

Q4 2023 Earnings Call

Company Participants

- Adam Dirlam, President
- Chad Allen, Chief Financial Officer
- Evelyn Infurna, Vice President of Investor Relations
- James Evans, Chief Technical Officer
- Nicholas O'Grady, Chief Executive Officer

Other Participants

- Charles Meade, Johnson Rice & Co.
- Donovan Schafer, Northland Capital Markets
- John Abbott, Bank of America
- John Freeman, Raymond James
- Neal Dingmann, Truist Securities
- Noel Parks, Tuohy Brothers
- Paul Diamond, Citigroup
- Phillips Johnston, Capital One
- Scott Hanold, RBC Capital Markets

Presentation

Operator

Greetings, and welcome to the NOG's Fourth Quarter and Full Year 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. The question-and-answer session will follow the formal presentation. (Operator Instructions). As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Evelyn Infurna, Vice President, Investor Relations. Thank you. You may begin.

Evelyn Infurna {BIO 23231474 <GO>}

Good morning. Welcome to NOG's fourth quarter and year-end 2023 earnings conference call. Yesterday after the close, we released our financial results for the fourth quarter and full-year. You can access our earnings release and presentation on our Investor Relations website at noginc.com. Our Form 10-K will be filed with the SEC within the next several days.

I'm joined this morning by our Chief Executive Officer, Nick O'Grady; our President, Adam Dirlam; our Chief Financial Officer, Chad Allen; and our Chief Technical Officer, Jim Evans. Our agenda for today's call is as follows.

Nick will provide his remarks on the quarter and our recent accomplishments, then Adam will give you an overview of operations and business development activities. And Chad will review our financial results and walk through our 2024 guidance. After our prepared remarks, the team will be available to answer any questions.

But before we begin, let me go over our safe harbor language. Please be advised that our remarks today, including the answers to your questions, may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These forward-looking statements are subject to risks and uncertainties that could cause actual results to be materially different from the expectations contemplated by our forward-looking statements.

Those risks include among others, matters that we have described in our earnings release, as well as our filings with the SEC, including our annual report on Form 10-K and our quarterly reports on Form 10-Q. We disclaim any obligation to update these forward-looking statements.

During today's call, we may discuss certain non-GAAP financial measures, including adjusted EBITDA, adjusted net income, and free cash flow. Reconciliations of these measures to the closest GAAP measures can be found in our earnings release.

With that, I will turn the call over to Nick.

Nicholas O'Grady

Thank you, Evelyn. Welcome, and good morning, everyone, and thank you for your interest in our company. I'll get right to it with four key points to start the year.

Number one, scoreboard. Execution in delivering growth and profits. On our second quarter call, I spoke about the importance of delivering growth and profitability year-over-year. I'd like to use that framework today to put the results from the fourth quarter into context.

Our fourth quarter adjusted EBITDA was up 52% year-over-year, and our quarterly cash flow from operations, excluding working capital was up 55% year-over-year. Over the same period, our weighted average fully diluted share count was up about 17%, significantly less, reflecting the impact from our October offering, but not the impact of our fourth quarter bolt-on deals.

We achieved outsized growth and profits despite a more challenging commodity backdrop than the prior year. Oil prices were down over 5% and natural gas prices were down 52% versus the prior period a year ago. Even more impressive is the fact that our LQA debt ratio was 1.1x this quarter, down about 17% versus the prior year.

So, in summary, our leverage was down, our per share profits up markedly, even as commodity prices were down.

The point I continue to make is that our company is focused on the same simple philosophy, finding ways to grow profits per share through cycle and over time for our investors. We believe that is the path to driving sustainable share price outperformance. While oil and gas prices go through down periods that can and will affect our profits, again, it is our job to find ways to grow the business through such times.

The scoreboard we share with you is something that keeps us honest. Being a cyclical business does not afford us a perfectly linear path, and we will have our ups and downs, but we are actively investing, hedging, and looking to drive consistent long-term growth to profits and cash returns. This has and will drive dividend growth and share performance.

I'm pleased to say, as Chad will highlight in a bit, that our guidance for 2024 reflects 20% production growth on a budget that is very similar to last year's. Look across the upstream sector, and you'll find very few companies offering that. Once again, we stand out and I believe we have a lot more levers to pull, which brings me to my next point.

Number two, be greedy when others are fearful. The fourth quarter was ground game 101, highlighted by what happens when people run out of money. We saw operators pull forward activity even as budgets were exhausted. We chose to turn the ship directly into the storm and take on some of the best returning small-scale acquisitions we've seen in some time, and these should help capital efficiency as we head into 2024 and beyond.

We are diligently chipping away, one opportunity at a time, and Adam and his team continue to innovate with creative structures of every kind to solve for our operator's needs. This does mean we will spend money counter-cyclically at times, but spending money is what provides longer-term growth opportunities for our investors. Growth isn't free.

And as a non-operator, sometimes our capital commitments will accelerate and come sooner, and the timing of our projects can vary somewhat, as we saw in the fourth quarter, but it doesn't change the soundness of these investment decisions. As we track well-performance through our look-back analysis and review our return parameters internally, we continue to see excellent results across the board.

Number three, shareholder returns. I typically leave this category for last, but I'm going to address it sooner this quarter, particularly as I've observed weaker relative and absolute performance for our equity out of the gate for the start of this year. We talk a lot at NOG about dynamic capital allocation, and we get asked about share repurchases and where they rank in the stack.

As I've said before, and I'll say again, we try to seize on opportunities and allocate capital accordingly. Our valuation has compressed in recent months. So, in 2024, our stock may well be front and center in our capital allocation stack. We don't buy back stock with reckless abandon only when flush with cash and when times are good and when our valuation is high.

Instead, stock repurchases legitimately compete as a use of capital to maximize the long-term returns on the capital we employ, which by nature it means focusing on the point of entry and being discerning on when we do so. You've seen us be aggressive in repurchasing equity during times of value compression, like in early 2022.

We try to allocate capital efficiently and seize on the opportunity when the time is right. From this vantage point, it certainly seems as though this is the moment when the macro outlook has been more in flux and commodities have been more range bound and volatile, and our own value has compressed. If the market gives us lemons for the first time in a while, we're more than happy to make some lemonade.

Number four, I have not yet begun to fight. Sailor John Paul Jones immortalized that defiant phrase during the American Revolutionary War when asked to surrender by the British in a naval battle. My use of it here is meant to convey that while our team has grown our business tremendously over the past six years, you'd be mistaken if you think our growth story is over far from it.

We've worked hard to claim the mantle of the non-operating partner of choice. Given the opportunities and landscape in front of us, I believe we can, with thoughtful execution, double the size of our company again, if not more, over the next five years. And this time, I believe we can do it more creatively. It's an enormous goal and will pose a tremendous challenge, but I believe the opportunity is there for the taking.

We will stay humble to our roots as a small company, but we have great ambition to grow the business to the benefit of our stakeholders. And our Board has incentivized us and aligned us with our investors to do so for the long-term and to do it the right way. And done right, it will add tremendous per share value, grow dividends significantly, and drive market outperformance, all while continuing to lower the business risk.

It would be stating the obvious to point out that it's been an active time in the M&A sphere in oil and gas of late, as we've seen many mega-merger transactions, as well as many private-to-public transactions in 2023.

The fallout from these mega-transactions is likely to create even more opportunity for our company over time, providing both improved cost efficiencies on our properties and a broad variety of potential acquisitions as combined portfolios are rationalized. We're already seeing signs of significant cost benefits on our properties from some of these mergers.

While I just spoke about our dedication and focus on shareholder returns, I also want to highlight that NOG's path to growth through acquisition also remains very-very strong. We are involved in as many, if not more conversations today than at any point in my history at the company, and the quality of these counterparties is very different, as are the nature of these discussions. That is largely because our company today has become defacto the only viable entity for complex solutions for our partners that is truly of scale and commercial.

We believe we built a reputation as creative problem solvers. Our balance sheet is locked and loaded with capacity for deals in 2024, while we remain selective, I have no doubt there will be a myriad of opportunities in front of us this year. But it should go without saying that our main goal is to grow our business the right way.

