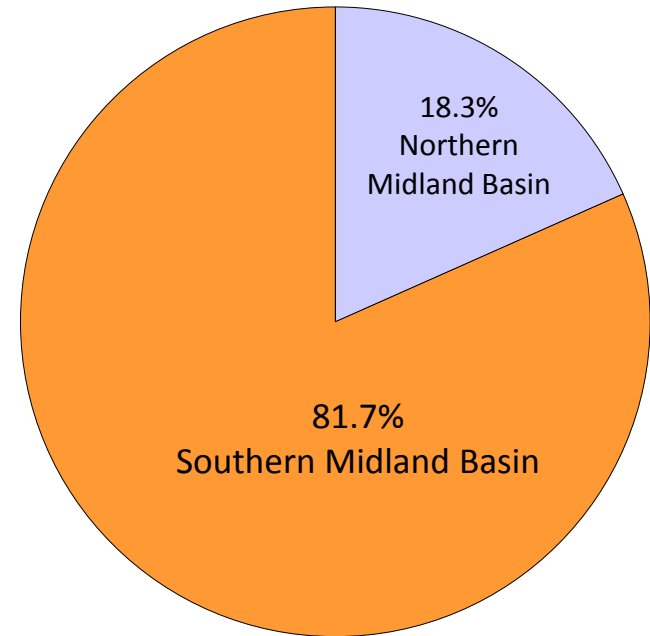
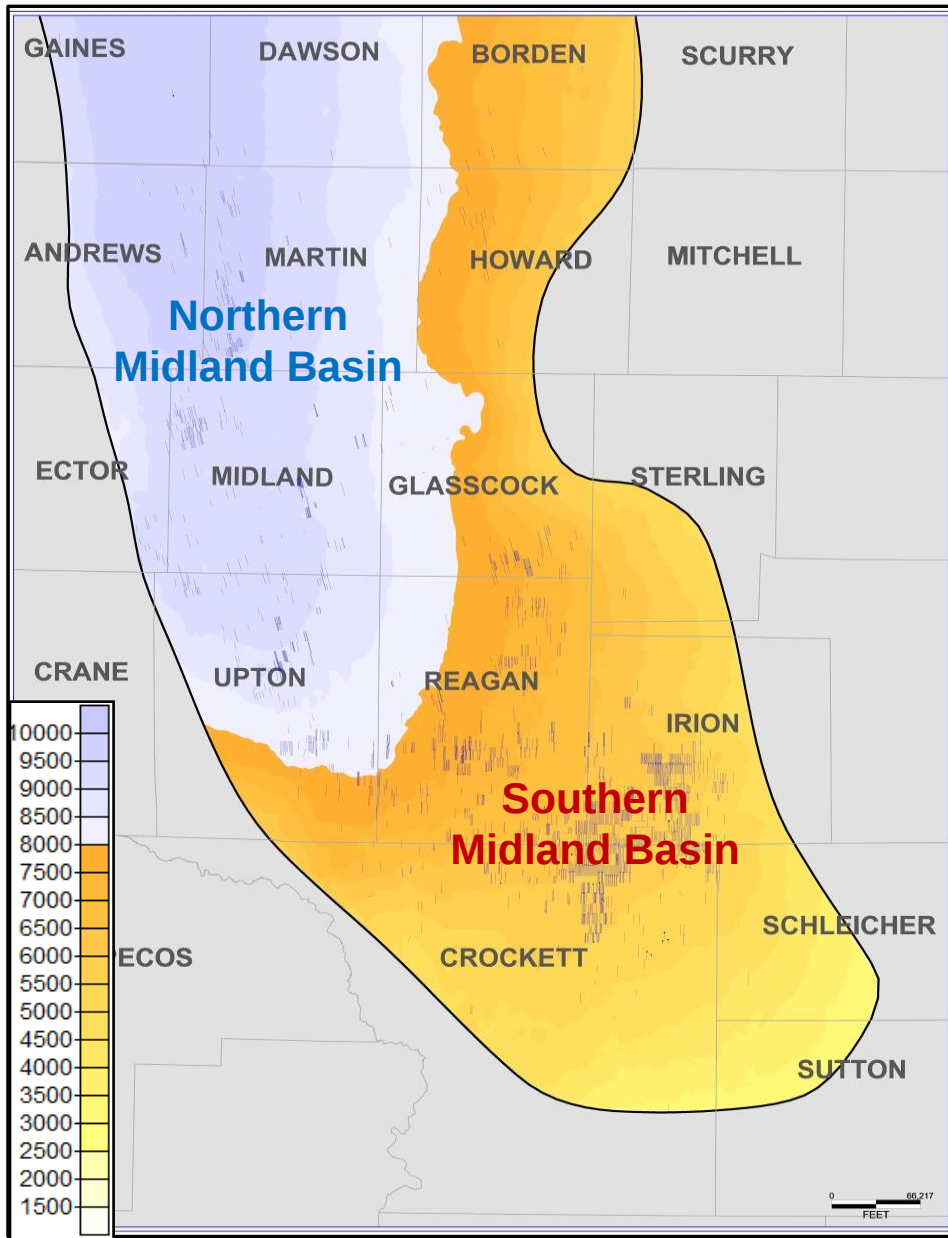
Source: Deutsche Bank, MEES, IMF CITI

