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EXECUTIVE Q&A: THE REMAKING OF MANTI

Steve Toon, Editor In Chief Wednesday, March 1, 2017 - 6:25am

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"We're kind of chameleons," said Manti Resources Inc. founder and CEO Lee Barberito. "We've become adept at changing our colors and assimilating into different play environments very quickly over the years."

The latest iteration of the 28-year-old privately held E&P emerged in the Delaware Basin, showing its colors with a partial divestiture to Noble Energy Inc. in December, some 7,000 acres in Reeves County, Texas, for \$300 million. Manti retains about the same amount of acreage in Ward and Pecos counties, largely via a drill-to-earn partnership with Devon Energy Corp.

But the real surprise is finding Covington, La.-based Manti in the Permian Basin at all, since it's historically known as a Gulf Coast conventional explorer. Following a stealth leasing program beginning in late 2013, Barberito said the reception the first time he walked into the Midland Petroleum Club was one of surprise. "Did you take the wrong flight?" he recounted the Midlanders saying. "There's no coast or beaches here."

Over the past three decades Manti has built its reputation and partnerships along the Texas and Louisiana coasts, both inland and offshore. Barberito graduated from Louisiana State University in the early '80s with a chemical engineering degree, but was recruited by Exxon and trained as a reservoir engineer. "I had no idea what oil and gas exploration was about," he said, "but they offered me a job in Pensacola, Fla., on the beach, and I said I'm in. I couldn't believe how intriguing the challenges were. I fell in love with every aspect of the business."

Barberito worked for "Uncle Exxon" for seven years, "the greatest grad school on the planet," before spending a brief stint with Netherland, Sewell & Associates, where he learned how money and projects merged.

"That's where the puzzle pieces came together."

He started Manti in 1989 to acquire South Texas conventional assets being cast off by his former employer Exxon, and other majors, with no cash and maxed out credit cards, along with a few of his ex-Exxon colleagues. That first position was acquired for \$25,000 and later sold for \$74 million.

But the company has not limited itself solely to conventional exploration. An entrepreneurial bunch of self-described "tech nerds," the team has also dabbled in tight formations since the mid-1990s when it drilled its first horizontal wells in the northern Midland Basin, without economic success.

Subsequently, Manti drilled one of the first 10,000-foot lateral wells in the Bakken Shale in 2005 before running short of cash and selling to Brigham Exploration Co., which later sold out to Statoil. It followed those efforts with successful ventures in the Eagle Ford and Eaglebine plays in Texas.

"We were always a little ahead of the curve on these resource plays," he said.

Since the Eaglebine exit in 2014 to Meidu Energy Corp. and a South Louisiana conventional divestiture to Shoreline Energy LLC in 2013, Manti has idled its Gulf Coast conventional drilling program and put

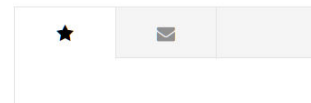


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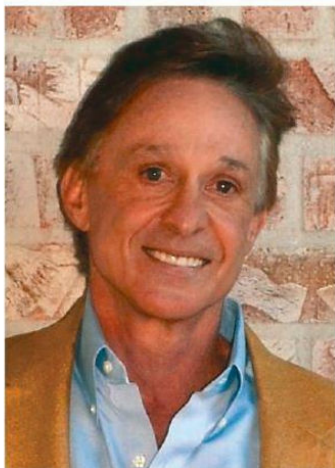


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most of its money on its bet in the Delaware Basin. It is partnered with Tarka Resources Inc., a U.S. subsidiary of a Dubai-based conglomerate, and is running a one-rig program operating under the name Manti Tarka Permian (MTP). Barberito spoke with Oil and Gas Investor on the evolution of Manti and its current strategy.



After more than three decades in oil and gas, Manti Resources founder and CEO Lee Barberito said the company's southern Delaware Basin position is "the only project I've ever been involved in where everything seems to get better with time."

Investor How did the Manti name come about?

Barberito Manti (pronounced with a long "i") is the name of a horse. My aunt and uncle were champion ice skaters that retired in Las Vegas and raised horses. I spent a cousins became champion riders and rodeo participants. One of the horses that competed against them was named Manti, and it was the only horse that could beat them. I had heard the legend but never seen it.

One summer, there was a final rodeo for the state championship. Manti was not there initially, and my cousins were celebrating their anticipated win when this trailer pulls

up.

The owners dropped the trailer gate and this horse backs out. It was magnificent. I was stunned. It was beautiful, a majestic chestnut male quarter horse. Sure enough, it smoked the field and my cousins were devastated. When I left that summer, I told my aunt I was going to name something Manti one day. She wasn't too happy about that at first.