One of the first questions we always ask ourselves when we look at an opportunity is, will this make our company not just bigger, but will it make it better? We pass on a lot of things that would certainly make us a lot bigger, but we question whether they'll make us a better company.

Asset quality, governance if needed, value, operatorship, inventory, and commodity price resilience are all factors that go into driving these transactions. These questions have driven us to where we are today and will continue to drive us as we move forward. Adam will fill you in further on the deal front, but expect an active 2024.

I'll close out, as I always do, by thanking the NOG engineering, land, BD, finance, and planning teams, and everyone else on Board, our investors and covering analysts for listening, and our operators and contractors for all the hard work they do in the field that actually creates what you see in NOG's results quarter-after-quarter.

We entered 2024 formatively positioned, with our strongest balance sheet, the highest level of liquidity, and largest size and scale since our formation. And as always, our team is ready to pounce on the opportunities to drive the best possible outcome for our investors, whether that's growth through our ground game, through our organic assets, through M&A, or through share repurchases in our quest to deliver the optimal total return. That's because we're a company run by investors for investors.

With that, I'll turn it over to Adam.

Adam Dirlam {BIO 20625311 <GO>}

Thanks, Nick. As usual, I'll kick things off with a review of our operational highlights and then turn to our business development efforts in the current M&A landscape.

During the fourth quarter, we saw production increase to over 114,000 Boe per day, driven by the closing of Novo in the middle of Q3, as well as an acceleration of wells turned in line during the quarter. We turned in line 27.6 net wells, evenly split

between the Williston and Permian, which included roughly half the net wells in process acquired through our ground game in Q4.

While well performance has been in line with expectations, we have been encouraged by the outperformance of our Mascot assets, the new wells completed since closing Forge and the New Mexico results from our Novo assets.

As we navigate the rest of the winter, we expect to see a typical seasonal deferral on IPs from Williston in the first quarter with a reacceleration in completion activity as we move into the spring and summer. Overall, we expect a relatively balanced completion cadence in 2024 as activity is more heavily weighted towards the Permian, which accounts for about two-third of the estimated TILs.

Our drilling program has remained consistent over the last three quarters as we spud an additional 20.8 net wells in Q4, with our organic acreage seeing continued focus from our operating partners. Our Permian position pulled roughly 60% of the organic net well additions, and if we include the contribution from our ground game, we saw three-quarters of our activity come from the Delaware and Midland basins.

Our acquisitions over the past few years are driving growth in the Permian as locations are converted and we head into 2024. At the end of the year, the Permian wells in process were sitting at all-time highs of 35.7 net wells and now account for more than 50% of our total wells in process and over two-third of our oil-weighted wells in process. We expect this trend to continue as the Permian accounts for the majority of expected new drills in 2024. As our drilling program has remained consistent, so have our inbound well proposals.

During the quarter, we evaluated over 180 AFEs with our Williston footprint contributing over 100 proposals in every quarter of 2023. Our net well consent rate remained at over 95% in Q4, however, we continue to actively manage the portfolio by comparing what's in the market at a ground game level and what is being proposed.

For example, given the commodity market volatility, we non-consented approximately 16% of gross AFEs, which collectively accounted for just half a net well in the Williston during the quarter. As certain operators have stepped out, we have redeployed that capital into our ground game at higher expected returns.

This highlights our flexibility with capital allocation and our ability to quickly react to changing environments, in contrast to operators that have to stick with their drill schedules. With that said, our acreage footprint continues to produce some of the highest quality opportunities available as our 2023 well proposals have expected rates of return north of 50% based on the current strip.

Looking ahead, we have seen cost reductions come through with our operating partners, yet we remain conservative with our budgeting process for 2024. Through

2023, well costs were relatively flat, however, as of late, we have seen some of our larger operators coming in below their cost estimates from original well proposals.

Notably, we have seen evidence from our planning sessions and recent AFEs of a potential 5% to 10% reduction in well costs related to our Mascot, Novo, and Forge properties. As gas prices remain under pressure, some drilling and completing resources may also be reallocated to our oily-basins where we could then expect some additional tailwinds.

Shifting gears to business development in the M&A landscape, the fourth quarter capped off another banner year for NOG both on our ground game and in larger M&A. As Nick alluded to earlier, we were able to take advantage of the dislocations we were seeing during the fourth quarter, executing on a number of short cycle ground game acquisitions. While competitors' budgets were running dry, we were able to step in and deploy meaningful capital consistent with our return requirements.

During the quarter, roughly half of the locations we closed on were also turned in line, which will contribute to our 2024 plans and growth profile. Our small ball focus was almost entirely in the Permian during the fourth quarter and caps off a record year for our ground game where we picked up roughly 30 net wells and 2,500 net acres.

While we buy non-op interest day in and day out, we've also used our co-buying structures, joint development programs, and have acquired operated positions with our ground game to generate these results.

During the quarter, we expanded our footprint as we signed and closed our Utica transaction. Similar to our approach in building scale in the Permian, we've elected to walk before we run, deploying a modest amount of capital in the core of a new play under some of the top operators.

Since the Utica announcement, we've been inundated with additional opportunities, and we will methodically review each of those as we think about our footprint in Ohio and Appalachia in general.

In January, we closed our previously announced non-operated package in the Delaware, where we have significant overlap with our current position and grossed up many of our working interests in New Mexico.

With Mewbourne we operated on 80% of the position, we've aligned ourselves with one of the most cost-efficient and active private operators in the basin, which should drive future growth for NOG. The scale that we've been able to achieve over the past few years has opened doors for us that were previously unavailable, and the creative structures that we've been able to implement have created mutually beneficial outcomes with alignment for both NOG and our operators.

Given the ongoing consolidation in the industry, we have been engaging in more frequent and substantial conversations with our operators. To put the landscape in perspective, there are currently \$46 billion of assets that we are reviewing, both on and off market. Even more than that, we've been in discussions with some of our large independent and mid-cap operators about how we can be helpful, whether they are pursuing assets or digesting recent acquisitions.

As consolidation continues, we can provide capital to help rationalize combined portfolios, accelerate high-quality, longer dated inventory, or facilitate debt reduction initiatives through sales to NOG. These off market transactions can be tailor-made for both parties, and with our growth in size and liquidity, could be as large or larger than any of our recent transactions.

Simply put, the options to deploy capital on top-tier assets is in no way slowing down for NOG. Depending on the needs and wants of the operator, the solutions could include simple non-op portfolio cleanups, joint development agreements, co-buying operated properties, minority interest carve-outs of operating positions, or any combination thereof.

At NOG, we pride ourselves on finding win-win solutions through creativity and alignment. Our priority is not to chase growth for growth's sake but to remain returns-focused over the long-term and doing right by our stakeholders.

With that, I'll turn it over to Chad.

Chad Allen {BIO 19893414 <GO>}

Thanks, Adam. I'll start by reviewing our fourth quarter results and provide additional color on the operated update we released on February 15. Average daily production in the quarter was more than 114,000 Boe per day, up 12% compared to Q3, and up 45% compared to Q4 of 2022, marking another NOG record.

Oil production mix of our total volumes was lower in the quarter at 60%, driven primarily by gas outperformance. Adjusted EBITDA in the quarter was \$402 million, up 52% over the same period last year, while our full-year EBITDA was \$1.4 billion, up 32% year-over-year.

Free cash flow of approximately \$104 million in the quarter, was up 19% over the same period last year, despite lower oil volumes. CapEx pull forward to fund accretive 2024 investments, as well as commodity price volatility and widening oil differentials. Adjusted EPS was \$1.61 per diluted share.

Oil realizations were wider as expected in Q4, with the increased production and other seasonal factors in the Williston driving wider overall pricing. Permian differentials, particularly in the Delaware were modestly wider. Natural gas realizations were 97% of benchmark prices for the fourth quarter, a bit better than we expected, given better winter NGL prices and in-season appellation differentials.

LOE came in at \$9.70 per Boe, which is driven by a few factors. We had highlighted in the third quarter we expected more normalized workovers in the fourth quarter after a lighter quarter in the prior period.