# Successful oil shale plays in North America will not only be the key to our energy independence, but also to world economic growth



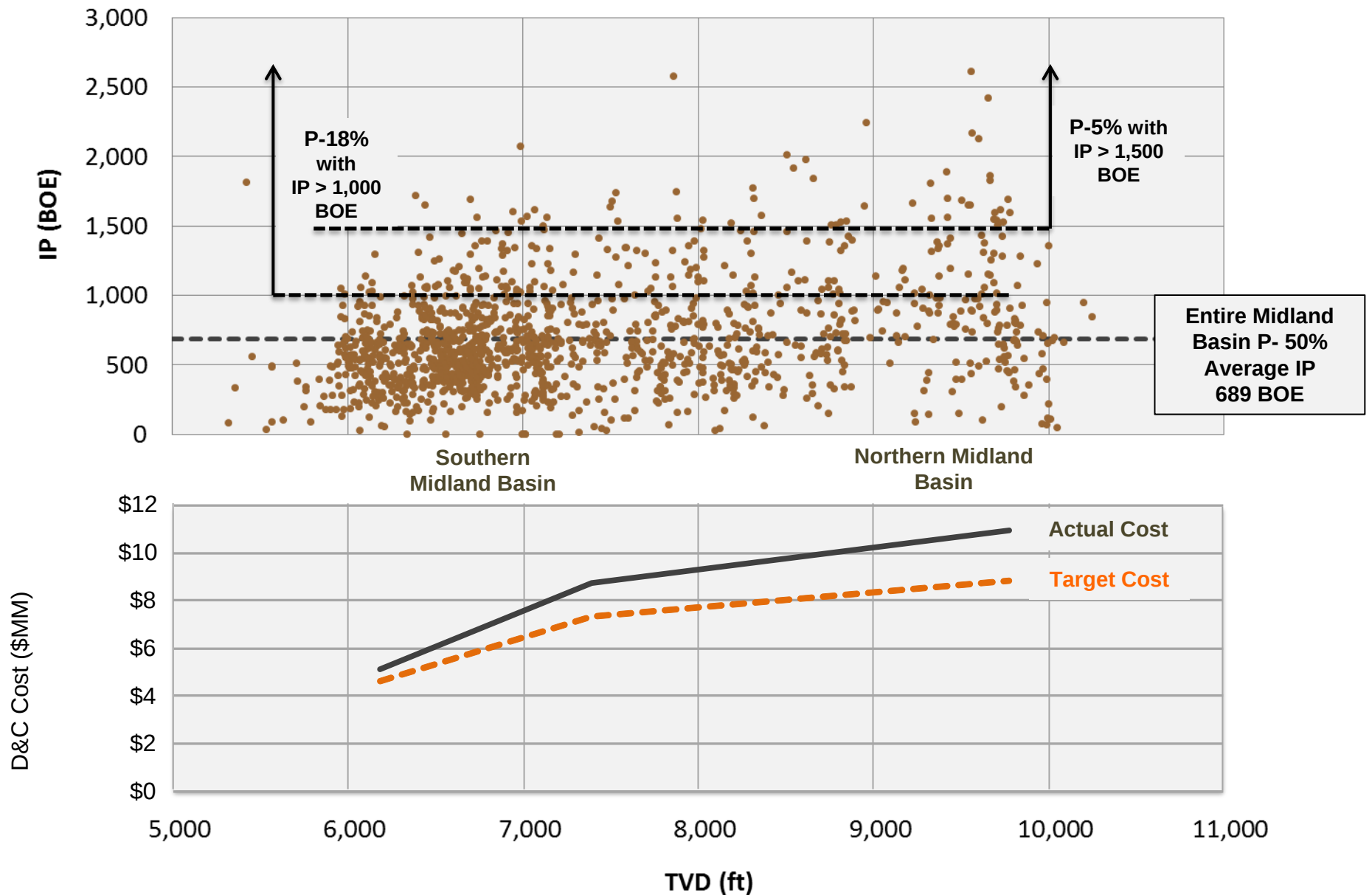
Source: OPEC

# Midland Basin - Wolfcamp Horizontal Well Activity



Source: DrillingInfo and IHS