Investor What's the secret to Manti's longevity?

Barberito I believe it all boils down to core values, industry relationships, technical strength, operating excellence and a lot of luck. We've always been a very close-knit, flat organization that tends to thrive on adversity. We're close friends that share similar interests and core values, and we're all comfortable working in an unstructured environment that encourages innovation and creativity. Each team member is given a huge amount of responsibility but also shares in the upside. Two of our favorite mottos have always been, "Our word is our bond" and "We don't punt."

This practice of hiring the best of the best, giving them complete freedom to operate, and having them share in the ups and downs stayed with us throughout the years. Everybody participates in the projects and controls their own destinies. This spirit has remained from the beginning.

Investor Are you still drilling in Louisiana?

Barberito We've shifted the majority of our budget to the Permian. We haven't drilled there in about two years although we maintain a robust prospect inventory. The risk profile is not very appealing in this pricing environment. In addition, due to the popularity and attraction of the resource plays, the services and equipment available are not optimum. It's not very appealing drilling a 20,000-foot, overpressured wildcat in the marsh using subpar equipment and relatively inexperienced hands. We're enjoying our hiatus from Gulf Coast conventional exploration, but we will be back.

Investor Why did you make the leap from conventional to unconventional?

Barberito Interestingly enough, we were intrigued by the resource plays from the early '90s. We always embraced new technologies, so we were fascinated with unconventional. The idea of having a large resource base with long-life, predictable returns has always been appealing. In addition, we founded the company on the premise of unlocking new opportunities with state-of-the-art fracture stimulation technology. We were one of the first companies to push the limits on high-pressure, multi-staged fracking in the overpressured South Texas Frio/Vicksburg in the early '90s.

Investor Have you abandoned conventional exploration?

Barberito That's the question of the day. It's just a matter of time and commodity price right now. It's nice to have the luxury of planning a long-term conventional strategy instead of having to live or die daily by the wildcat drillbit for a change. We've got a huge seismic library that covers the Gulf Coast from Corpus to Mobile so we'll never be hurting for opportunities.

Manti Resources management team includes, from left to right, Ben McCrackin, Gani Sagingaliyev, Chris Douglass, Lee Barberito, Tim Boyle and Kuanish Shaikenov.



Investor What attracted you to this region of the southern Delaware?

Barberito All the other resource plays were being actively developed, and the Permian was still in the hopes and dreams phase. It was a silent giant. We saw an old, huge resource base that had all the attributes you'd hope for in an unconventional play.

The Midland Basin entry costs were rapidly escalating as it was being de-risked and were higher than we could justify, so we glanced over at its twin sister. The Delaware looked virtually identical with the exception of potentially higher pressures and a fraction of the horizontal well density. We then assembled a focused technical evaluation team and identified what we considered the core of the emerging play to the south.

As a result, we drew a bull's-eye on the area straddling Reeves, Ward and Pecos counties. We came to the conclusion that the southern Delaware could eventually be better than the Midland and initiated an organic leasing program. It had all the same ingredients with some intriguing upsides.

Investor Were there any results to give you that confidence?

Barberito There weren't a lot of extended lateral wells, mostly 3,000 to 5,000 feet and with expected rates. It was rather odd that some of the companies that were active in the Eagle Ford and Bakken drilling extended laterals with 30 to 50 stages were spending so much time and money de-risking the Wolfcamp with short laterals and small fracks.

It was dumbfounding to us that the recipe developed in the Eagle Ford and Bakken wasn't being deployed as widespread as expected. We thought we were missing something. If there are five to 10 layers of oil-saturated rock over here in the Delaware, and only one or two layers in the Eagle Ford and Bakken, why wasn't everyone over here? But then it was just a matter of time.

Investor How did that translate to what you executed?

Barberito We hired some additional expertise to complement our team, and by the time we drilled our first well, we had a drill and completion plan that we felt was bulletproof.

The lesson that the industry learned the hard way was to shed egos. Before the oil price dropped, information sharing was limited. Nobody was talking to anybody, so we got in the middle and started talking to everybody. In the current environment, most operators are now working together to optimize operational results. Once the sharing of technology and operational experience started across the board, there were not a lot of secrets left.

By the time we drilled our first well, it wasn't flawless, but it's what we considered minimal risk and highest probability for making a good well. Within three wells, from an efficiency standpoint, we were equivalent with the best well in the basin. We learned that fast.

Investor Could that communication have happened without the price downturn?

Barberito It would have taken a lot longer. Everybody was open to information sharing because we had to learn to survive, which was not the case when prices were up in years past.



PHOTO COURTESY MANTI RESOURCES

Manti's Man 'O War 5-8 was one of the biggest wells in the southern Delaware Basin, IP'ing at 2,500 boe/d on choke and stayed flat. It was later part of the package sold to Noble Energy Inc.