We also incurred approximately \$4 million of firm transport expense as a result of refining our accrual process based off historical data. And with some curtailments in our Mascot project, that had the effect of artificially inflating the per Boe numbers. As we reach mid-year 2024, we expect our LOE per Boe to trend down as production ramps.

On the CapEx front, we invested \$260 million in drilling, development and ground game capital in the fourth quarter, with roughly two-third allocated to the Permian and one-third to the Williston.

As a result of having access to high-quality opportunities, success in the ground game along with a pull-forward of organic activity, we shifted more investment into the fourth quarter from 2024. The pull forwarding activity is most apparent as we are seeing a 5% to 10% decline in expected spud to sales development timelines.

We ended the year with over \$1 billion of liquidity comprised of \$8.2 million cash on hand and \$1.1 billion available on our revolver. Our net debt to LQA EBITDA was 1.15x, and we expect that ratio to remain relatively flat throughout 2024.

I want to point out that we did build our working capital significantly in the fourth quarter and expect that trend to continue through the first quarter of the year and then begin to ease for the rest of the year as we convert the tremendous amount of capital that is currently in the ground into revenue producing wells.

We have remained disciplined on the hedging front and have been adding significant oil and natural gas hedges for this year through 2026, given the increased commodity price volatility we've seen over the past several months.

The oil portfolio consists of over 40% Collars in 2024, maintaining material upside exposure while providing a strong floor near \$70 per barrel. With respect to shareholder returns in 2024, everything's on the table.

As we've shared in the past, we adhere to a dynamic approach with the objective of achieving optimal returns for our shareholders, and while Nick alluded to potentially an active year for NOG, those activities may include share buybacks, if there's a dislocation in our share price, and if returns are competitive with other alternatives we are evaluating.

Turning now to our 2024 guidance. We are guiding to 115,000 to 120,000 Boe per day with 70,000 to 73,000 barrels of oil per day. We will see typical seasonal declines in the wells in the first quarter, exacerbated by some freeze drops in January, but our production cadence will build throughout the year.

We anticipate adding about 90 TILs and 70 spuds, reflecting the midpoint of our guidance. After a significant build on our D&C list in 2023, the conversion of IP wells in 2024 should materially help our capital efficiency as the D&C cadence returned to more normalized levels. This will bring some large amounts of working capital that we have drawn back on the balance sheet starting in the second quarter.

On the CapEx front, the 2023 pull forward lowered our 2024 CapEx from our prior internal estimates, but we are making the assumption that the pull forwards are likely to continue given the acceleration and pace of drilling that we are seeing across our core basins.

Our CapEx expectations this year are in the \$825 million to \$900 million range. This level of CapEx will be driven by ground game success, commodity price driven activity levels throughout the year, and overall well costs, which for the time being, are forecasted to stay flat, despite recent evidence of savings and AFEs, particularly from our larger JV interests.

We have significant capital on the ground right now and expect our larger ventures, specifically Mascot and Novo, to ramp materially in the first half of the year. So the capital will be first half weighted around 58% to 60%.

On the LOE side, our guidance is purposely wide, at \$9.25 to \$10 per Boe. This is due to the inclusion of our firm transport charge on a quarterly basis, as well as the anticipated rank we just discussed.

We expect LOE to start on the higher side before trending down throughout the year. We believe there will be room for improvement. We want to be conservative out of the gate. And with the firm transport charges being accrued for quarterly, our LOE expense runway will be less lumpy than in the last several years.

On the cash G&A front, we've seen a modest tick down in average cost per Boe driven by increased production volumes year-over-year, offset by some inflation in costs and services.

On the pricing front, given the low overall price of natural gas, we expect lower gas realizations year-over-year, even as NGL prices have thus far been better than we expected due to seasonal demand for propane used for heating in the winter months.

We would expect higher realizations of 85% to 90% in Q1, benefiting from winter NGL prices and differentials. However, we remain cautious based on the typical patterns for pricing as we enter the spring and summer. If we were to see material curtailments from natural gas producers to benefit the overall NYMEX price in 2024, obviously this could help guidance throughout the year.

As a reminder, our Q3 reporting embeds transport costs and pricing instead of a separate G, P and T line item, and the fixed costs that are absorbed make realizations go down when the absolute price is so low. To the extent gas prices rise materially or if flat prices and NGLs stick around, there is room to the upside, but for now, this is where we're starting. Thankfully, we are well hedged on the gas front, which offsets much of the weakness in the near term.

On the oil front, while we're guiding wider on differentials to start at \$4 to \$4.50, we will reevaluate this in the second half of the year. Williston volume growth has widened differentials materially over the past five months versus what we've enjoyed over most of 2023, but we believe the Canadian TMX pipeline may pull away some demand from Canadian crude as it comes online in the coming months.

We'll remain conservative until then, but this could lift pricing in the back half of the year. Overall, Midland-Cushing differentials have been solid, so in the Delaware, realized deducts are slightly wider. I'd like to touch on some other items related to guidance.

Our production taxes will be tracking an estimated 50 basis points higher in 2024, given the shift in production volumes towards the Permian, where production taxes are generally higher than our other basins. And our DD&A rate per Boe will also be higher in 2024, reflecting over \$1 billion of bolt-on and ground game acquisitions completed in 2023. This, of course, does not impact free cash flow as it's a non-cash item, but it does impact EPS and is provided to help with analysts modeling.

Before I turn the call over to the operator for our Q&A session, I'd like to provide an update on cash taxes. Given the volume of acquisitions and organic growth completed in 2023, our oil and natural gas properties balance has grown by \$1.9 billion year-over-year, which in turn impacts the magnitude of our tax cost depletion deductions, which reduces our taxable income.

We are now anticipating becoming a cash taxpayer in 2025 with a potential tax expense of less than \$5 million over the following two to three years, which is a significant reduction from our prior forecast. This is a material improvement for our shareholders with potential of over \$150 million in additional free cash flow over the next several years.

With over 20% growth in year-over-year production, a broad opportunity set available in front of us, and a strong balance sheet, NOG is well-positioned to execute in 2024 and beyond.

With that, I'll turn the call back over to the operator for Q&A.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We'll go to our first question from Neal Dingmann at Truist.

Q - Neal Dingmann {BIO 6416564 <GO>}

Good morning, guys. Thanks for the time. Nick, my question is really just on timing. Could you just go over, I guess, timing or cadence that is. You talk about maybe just looking what the 4Q CapEx and maybe why that doesn't translate into, call it, immediate production. Maybe just talk about timing if you would.

A - Nicholas O'Grady

Sure. Good morning, Neal. I definitely think I'm the one to answer this because, like a lot of the buy -- sell-side analysts, I'm not an accountant. I'm a former buy-side analyst, and I can read a financial statement but the nuances of accrual accounting versus cash CapEx accounting, and I should be clear, a lot of operated companies like a Diamondback or a lot of the operators follow cash CapEx, we're an accrual CapEx company. And so that means we're going to account for our wells by well status and percentage of completion. And just to be clear, 70% of the cost of a well is in the completion.

So, as the wells become more complete, the cost of a well we account for goes way up. So, in the fourth quarter, as an example, we have, say, 30 wells that we budgeted to go from, say, 25% in the third quarter to go to 50% in the fourth quarter, and instead they went to 75% to 90% complete, that's a lot of capital. And it doesn't necessarily translate into any incremental production in that quarter, and it's just an accounting exercise. It's not any more capital over the long run, it's just you have to account for that capital in the given quarter.

So it's not that we choose to outspend it, you just have to account for that in that period. So, in excel, you might think, well, why did you choose to spend that? And that's why we put this in our release. Our TIL count didn't really change that much. Now, the ground game spending that was elected, the \$25 million, and we capitalized on that. And some of those did turn to sales towards the end of the quarter. But when they come online in December, they're obviously not going to contribute much. They will help in Q1 somewhat, but of course, seasonally, that's one of our slower quarters.

If you look at the overall midpoint of our '24 guidance, you will see a partial benefit to the midpoint. Clearly, it's about a \$25 million benefit from the pull-forward, but from that sort of overrun. But the reason it's not the full sort of \$50 million is because our assumptions are that the shorter spud to sales times that we've been seeing on average in our total portfolio, you're talking about a full 7% acceleration of spud to sales times, is that we're assuming that, that continues sort of in perpetuity. So that means that all of the capital in perpetuity is pulling forward.