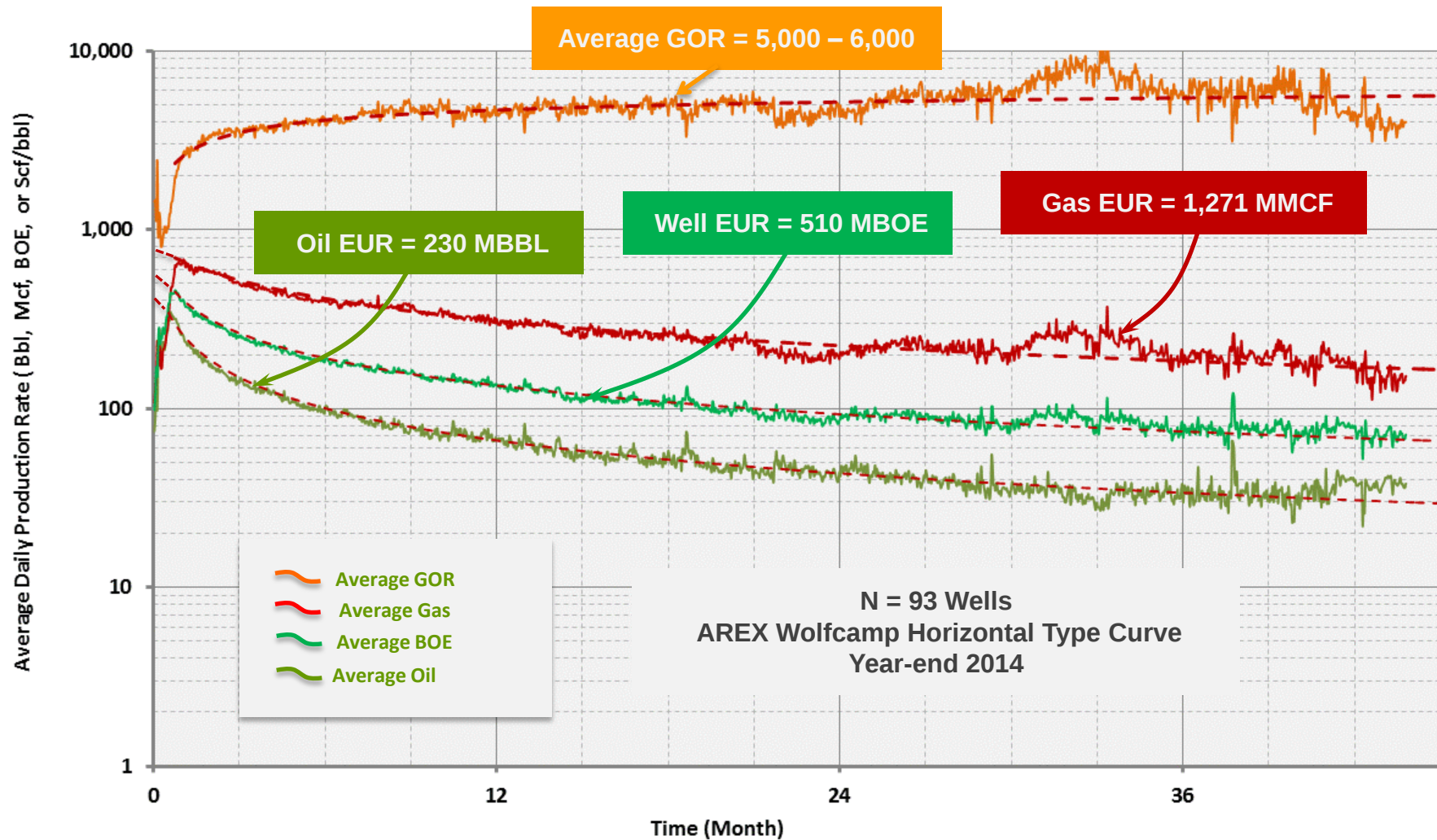
# Midland Basin - IP and Drilling & Completion Cost



Source: Company releases/presentations, DrillingInfo, IHS, public databases, and internal studies.  
 Note: Three-stream IP estimated using 0.1539 Bbl per Mcf and 25% shrinkage factor.