Investor What kind of results did you see?

Barberito We drilled one of the first 10,000-foot laterals in this area of interest, and we did it in 27 days where the average was 40. We stayed in zone within a 20 to 40 foot window. Man 'O War 5-8 was one of the biggest wells in this portion of the basin. It came on at about 2,500 boe [barrels of oil equivalent] per day on choke, and stayed flat. We were astonished that it didn't decline. It produced about 300,000 barrels in six months. It was a horse.

Investor Why did you sell to Noble when you did?

Barberito It made sense. We were adjacent neighbors in Reeves County. We were looking at joint-venture opportunities to drill extended laterals, and it became quickly obvious. We were reluctant at first but soon realized that it was in the best interest of both companies. We could bang our heads for six months figuring out which trades were smart. It was truly a win-win deal.

Investor What's your arrangement with Devon in Ward County?

Barberito We entered into a joint venture with Devon in December 2015. They have one of the strongest positions in the Permian, including a significant position interspersed throughout Ward. We teamed up to help them de-risk some of their noncore acreage. It's a very rewarding partnership that resulted from a great long-term relationship with the Devon team along the Gulf Coast. They knew they could trust us.

Investor What's the target?

Barberito We're predominately targeting the Wolfcamp A upper and lower right now.

Investor Are the results as good as you had in Reeves County?

Barberito We're very pleased. Whirlaway was the first well we drilled. It's a 5,000-foot sectional well and IP'd at almost 2,000 barrels of oil equivalent per day. Assault has a 6,000-foot lateral and continued to get better and better after IP. On some of the initial wells [in Reeves County] we opened the choke higher. Our philosophy has evolved to bringing the wells on slower. They're all above 1,000 barrels per day in the base case. They're comparable to the Reeves County wells we sold.

Investor Is that a typical lateral length?

Barberito Yes and no. We drilled the sectional well because the lease was expiring. We prefer to drill extended lateral wells. At \$30 to \$40 oil, short laterals don't make much sense. For a little higher cost you can recover up to twice the reserves; it doesn't take a brain surgeon to figure that one out. Joint venturing to drill extended lateral wells is prudent.

Investor How many wells have you drilled with Devon?

Barberito We're moving on our third well now. We're still in the de-risking phase. The development phase will follow in due time.

Investor What will your capex look like this year?

Barberito We plan to spend about \$50 million to \$60 million to drill six to eight wells on a one-rig program. It could increase depending on how much additional acreage we pick up.

Investor What's your plan for the Delaware going forward?

Barberito The next phase is to aggressively pursue further growth. Our immediate plan is to enhance our acreage position in that three to four county area of the southern Delaware. Our goal is to be back up to 15,000 to 20,000 acres by the end of the year, which is not going to be easy because of all the exposure it's gotten in the last six months. Is that possible? It's highly unlikely we'll get to 20 because of how hot the Delaware is at this point. The world has changed in the southern Delaware since July when the first transactions were announced.

Investor Can a small company grow a position at reasonable prices now, or has that train left?

Barberito The window is closing. It's going to cost a lot more, obviously, than when we got in. The advantage for a company like us, even though we're small, is we're entrenched in it. We can pick up 100 acres here or 200 there that a large company may overlook or not care about. In many cases we can build that 100 acres into 640s with trades and JVs. We think there are 18 months to two years remaining for somebody our size to get in and continue to grow. We're aggressively pushing to get everything we can before prices get out of reach.

Investor At \$40,000 per acre?

Barberito We couldn't afford to pay \$40,000 per acre now and still make a decent return, but I don't believe \$40,000 is a bad number for those that can pay for it. In two years you're going to be looking at \$60,000 to \$70,000 per acre. Although it sounds crazy, if you run the economics well by well in the southern Delaware, you've still got a great return at \$50 oil at \$40K per acre.

We're hoping we can still build a position for \$20,000 to \$30,000 per acre on average. The bigger and more contiguous the parcel, the more it will cost.

Investor How long before you will look to exit?

Barberito There's no rush at this point. After the sale, we're relatively debt-free for now. The way things are going out there now with how profitable the wells are becoming, if prices stay above \$50,

long-term cash flowing may be the answer. Our partner [Tarka Resources] would much prefer to stay in long-term development mode, so that's the base plan for now.

Investor How good is the Delaware?

Barberito It's the only project I've ever been involved in where everything seems to get better with time. You almost wait for bad news, for something to not be as good as you thought, but everything we've done is better than we thought. There is a lot of optimization left to occur, and the code is going to be broken in other layers of rock soon. It's no longer a sleeper; the word is out.