So you've got 2025 capital that we would have assumed is also coming into 2024. So there's sort of a half cycle effect to that. So I would also just say for all the listeners out there, we have sort of a mock accrual model that we can make available for anyone that can walk through how a D&C list and a percentage of completion will actually drive CapEx versus the TIL list and model this better. So if anyone would like to reach out to Evelyn, she'd be happy to walk them through it.

What I can assure you is that over time, these are just moments in time and the overall spending won't change a ton over it. It's really just a function of timing. In the fourth quarter, our TIL cadence was right on track and we can't really control how we account for well status. We can, of course, control our capital decisions. We made the decision to spend the \$25 million on the ground game because those were great economic decisions and relatively modest dollars, but the \$50 million plus is not really incremental.

The timing of the production cadence of this stuff, frankly, we're more focused on making sound investment decisions with our budget than the optics of the timing on a three-month time horizon when -- on a 12 month to 18 month, for the longer term investors, it'll come out in a wash. Number of the wells are the same, the cost is roughly the same, the amount you're accounting for in a given quarter is different, that's about it.

We're not -- and also, I just say we're not cherry picking single IRR, well IRR plots. We did publish in our earnings presentation, the cumulative [ph] of all our well plots year-over-year. And if you look at the data in aggregate, in our earnings presentation, 2023 was amongst our best well performance years in history. So optically, I recognize it's a bit noisy, but it's just noise. And I want to reassure people.

I'm sympathetic because I don't like the optics of it any more than anyone else. And I can understand what you might draw the wrong conclusions, but they'd be the wrong conclusions, because the well performance is a testament to everything that's going according to plan. So, over the long-term, everything's going great.

Q - Neal Dingmann {BIO 6416564 <GO>}

No, it does sound like that capital on the ground is going to really pay dividends. So I'm glad to hear about the timing and then just follow-up. Could you just talk a little bit about opportunities that you and Adam are seeing out there right now, Permian versus Bakken, is it pretty split? Or could you just talk about is there one reason that you're seeing predominantly more potential things?

A - Adam Dirlam {BIO 20625311 <GO>}

Hey, Neal. This is Adam. I would say that the opportunities that we're seeing right now are generally weighted towards the Permian. In the Permian, most of that's in the Delaware. So I don't think anything's necessarily changed. I think one emerging theme that we've seen kind of evolve has been around Appalachia, and kind of the commodity price volatility there.

You've obviously seen the pain ongoing for the last 12 months to 18 months. Some of those conversations were tabled a couple of years ago or a year ago when you were seeing seven bucks in (gas price). And now, you're obviously on the inverse of that. And I think with things settling out and having some of these operators truly feel the pain, I think there's some ability for us to potentially capitalize there. But I think it's across the board in terms of the conversations that we're having.

We're certainly seeing things in the Bakken that are interesting. I'm looking at our deal tracker right now. I think we've executed about 10 NDAs. There's about 17 different, immediate processes that are either in market or coming to market shortly. And so I think we'll obviously parse through that. A lot of that might just go immediately into the garbage.

So I don't think we're necessarily changing our stripes in terms of underwriting module of that, but I think you've got a few different dynamics that are going on that are interesting, especially on the consolidation front with operators, and then having to kind of wrap their head around their new assets, and then potentially rationalizing those assets, whether or not those are core assets to them, regardless of the economics.

A - Nicholas O'Grady

Yes. The only thing I would add to that would be on the Williston front, I think you're not seeing as much small scale activity, but I think there's the opportunity for bigger, chunkier transactions over time. I think there are bigger things that couldn't move over time there, which does give us some excitement.

I think it's -- we did hit record volumes in the fourth quarter. It's been amazing how resilient, it's frankly surprised even us, how our Williston asset just keeps growing, both organically and frankly inorganically, we've continued to find ways to grow our footprint. Our small foray into the Utica, we have been inundated with Utica opportunities, and we've actually -- even in the last month or two, we've probably gotten another half a dozen shopped to us.

So we've been building up our technical expertise, and we're evaluating through those. We would view that, to Adam's point, as an extension of Appalachia. It is technically the Appalachian Basin, but that's clearly a distinct play.

And obviously, the Utica is a broader play in the sense that there's a dry gas, wet gas, and oil part of it, so it's a couple different plays in some ways. But just having planted our flag there to some degree, by doing so, we've suddenly found ourselves in another set of deal flow.

Q - Neal Dingmann {BIO 6416564 <GO>}

Thanks, guys. Congrats.

Operator

We'll move to our next question from Charles Meade at Johnson Rice.

A - Nicholas O'Grady

Good morning, Charles.

Q - Charles Meade {BIO 17614470 <GO>}

Good morning, Nick, Adam, Chad. And Nick, I want to go back to this question of the 4Q CapEx, and I know you've already spent a lot of time on it, but I wanted to maybe take a slightly different angle. I think I understand the dynamic of the opportunity set with the ground games was looking good at year end, and I think I understand the dynamic of your accrual accounting.

What I don't get is the magnitude of it, particularly with respect to kind of what you knew on November 1, when you reported 3Q. And so I'm wondering if there's something that I don't understand, like maybe what you call your ground game D&C, if what gets loaded into that line item is everything you've done from the ground game year-to-date, I don't know, maybe you could just address it from that angle,

A - Nicholas O'Grady

Well, Charles, I mean, as a non-operator, well status updates come from the operators on delay. And so we're only as good as the information that is provided to us, right? So, oftentimes, it can be -- we can -- we're provided this stuff sometimes months on delay, right? So we can be told that a well hasn't been even spud, and then you'll get a report that it's been completed. And so I don't have any answer beyond that.

A - Adam Dirlam {BIO 20625311 <GO>}

Same thing could be said with the ground game, right? Depending on the complexity and the due diligence that's going around that, some of these deals can get closed within weeks, and some of them take months, and then you get up into year end, and there's different from a seller's standpoint, different tax consequences, and so different levels of urgency there.

And so we're trying to be as accommodating and commercial as we can without obviously sacrificing any of the protection from a due diligence standpoint, but these things ebb and flow on a real-time basis.

Q - Charles Meade {BIO 17614470 <GO>}

Got it. So if I understand correctly, you've got both volatility and also maybe it would be fair to characterize as long as it is out-of-period adjustment catch-ups?

A - Chad Allen {BIO 19893414 <GO>}

Charles, this is Chad. I don't think it's necessarily out-of-period adjustments. Like we mentioned earlier, it's the pull forward. I think, look, we had record D&C levels at Q3. And the timing of when those come off really depends on, like Nick mentioned, the

well status and where it's at. I think, look, we went from a typical D&C list percentage of completion of 40% all the way up to just over 60%. So I think you're going to see that build. And that kind of ebbs and flows each quarter as we receive well status from operators.

Q - Charles Meade {BIO 17614470 <GO>}

Got it.

A - Adam Dirlam {BIO 20625311 <GO>}

And Charles, maybe just to put it into perspective in terms of the accrual accounting. And operator is collecting all of the service invoices and everything else, and they have to aggregate all of that and then bill it out the various non-ops. And every operator does that at a different cadence, right? And so you have these accruals out there until we're confident that all of the costs that have been incurred from actuals have been appropriately billed. And so those accruals, depending on the operator, can hang out there a few months however long relative to the IP date, because we need to make sure that we've got the coverage that we need.

A - Nicholas O'Grady

Yes. But at the end of the day, it doesn't really change the aggregate dollars, it's not any more wells, it's just a factor of time.

A - Adam Dirlam {BIO 20625311 <GO>}

Looking at it on a three month basis when you need to be looking at it at a 12 so.

A - Nicholas O'Grady

So what I can tell you is we're not electing to any more -- we're not making any different capital decisions, we're electing to the same number of wells, we're electing -- we're tilling the same number of wells, it's just a matter of how much money is being spent. It's not a matter of these wells costing more or performing worse. It's a matter of truncating the amount of capital and when you're accruing for it. I mean, optically, I'm not any happier about it than anybody else.