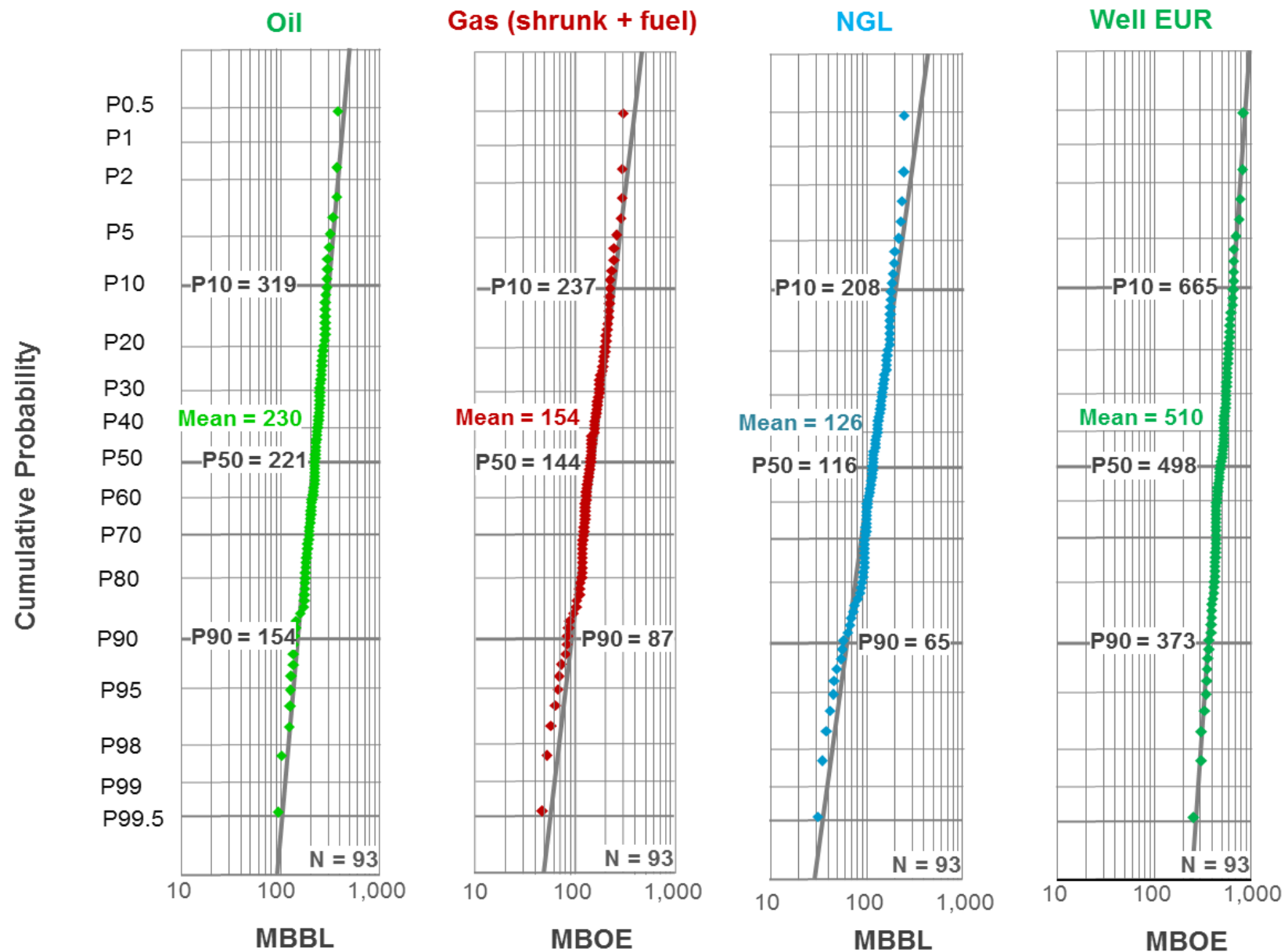
# AREX HZ Wolfcamp Well Performance

## AREX HZ WOLFCAMP (BOE/D)



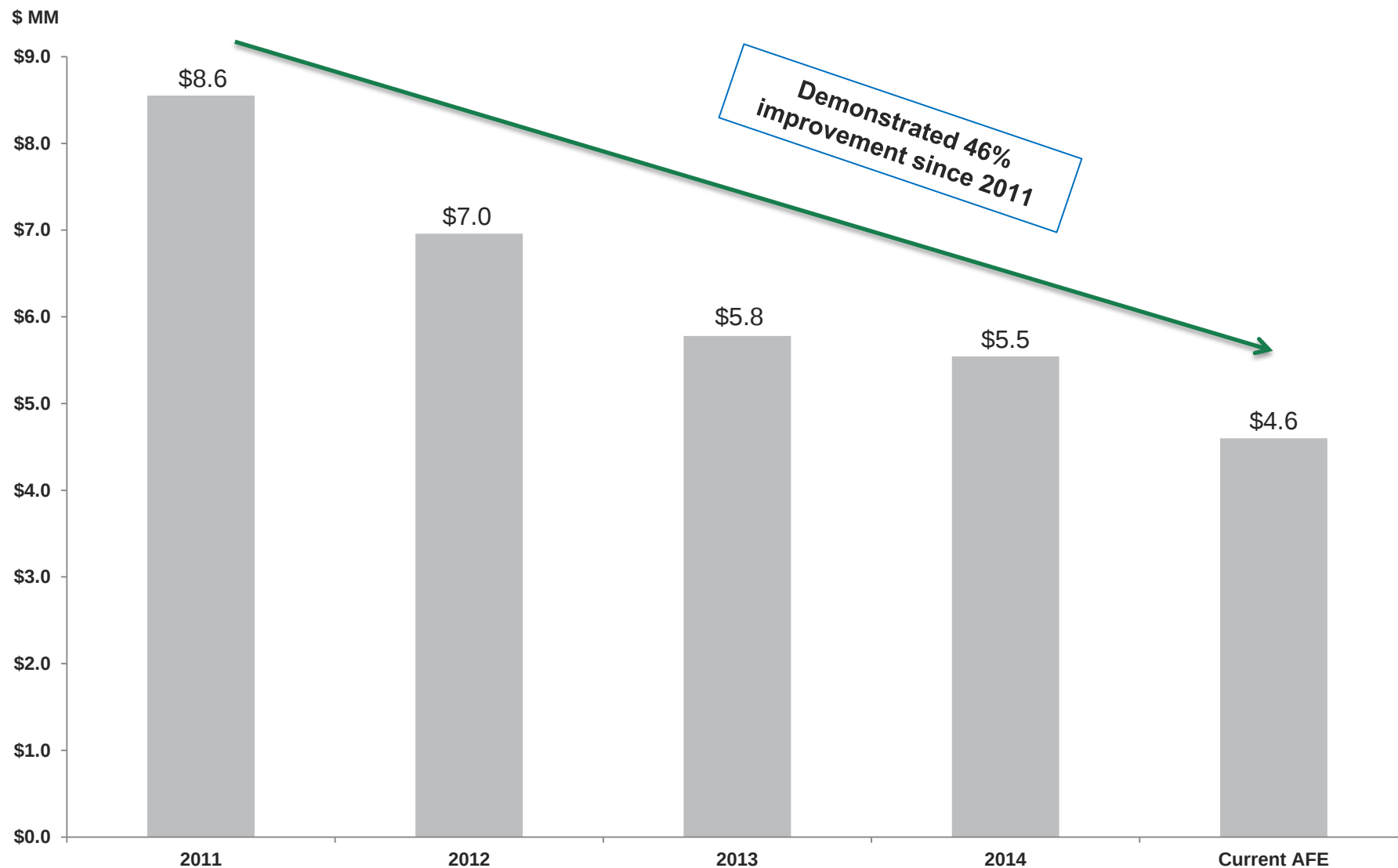
Note: Daily production normalized for operational downtime. Gas EUR is unprocessed wellhead volume.