A - Adam Dirlam {BIO 20625311 <GO>}

It dovetails into '24 and what the projected well costs are. We've had some great conversations with our operators and what we're seeing in field estimates, and we alluded to as much, right? We expect 5% to 10% underrun from these AFEs, but we're going to take these AFEs at base value. And depending on the operator, those AFEs might be three months old, they might be 12 months old, but we're not going to change our accounting practices based on what that mix looks like.

A - Nicholas O'Grady

Yes. And let me walk you through how that works, Charles. Let's just say Midland Petro sends an AFE, gross AFE for \$12 million in November. So they sent us that and we're accruing for that \$12 million on a percentage of completion starting in

November, through the completion of that well, let's just say it's in April, and we'll continue. And then that accrual is held until probably -- and then there's a period where it's held out until the final billing, which is probably at least 90 days until after the well is on sales. And then if there's no more billing after that, that accrual falls out and it's finalized.

We're getting field reports along the way that, that well, maybe it's costing \$10 million, right? So there's a \$2 million savings, but only at some point later in 2024 will you see in our results that reduction to the capital. So there's a lot of conservatism built into this. If you're your typical cash operator, when they tell -- when they guide to you and they say, we're going to spend \$12 million in this quarter, and then they actually spend \$10 million, they're giving you the immediacy of that benefit, we're not.

And so what I would tell you is there's inherent conservatism in how we're doing this, but over time, you will see the benefits of those. And so, while it obviously is the inverse, certainly in the fourth quarter, over time, I think you'll see it doesn't really change the outcome in the long run. And in some ways, I think throughout 2024 and certainly into next year, you will see the benefits of our accounting. And like I said, it will all come out in the launch.

Q - Charles Meade {BIO 17614470 <GO>}

Got it. I thank you for all that added detail. And if I can transition away from accounting and more towards pictures, which I'm better at.

A - Chad Allen {BIO 19893414 <GO>}

I very much appreciate it.

Q - Charles Meade {BIO 17614470 <GO>}

I like pretty pictures. Slide 10. I appreciate that you guys put this gun barrel view of your Mascot project. And one short question, one bigger question. So the first question is, it doesn't look -- the first question is those yellow circles, I'm interpreting that as kind of completion batches is what it looks like -- it -- is that right?

And then the second thing I want to ask you guys a little more open-ended. I really like this picture. It helps fill in the dynamics for me, but what -- I guess when you guys first looked at this, and I recognize it may be as much as a year ago, but what are the lessons there? What insights did you generate, or what insights came to you when you first looked at this?

A - James Evans {BIO 21421539 <GO>}

Yes. Hi, Charles. This is Jim. Yes, what you're looking at there, the kind of the yellow amoeba, those are completion batches. So we'll do them in two, three, four wells at a time. And then what we're showing is, you've got several rows where you need to shut wells in behind it, whether it's due to the drilling or fracking, to protect yourself.

So, when we looked at this about a year ago, really all you saw in here, in terms of wells that were producing, was the charger unit.

And so the Mustang, Rebel, and Bulldog units were all undeveloped at that time. Discussions around development time and completion with MPDC at that time was that we're going to do smaller batches. And so where you see the yellow dots, we'd maybe do three wells at a time, complete those wells, turn them online, go another six months, complete the next three to four wells.

And what we saw with the first batches is that we started to see some interference issues, some frac heads, because we were drilling and fracking all at the same time as we moved from west to east across this project. And so the decision was made, let's do bigger batches. And so what that did is that it obviously causes delays in when we thought, the project was going to peak in terms of production. But what we're seeing is that because we're doing that we're getting better well performance overall, the project is outperforming by 5% to 10% versus our original estimates.

Obviously, there's delays, but we think in the long run, it's actually going to benefit from a return on investment IRR overall project economics. And so what we're learning is that obviously things change over time. And this is a big working interest project. So it's more impactful than our typical non-op package would be.

So our learning is just make sure we're in full communication with the operator at all times and that we're all in agreement on how the development plan is going to go forward. And like I said, we're acceptable to the changes. Obviously, that hurts us from a guidance standpoint and trying to understand when these wells are going to be coming online. But overall, we're very happy with the project and we're comfortable with how things have changed.

A - Nicholas O'Grady

Yes. And what you can see in this, Charles, is that you're pretty much almost all the way there, right? You're down to your last pretty much eight wells to be drilled. Your frac schedule, you're really all -- and what you can see is where the Charger and Mustangs, which are really the ones that are remaining there, you're going to have fewer shut-ins on the back end. You're going to have to -- in terms of -- you will have to shut some in when you go to frac those wells later on. But in the last wave of shut-ins, which will be sort of towards the end of this year, into 2025, it'll be a reduced.

So the one thing I can tell you about this project is that while it won't produce that peak rate that it would have, it will produce -- it will cumulative [ph] way more barrels and a much flatter production profile than it ever would have before. And so the total IRR on the project will be much more superior to what it would have been originally. And we obviously were also saving -- because you're doing much more continuous drilling and fracking, we're saving a lot of money. That's still to be determined until we finish the project. And I think we want to be a bit tight-lipped and conservative on that until we're done. But I think we feel very confident at this point that it's gone swimmingly.

And obviously, it doesn't feel that way, but the strip was about \$70 this year when we underwrote this program. And obviously, we're in the mid to high \$70s today, so we're earning higher returns than we would have otherwise underwritten.

Q - Charles Meade {BIO 17614470 <GO>}

Great detail. Thank you.

A - Nicholas O'Grady

Yes.

Operator

We'll go next to Scott Hanold at RBC Capital Markets.

Q - Scott Hanold {BIO 6237956 <GO>}

In your prepared comments you mentioned about wanting to accretively double the company in five years. Can you give us a sense of how you achieved that? I mean, since you kind of came on, you first pivoted out of the Bakken into other basins. And obviously, your next significant move was doing JVs. What's next? Is there other basins you're looking at? Would you consider being an operator? Like how do you double a company from here?

A - Nicholas O'Grady

I'm curious, what's that wonderful music in the background?

Q - Scott Hanold {BIO 6237956 <GO>}

Sorry. Lots of calls going on today.

A - Nicholas O'Grady

I think what you see is what you get. I think what I would tell you is, we still see the same -- I think, we still see a lot of the same stuff. We still see a lot of regular way. The ground game -- we did almost \$300 million with the ground game. It was a record year. We did several thousand acres over a third -- which included over 30 locations, which is frankly a monstrous record. And we're doing it in a different way. We're solving -- we're doing it in -- we've moved out of the sort of fractional, small-scale stuff into much larger. We're solving major operator problems and it's mostly dealing with our mega operators.

Obviously, we have moved into the JVs, but that's more a function that we can actually do that. They were dealing with private equity groups that were non-commercial in the past because they were the only ones that had their capital and they'd much prefer to work with an actual true oil and gas concern that's a permanent owner of the assets. And so we've really become the first oil and gas concern that can actually do that.

And I -- so I do think that that will be an avenue that goes there. I think there are still, we know of a half a dozen regular way non-op transactions that are going to come to market, either on or off market in the next -- within this year. And so obviously we will be looking at those. But I can tell you, to Adam's point, he said, we've signed 10 non-disclosure agreements this year. It just keeps coming.

We continue to be contacted of people coming to see us saying, I have this problem or I need to buy this or I want to do this. Can you help us do this? And we are trying to solve solutions, whether it be rationalize their assets, whether they have an asset that cannot be sold and they would like to sell a portion of it, like what we did with Midland Petro. There are all sorts of solutions that we're trying to provide. And with that, we can create the scale that I'm describing, but I am extremely confident that we can grow it and create a return for our investors.

And as for other basins, there are other great economic basins. There are certainly ones that I would very much like to avoid. But I think you can -- we can solve for the risks around them. We certainly have technical expertise. We've looked at a handful of other basins that we would be interested in. There are some that I think are going to be a challenge. I think there are some that we would, of course, for the right opportunity, go to. I think there are some that we would have to, frankly, create governance or other things to get around those risks.

And I don't know, Adam, if you want to add to that.

A - Adam Dirlam {BIO 20625311 <GO>}

Yes. I mean, I just feel like a broken record quarter-after-quarter. But it's the scale that we have now. It's the optionality and the deal structures and the blueprint that we've created. And then, frankly, it comes down to reputation and our ability to execute and our ability to be commercial. And so we've got more than we can shake a stick at in terms of the inbounds and how can we solve a problem together. And so those are the conversations that we're having.

And I talked about the stuff that's in the market, and that's everything from the non-op package to the drill code-like joint development agreements as well as the co-buying, but now you've got this different theme emerging with the operators merging and the rationalization coming in there. And so you can add another kind of arrow to the quiver in terms of how Northern can be helpful. And so if you've got all of those options and you've got the balance sheet and you've got the reputation, then you can use all of those to your advantage in order to execute.

Q - Scott Hanold {BIO 6237956 <GO>}

Okay. I appreciate that color. And my follow-up question is on shareholder return. You mentioned that you'd be willing to kind of step in and lean into buybacks with market dislocations. Can you give us a sense of like how aggressive are you willing to get there? And how do you think about intrinsic value? I mean, it seems like you think the stock price is attractive today, but like -- where is -- can you give us a sense of where is that sort of point where you really get aggressive, and how deep can you go?

A - Nicholas O'Grady

Yes, I mean, I think that would -- I mean I can't give away too much of our playbook, Scott. And obviously it's a Board decision. We've been in discussions with the Board. We are watching, I would say, as an ex-hedge fund manager, we have a fairly sophisticated internal modeling of this. And we try to use it and we model it internally and compete, and compare it and compete it versus generic M&A and all that stuff when we run all of these things versus, we effectively model it against where that capital could go elsewhere, right? Because it is -- you have to sit there and say to yourself, if I spend this money today, where could it go elsewhere?

But frankly, as we look to the first quarter, this represents the worst relative performance we've seen in about three years. And we view it as relatively inexplicable given the fact that our growth profile as we looked this year as one of the best in the space. Perhaps it's because I can come up with a harebrained, long, short thesis of some sort or whatever. But regardless, that generally, like I said, life gives you lemons, you make lemonade, that creates opportunities for us. And that's how you allocate capital when you see that.

So we'll be watching, and if the opportunity presents it, we're ready to act. We have - we certainly have availability in our buyback authorization. We can always create more and go to the Board, if necessary. And so, I think we have over \$80 million today available. We can always ask for more if the Board's willing, and that's a Board-level decision.

Q - Scott Hanold {BIO 6237956 <GO>}

Thanks.

Operator

We'll go next to John Freeman at Raymond James.

Q - John Freeman {BIO 7113688 <GO>}

Good morning, guys. Just following up on the last comment there where you said that you all would consider looking at, I guess there's a handful of other basins that you all have looked at or considered. I would assume that for you all to do anything outside of the three basins that you're in, that it would require a pretty substantial position. I mean, not something that you all would sort of build into, right? You would need enough scale for it to be make sense to add a fourth kind of leg to the stool, is that correct?

A - Nicholas O'Grady

Yes.

A - Adam Dirlam {BIO 20625311 <GO>}

Yes. I think that's a fair point. I think there's a handful of different dynamics that kind of come into play, obviously, the land and the regulation around that and what that means for a non-operator. And then when you think about co-buying or buying down, a minority interest in an operator position, you're kind of linking arms with an operator that likely already has that expertise in that basin to the extent that we need to have two sets of eyes taking a look at things. And so I think that's an interesting dynamic in terms of taking a look outside of our own backyard and being able to link up with some of the best-in-class operators that we want to partner with.

A - Nicholas O'Grady

Yes. I think there are some basins that would be a real challenge, John, but I think there's some basins that may have some risk to them that could be solved if you had the right -- that might have the right rock, but have other risks associated with them that could be solved if you had the right operating partner.

Q - John Freeman {BIO 7113688 <GO>}

That makes sense. And then my follow-up question, obviously, we spent a lot of time on the accrual aspects on the CapEx, and it looks pretty clear that, whether it's late this year or next year, that the cost improvements that you're seeing at some of those major properties, eventually that'll show up.

If I shift gears and think about the guidance as it relates to production, you've got a slide in there that shows the productivity you all are seeing in the Permian and the Williston, and I think the Williston in particular was pretty surprising for me. Just -- you think of it as a mature, one of the older basins. And it looks like, obviously, still early here, but '24 results look like they're meaningfully outperforming. Is your guidance on production related to the Williston? Does it assume more like a 2023 type well results?

A - James Evans {BIO 21421539 <GO>}

Yes. Hi, John. This is Jim. We always go into the year kind of assuming there's going to be some well performance degradation. Obviously, we've got about nine months of wells in process. We already have a pretty good idea of what we think the performance of those wells will be. But we do always assume there's going to be some degradation. But really, that plays into our portfolio management, right, as we're thinking about which wells we want to participate in, which operators we think are the best performers, where we're going to target our activity levels.

And so that's really how we manage our activity and our well performance, and make sure that year-over-year, we're doing a good job in participating in the best wells. Obviously, 2024 is off to a great start, but it's pretty early on. We'll keep an eye on that and see how it changes over time. But we're obviously very encouraged. We're happy with the Permian. 2023 outperformed a little bit versus 2022, even as we move more into the Midland, which is less productive than the Delaware side. So we're very happy there as well.

And again, 2024 is off to a great start. So, overall, well performance has been as good or better than expected. But we'll stay true to our roots and expect some well degradation, which is what we build into our guidance and our -- on our forecast. So potentially some upside there, but we'll wait until we get more information as we go farther into the year.

A - Nicholas O'Grady

If you're looking for optimism from a non-operator, you're not going to get it, John.

A - Adam Dirlam {BIO 20625311 <GO>}

John, maybe going to give you a little different perspective. I think from our PDP ads, from a Williston standpoint, it was generally concentrated with Continental, Marathon, and Slawson. So some of our best operators in '23 and if I'm looking at the D&C list as well some of the near-term AFEs, you've got a similar setup with Conoco and Slawson and Continental all kind of leading the pack in terms of what that makeup is, so encouraged by where these guys are operating and how they're performing.

Q - John Freeman {BIO 7113688 <GO>}

Appreciate it, guys. Thanks a lot.

A - Adam Dirlam {BIO 20625311 <GO>}

Thanks, John.

Operator

Our next question comes from Phillips Johnston at Capital One.

Q - Phillips Johnston {BIO 23026376 <GO>}

Hi, guys. Thanks. Chad, you gave some pretty good color on LOE in your prepared remarks. You mentioned the run rate should start to fall in mid '24 as production ramps and obviously you've got the FT charges tapering off by the middle of next year. So I'm wondering where we might be by Q4. And as you look out into '25, would \$9 a barrel be a good placeholder for our models or would you steer us to something above that or below that?

A - Chad Allen {BIO 19893414 <GO>}

Yes. I mean, I think that sounds in the ballpark, Phillips. Yes. Like I mentioned, we're going to be running a little hot as we kind of catch up the FT charge. We only have instead of a year to accrue for we only have six months. So that'll be a little bit heavier in the first quarter. But yes, then as I mentioned, we will trend down probably towards the bottom end of our guidance range, maybe even a little bit lower as we close out the back half of the year.

Q - Phillips Johnston {BIO 23026376 <GO>}

Okay. Sounds good. And then maybe just a question for Adam. It looks like the plan involves 70 net spuds and 90 turn in lines. Can you talk about maybe what's driving that 20 well gap and what that might mean for the trajectory of production capital efficiency into 2025.

A - Adam Dirlam {BIO 20625311 <GO>}

You've got obviously the Midland Petro project kind of finishing up that's a 40% working interest, so you've got a concentration there. And then, well, as we proceed throughout the year, we're going to be getting these well proposals coming in the door and so what that looks like. And so I think it'll depend on obviously that working interest mix, as well as kind of the cadence and activity levels kind of the Permian as well as the Bakken. So I think it's a function of both Novo and some of the other larger transactions that we have, and where that activity level is concentrated. We're having these conversations on a quarterly basis with our operating partners, and so that can change.