# Probability Distribution of AREX 93 Type Curve Wells at Year-end 2014

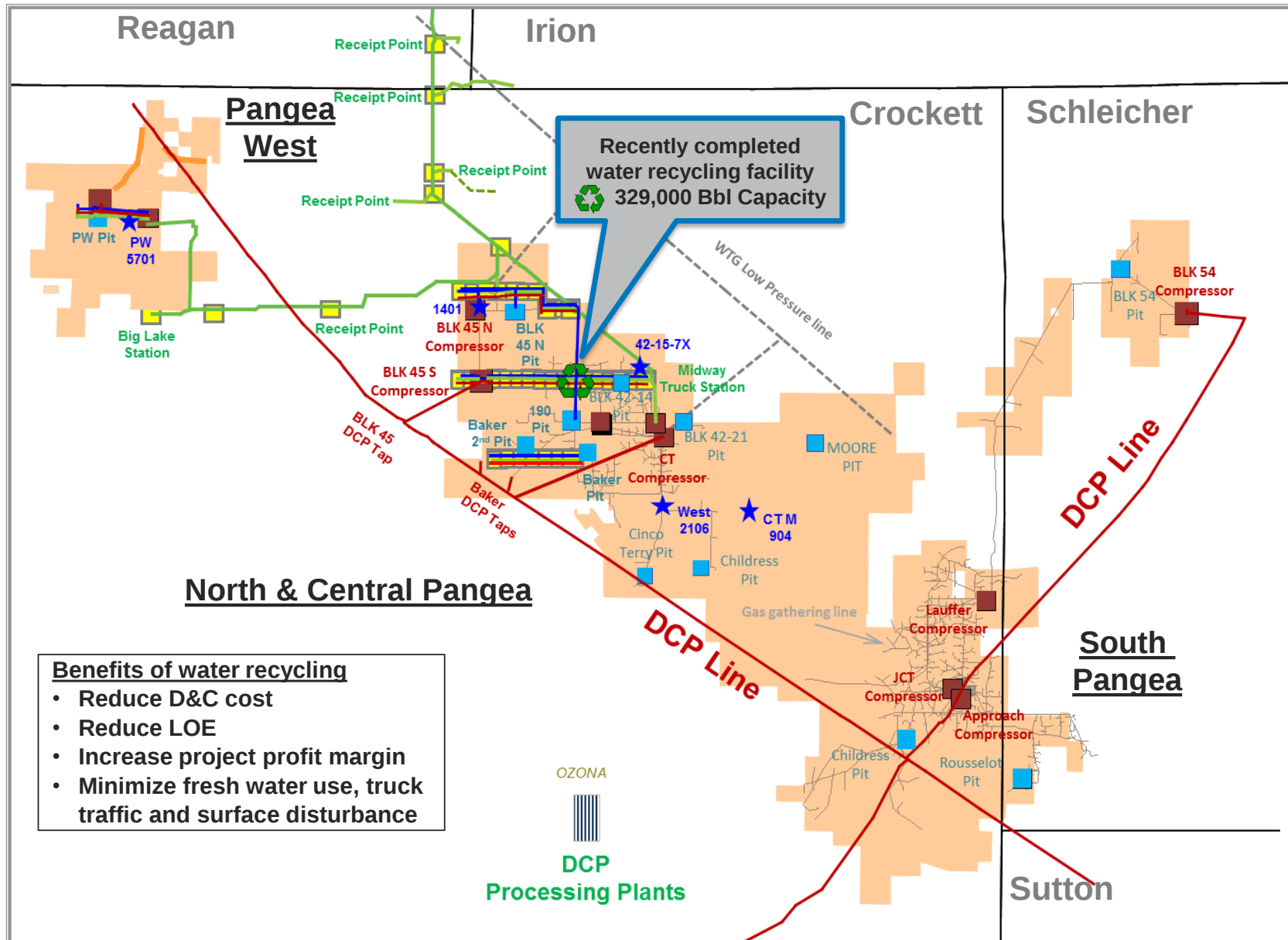


# Proven track record of