A - Nicholas O'Grady

I mean, Philips, for a normal course, our D&C list should usually roughly equate to about half of our TIL count. And obviously, it's been elevated, we've been building it because we've been growing organically. So over time, it should be about half. And that's partly why our CapEx is elevated. So it masks some of the capital efficiency of the business. And so that's why you will see our capital efficiency markedly improved.

And if you go back to, say, 2021, where our D&C list was declining, you would see -- material improvements, the free cash flow yield and other things. And that's because you were running a leaner D&C list. And so it's more just a normalization of it. So I wouldn't make the assumption that it leads to material declines or something like that. It's just more a normalization of the D&C list.

Because obviously, we've been going through -- I mean, think about it last quarter, our production grew like 53 -- our oil production grew 5,300 barrels, and not all that was just Novo that -- a lot of that was organic. So you've been seeing volume growth material, right? So you're just really flattening out that growth production effectively as you exit the year to some degree.

Q - Phillips Johnston {BIO 23026376 <GO>}

Sounds good, guys. Thank you.

A - Nicholas O'Grady

Yes.

Operator

We'll move next to Donovan Schafer at Northland Capital Markets.

Q - Donovan Schafer {BIO 22615325 <GO>}

Hi, guys. Thanks for taking the questions. So, first, I want to talk about the reserves. So I was a reservoir engineer in my first job out of college, so I might be a bit biased on this. But I do think, you can make a lot of -- you can draw a lot of meaningful conclusions or pull out some insights from it, if you know how to make some adjustments. Because, obviously, there are a lot of adjustments to make in order to show a true sort of economic reality.

But so, the PV-10 was \$5 billion, which is almost exactly in line with where you're trading in terms of enterprise value. And that's on an SEC pricing basis, and that can cause crazy distortions. This time around, it does, at least, in my view, look like the SEC pricing happens to not look too crazy and be kind of sort of close to what we could expect going forward. But there are a lot of other things for where you are right now as a company, where the reserve works may not be accurate and need more adjustments. So one is Utica and Delaware acquisitions, I don't think those would be included. So if you can confirm that.

A - Nicholas O'Grady

Donovan, we don't really book PUDs in our -- as a non-op, we don't book our PUDs, right? So we have, unlike an operator in your -- an operator can book a full PUD booking for five years. I mean, how many PUDs do we book in there?

A - Chad Allen {BIO 19893414 <GO>}

We generally book about two to two and a half years of activity, right? As a non-operator, we still need to show that we're converting more than 20% of our PUDs every single year. And so in the projects that we've been doing the Novo and Forge, we have a more definitive drill schedule so we can book more PUDs there, but on your typical non-op where the operators aren't providing us with their actual drill schedules, it's hard for us to show that high level of confidence that certain locations will get drilled over the next five years.

Now, we're obviously going to have the activity that, as we showed this last year, almost 80 net TILs, but we can't book those specific locations because we need to make sure that we're converting those locations. So we have a lot more locations than what we're booking in our reserves. And so it's a very conservative reserve set that you're seeing there.

Q - Donovan Schafer {BIO 22615325 <GO>}

Right. And then another thing is just -- this is coming from kind of my recollection of how things work, so I'm looking for what your thoughts are on kind of the relative impact of this. Is that -- the other thing about how the way you have to do it with the SEC, the pricing gets locked in on a historical basis, and so like in this case with the current reserve report that you just put out, or the numbers you just shared.

You're kind of stuck with the current commodity price, the 2023 commodity prices, and then they do the same thing on D&C prices or D&C costs, but D&C costs follow

commodity prices on kind of a lag basis. Like you're only just now -- it sounds like the more material decline in D&C costs, you're kind of only just now starting to see that, yet you're sort of locked in at a level of D&C costs that honestly may have been more reflective of commodity prices in 2022, right? So that also kind of creates, like -- am I right in that? Am I remembering that correctly?

A - James Evans {BIO 21421539 <GO>}

Yes. You're correct there, right? We have to use trailing 12-month prices, so that's locked in, we have to hold that constant going forward,

similarly for LOE. And so if you think about where we were last year, SEC prices were in the mid 90s, now we're in the high 70s, so that has an impact on our reserves. We lose a lot of reserves just cutting off the tail end, so those are reserves that we had to replace. So it was about 30 million barrels that we lost just due to pricing.

And then also on the well cost, because we're not an operator, we look back at historical AFEs that we've gotten over the last year, which is more of an \$80, \$90 kind of price environment. And that's what we have to bake in going forward versus an operator. They can model their current costs going forward because they have the AFEs, they have the actual well costs to model that.

So we're -- again, we're being kind of double conservative there because we're holding a lower price from a commodity standpoint, but then we have to use higher well costs, higher LOE than what we're kind of expecting on a go forward basis.

Q - Donovan Schafer {BIO 22615325 <GO>}

Yes. Okay. All right. And then moving on -- I may have some more follow-ups on that afterwards, but for now, the other one, just as a quick modeling question, with Q1, with the freeze in the Williston in Q1, having an impact on production there, is that going to have an impact on the oil mix when I kind of triangulate that with full year guidance? Is that something where we can see oil mix come down a bit or higher in a way that would be material at all?

I'm just trying to think -- I want to avoid a situation where somebody just models a slight production dip in Q1 but your -- you end up underestimating the impact because it is more weighted towards oil or it's a change in the oil mix or something. And then does that mean in Q2, Q3, Q4 you could have a higher oil mix than what is necessarily in the guidance for the full year?

A - Nicholas O'Grady

I mean, I think I would --

A - James Evans {BIO 21421539 <GO>}

I mean, from a guidance standpoint, we feel pretty confident in the numbers that we put out there. We put out both total production and oil, so you can kind of infer an annual oil cut there. Yes, in Q1, most of the shut-ins were in the Williston, which is a

higher oil cut, so you could potentially see lower oil cut in Q1, and then it rises as we go throughout the year. And obviously, our Midland Petro project is a very high oil cut, so that will also improve your oil cut throughout the year there.

A - Nicholas O'Grady

And I don't think it's going to be material, because there were also some mild curtailments in the Permian as well. So I don't -- I mean, on margin Delaware, I don't think it's going to be -- you're talking about a 10 point difference between -- 7 point difference between the Permian and the rest of our oil basin, so I don't think it's going to be massive in any material way.

Operator

We'll move to our next question from Paul Diamond at Citi.

Q - Paul Diamond {BIO 22912854 <GO>}

Good morning, all. Thanks for taking my call. Just a couple of quick ones. Talk about some of the performance on Forge. Can you just talk a bit more about that, if you guys are seeing that as an established trend, or I guess what you're expecting out of that this year?

A - James Evans {BIO 21421539 <GO>}

Yes. Thanks, Paul. This is Jim. Yes, we're seeing the same thing, Vital announced yesterday, they're seeing about 30% to 35% outperformance on the new wells versus kind of the legacy Forge assets. We're seeing something similar versus what we underwrote. It's around 30% outperformance. I think it's around optimization on spacing, completion design, production uptime on artificial lift. That is not baked into our go-forward plan.

We're still modeling based on what we originally underwrote for the acquisition. So we do see, potential upside there as we continue to go throughout the year. We think we'll see that, and we'll adjust as we get more data. Typically, we like to see six months to nine months of history before we feel confident in adjusting our assumptions. But so far, we're very encouraged with what we're seeing out there.

A - Nicholas O'Grady

Yes. And they've also just done -- one of their main initiatives when they bought the asset was really to work on the PDP itself. It was really to work on lowering costs of the actuality on the existing assets, and I think they've done a good job cleaning that up.

Q - Paul Diamond {BIO 22912854 <GO>}

Got it. Understood. And then just a quick follow-up. You guys talked about having a lot of conversations with the small- and mid-cap operators. You talked about scale being similar to prior deals, but just dig down a bit more on that. Is there a pretty wide range to that scale you're seeing, or is it all pretty much locked in, similar to

Mascot, Forge, Novo, things of that sort? Or could we go a bit smaller, a bit larger? What are you guys seeing?

A - Nicholas O'Grady

You mean just in terms of partners?

Q - Paul Diamond {BIO 22912854 <GO>}

Exactly. Yes.