delivering lowest D&C cost in the Midland Basin

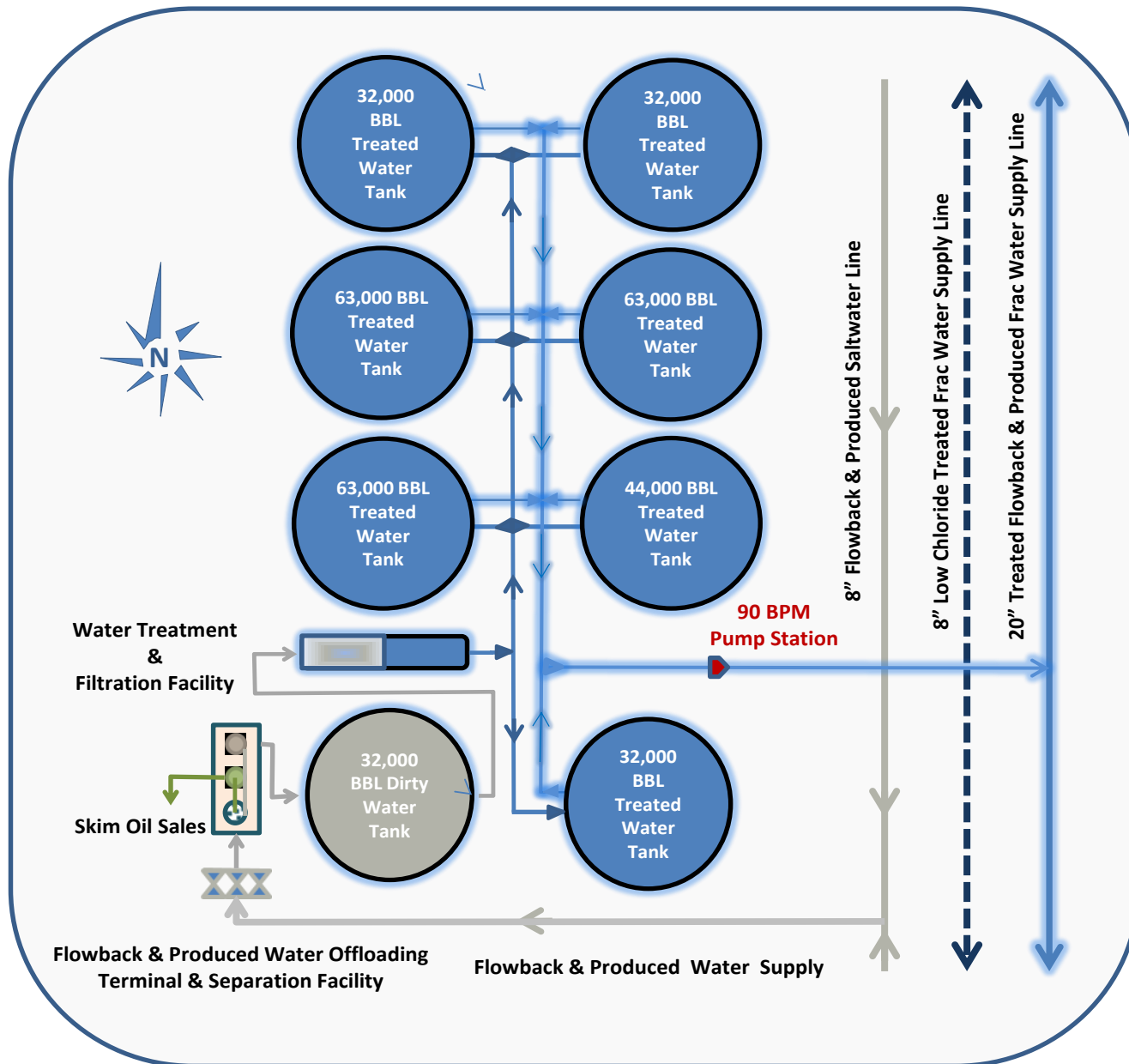
## Approach's annual average horizontal well D&C cost



# Established infrastructure in place is critical to low cost structure



# AREX Flowback and Produced Water Recycle Facility



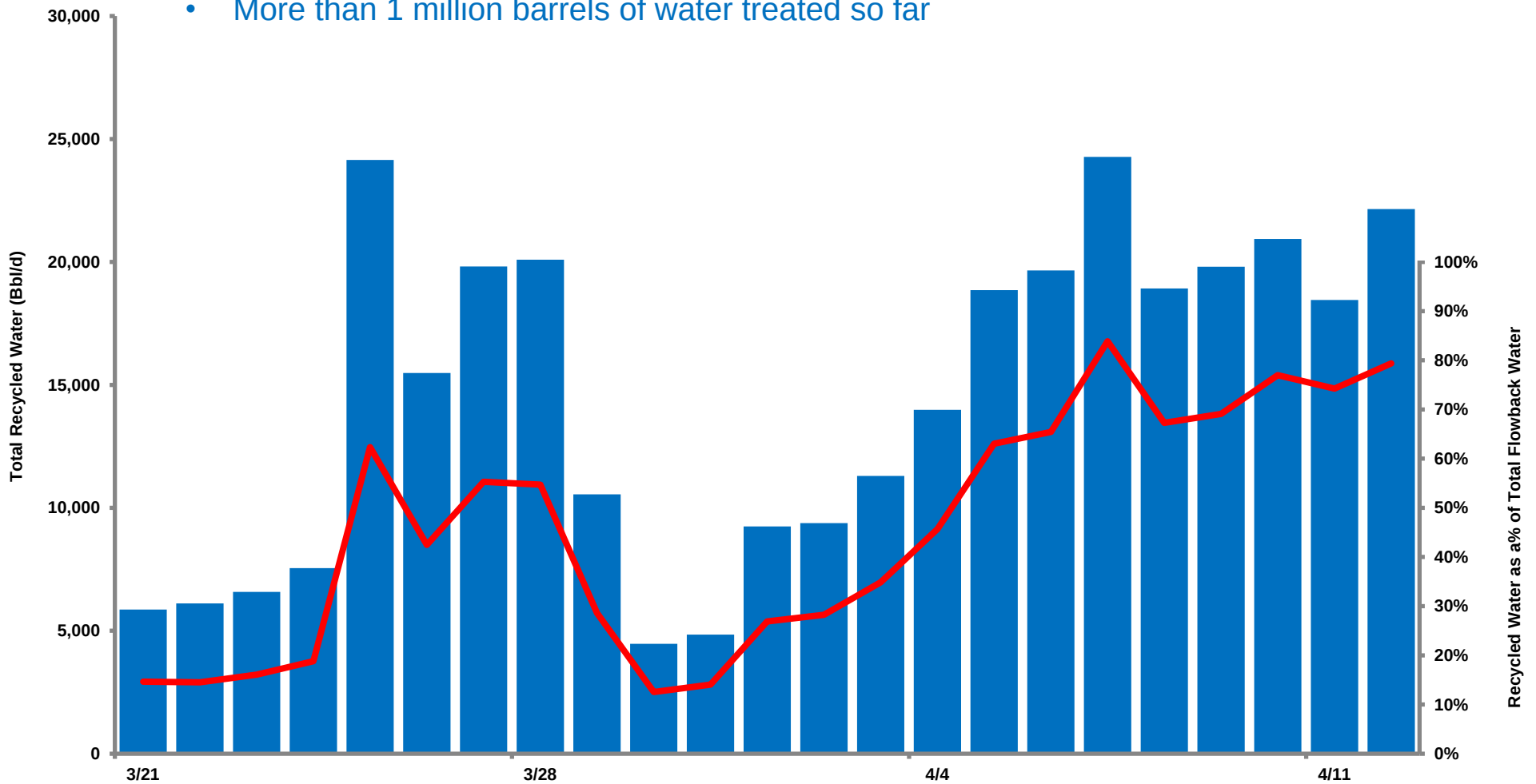
## 329,000 Bbl Capacity Facility

- Reduce drilling and completion cost by \$450K per well
- Reduce LOE by up to \$1.00 per BOE
- Eliminate usage of potable fresh water for completion
- Minimize surface disturbance
- Skim oil sale up to 200 Bbls per day - more than sufficient to pay for facility operating expense