A - Nicholas O'Grady

It's all -- I mean, I think a lot of the stuff from the mega-transactions, we have a lot of conversations with the largest of the large. Certainly, we have a lot of interest from small-scale people as well, because they always need money just like everybody else. But I think in terms of the asset rationalization, we're also seeing the conversations from very large and mid-cap and upper mid-cap companies as well. So I think it runs the gamut.

I think what I would tell you from our perspective, and I'd rather let Adam talk about this than me is that, from our perspective, it's not a one size fits all. Our methodology is going to change depending on what type of counterparty it is, meaning that we're going to adjust our structure based on what type of party it is. It's probably going to become more mean-spirited depending on who we're dealing with.

A - Adam Dirlam {BIO 20625311 <GO>}

That's right. And just to, I guess, put it in perspective in terms of deal size and partners, I mean, on a ground game level, we're doing this on a unit-by-unit basis. We've also got, for example, private equity groups that have just raised capital that are looking to participate in both \$100 million to \$200 million transaction size levels that are looking for a partner so that they can use some of their dry powder for development on a go-forward basis. And then you've got, obviously, the ones that we prosecuted last year that were significantly larger than that. So it runs the gamut, like Nick was saying.

Q - Paul Diamond {BIO 22912854 <GO>}

Understood. Thanks for your time. And I'll leave there.

Operator

We'll go next to John Abbott at Bank of America.

Q - John Abbott {BIO 17329761 <GO>}

Hi. Good morning. And thank you for taking our questions. Sticking with the \$4 billion to \$6 billion of opportunities that you're seeing out there, and you look at the balance sheet, you look at your share price, I mean, what are your thoughts on potentially financing transactions at this point in time?

A - Nicholas O'Grady

Yes. I mean, John, we raised \$290 million last Fall, for a reason, which was that we felt that we saw a great opportunity in front of us and we wanted to be prepared to act. We've got over \$1 billion of liquidity. Frankly, with all of the transactions that have happened, I think something like 10% of the revolvers have been recalled across the board.

Chad is the most popular girl at the prom right now. He has banks begging him to take money. And so we certainly have capital available to us. I don't think that's the case for everybody, but I think for scaled companies like ourselves, the ability to raise additional capital is there.

So my point being that I think we have the capacity on balance sheet for upwards of \$1 billion without raising any additional capital. And I think that would satiate us quite easily for the time being. Obviously, beyond that, we'll see. But as you do those, and we haven't really done much more than \$1 billion in a year. So I think we're in pretty good shape for 2024.

Q - John Abbott {BIO 17329761 <GO>}

Very-very helpful. And I mean, there was a lot of conversations earlier on accrual accounting. But I guess the real question here is, looking beyond the noise as you sort of think about the exit rate for this year. Nothing necessarily specific. Where do you kind of see the exit rate for 2024 in terms of production?

A - Nicholas O'Grady

Yes. I mean, as a non-operator Jim Evans will stab me with a large knife if I talk about that, because we just talked about how the timing can really vary. And the truth is that, if we see acceleration of projects and we see everything come on early in the third quarter, we'll produce a lot more barrels and our guidance will be raised for the year. And so if we see our production peak in the third quarter, that would be a great thing.

And so, theoretically, we'd see peak production in the third quarter and your, quote/unquote, exit rate, would be lower. Of course, we would find ways to redeploy capital and exit higher. So I'd be hesitant to see that. But I would say, as we described in our release, we obviously believe we'll be down modestly in the first quarter, we would expect a material jump in the second quarter, another jump in the third quarter, and then a mild jump in the fourth quarter. So I think that -- I would just leave it at that for now. But I would say that obviously, based on our guidance, that is substantial. And I'm sorry to punt on that, but it's --

A - Adam Dirlam {BIO 20625311 <GO>}

It's February.

A - Nicholas O'Grady

It's February, but--

A - Adam Dirlam {BIO 20625311 <GO>}

Things can change and come out in a lot of ways.

A - Nicholas O'Grady

Yes. So I'm sorry, but as a non-operator, that's just -- that's the best I can do for you. But I would say this, that like we're in the business to grow our company. And there's a reason in our business. Look, there are great things about being a non-operator, a lot of great things. But the timing of it is the part of it. And honestly, to the extent that it gets accelerated, we're going to produce a lot more barrels this year. So that's a good thing.

But the exit rate is, we're not a laundromat, right? So this is something that, right, it's not a machine. The exit rate is sort of one of those things that people like to hang on to, but it's really about -- it's not about a moment in time. It's about the number of barrels you produce over the life. And so I just say this, that we are in the business to grow the business over time. And I think that that's the most important thing.

Q - John Abbott {BIO 17329761 <GO>}

Very helpful. Thank you for taking our questions.

A - Nicholas O'Grady

Yes.

Operator

And we'll take our final question from Noel Parks at Tuohy Brothers.

Q - Noel Parks {BIO 3358841 <GO>}

Hi. Good morning. Just had a couple. You talked a little earlier about you can't really do one size fits all in terms of just how you look at different acquisitions. But is it fair to say that you're pretty agnostic between private operated versus publicly traded operated, non-op interest right now, either for the ground game or for a larger A&D?

A - Nicholas O'Grady

I wouldn't say that. I mean, I think it depends on the quality of the operator. I mean, there are great privates, but it's -- the largest -- there are really large operators that are bad -- I mean, I think it's just -- it really goes operator specific. There are really good operators and there are really bad operators that are big and small, right?

Adam maybe --

A - Adam Dirlam {BIO 20625311 <GO>}

I don't think you need to differentiate what private means. Are you talking about private equity or are you talking about true private, right?

A - Nicholas O'Grady

Yes.

A - Adam Dirlam {BIO 20625311 <GO>}

And those business models are running very-very differently. You've got one that's renting an asset, one that's had it and will continue to have it for a very-very long time. And so their viewpoint on a short-term or long-term basis could be very-very different.

A - Nicholas O'Grady

Yes. I mean, Mewbourne is a private company and it's one of the finest operators in the world. And I can think of many private equity-backed operators that are renting the asset and looking to flip it.

A - Adam Dirlam {BIO 20625311 <GO>}

Yes. And sorry, I would say, typically, we're looking at people who have a similar view as us in terms of the long-term, but that's not to say that there aren't great private equity operators that are out there as well that we'd be willing to partner with.

A - Nicholas O'Grady

Absolutely.

Q - Noel Parks {BIO 3358841 <GO>}

Great. Thanks for the clarification. And I guess, I was wondering a bit, talking about the Williston, we have seen a deal there, the first one maybe in quite a while of any size. Just wondering, I have not paid a lot of attention to the state of the land management out there. Some of those leases are probably 15 years old, if not longer at this point. So I just wonder, you've been there so long, are things pretty cleaned up there, or is there still stuff to do just in terms of, I don't know, neglected books or absent non-op positions that you can still read?

A - Nicholas O'Grady

It's pretty blocked. It's pretty blocked up, Noel, but there are still things to do. I mean, it's just going to be more about people when they're ready. There are things that are owned that when people are ready to sell will be sold, but I don't think it's like the Wild West where there's lots of open land ready to be sold. Is that fair, Adam?

A - Adam Dirlam {BIO 20625311 <GO>}

Yes, I think that's fair. The other thing that I would add to that is just the evolution of the completion methodology, right? You've seen a lot of operators refine those

techniques and step out, and so the rate of return and the economics on some of those projects that you wouldn't even look at about two, three years ago are things that are certainly viable now, and then that changes the landscape from a land standpoint.

And so you can do some of the blocking and tackling in terms of picking up some white space acreage and bringing in appropriate operators that are going to do a good job. And as a non-operator, we're not beholden to one particular area, right? So we can get in to the core day in and day out and continue to gross up our working interest as we get, 100 AFEs a quarter as we did in 2023. So there's always wood to chop. It's just a different dynamic.

Operator

And that concludes the question-and-answer session. I would like to turn the conference over to Nick O'Grady for closing remarks.

A - Nicholas O'Grady

Thanks everyone for joining us today. We'll see you on the next one. Appreciate your time. This is the way.

Operator

And this concludes today's conference call. Thank you for your participation. You may now disconnect.

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