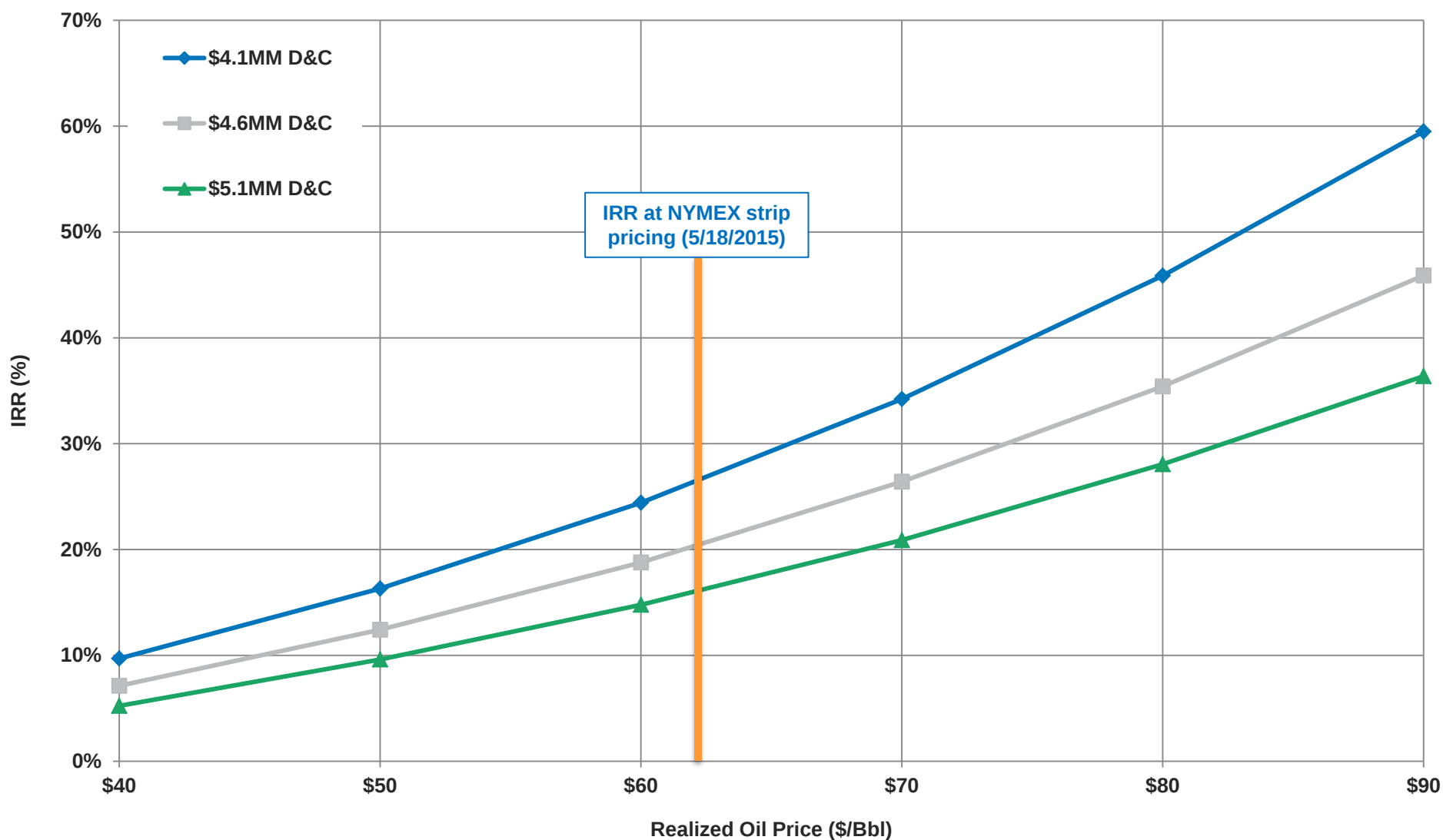
# Water recycling facility successfully started in March 2015

## Recent Recycled Water Volumes

- The water recycling facility was ramped up during March 2015 and now successfully recycles up to 70+% of AREX daily flowback water volumes
- More than 1 million barrels of water treated so far



# D&C Cost reductions will significantly improve profitability



Note: HZ Wolfcamp economics assume \$4.00/Mcf realized natural gas price and NGL price based on 40% of realized oil price.

# Summary

- **Oil is a commodity, has always been volatile, and will continue to be volatile**
- **World population continues to increase and people continue to improve their living conditions – therefore the demand for oil will continue to increase**
- **Oil is a finite resource and our industry will do well over a long investment horizon**
- **Price war for market share is short-sighted – OPEC countries need higher oil prices than US Independents**
- **The impact of fraclog and refrac wells to global supply is minimal**
- **Successful oil shale plays in North America will not only be the key to our energy independence, but also to world economic growth**
- **Wolfcamp oil shale play is the largest discovery ever made in North America and one of the largest in the world. It generates acceptable rates of return in both Northern and Southern Midland Basins even in the current price environment due to excellent shale rock properties and innovative approach to cost cutting by installing infrastructure and water recycling facilities**

