The Need for Change:
Performance, Pay and Putting PDC on a Path to Profitability

May 6, 2019
Kimmeridge believes that PDC Energy owns and operates premier oil and gas assets.

Despite the underlying asset quality, PDC has consistently failed to generate a return on average capital employed (ROACE) that exceeds its weighted average cost of capital (WACC).

PDC has destroyed nearly $900M of value\(^1\) over the last three years and written off $754M of asset value.\(^2\) Its share price has declined by 41%\(^3\).

Underperformance has been driven by a pursuit of growth over profitability. Potential cash available to shareholders has been eroded by a bloated corporate cost structure, well cost overruns and poor capital allocation.

PDC’s announced plans for 2019 and 2020 is a continuation of this approach. Kimmeridge believes the company should generate a return above its cost of capital, return cash to shareholders through buybacks and dividends, and lower its SG&A and capital costs in line with peers.

PDC’s operational underperformance and reluctance to return cash to shareholders is a direct result of a misalignment of incentives and a board asleep at the wheel that holds no one accountable. PDC executives have received $43.8M\(^2\) in compensation, and an average bonus of over 115%\(^2\) of target over the last three years, despite missing the majority of their target metrics.

Kimmeridge believes that it is time for a change on the board. Management needs to begin to act in the best interests of shareholders and put PDC on a path to profitability.

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1) Based on economic value added/destroyed; see slide 13 for more information. 2) Source: PDC public filings. 3) Share price data through 5/2/2019.
Agenda

• About Kimmeridge
• PDC: A History of Underperformance
• PDC: A History of Operational Underperformance
• PDC: A Lack of Alignment and Accountability
• A Better Board and Path to Profitability
About Kimmeridge
• Founded in 2012, Kimmeridge is a private equity firm based in New York and Denver focused purely on the development of low-cost unconventional oil and gas assets in the US upstream energy sector.

• Kimmeridge is differentiated by its direct investment approach, deep technical knowledge, active portfolio management and proprietary research/data gathering.

• Kimmeridge aggregated 57,000 net acres in the Delaware Permian and successfully drilled 12 horizontal wells before selling the asset to PDC in 2016.

• Kimmeridge owns an unheded 5.1% stake in PDC. Kimmeridge does not currently maintain any other public equity investments. Kimmeridge stands to benefit only from PDC’s share price appreciation and return of capital.

• Kimmeridge’s senior investment team has worked together for over 12 years and brings a combination of public equity investment research, private equity, and direct operating experience.
The integration of investments and operations makes Kimmeridge’s direct model efficient and nimble.

The Kimmeridge investment team has worked together for more than a decade.

Note: Total work experience is based on the higher of years of industry experience and years of finance experience.
PDC: A History of Underperformance
Over the last ten years, the E&P industry has been characterized by the pursuit of production growth over returns. This has largely been at the expense of shareholders.

**Summary**

- The fundamental driver of this has been a misalignment in the management incentive structure. Executives have been compensated irrespective of absolute performance and returns.
- SG&A has grown from 10% of EBITDA ten years ago to about 16% today (based on 2016-2018 average). The primary beneficiary of this has been the C-suite despite little to no absolute share price appreciation.

**Industry Annual ROACE**

![Graph showing the trend of Industry Annual ROACE from 2009 to 2018. The graph shows a general decline until 2016, followed by a recovery.](image)

**XOP Since Inception (E&P Sector Index)**

![Graph showing the trend of XOP Since Inception from Jun-06 to Jun-18. The graph shows a fluctuating trend with some sharp declines.](image)

**U.S. Lower 48 Weekly Oil Production**

![Graph showing the trend of U.S. Lower 48 Weekly Oil Production from Jun-06 to Jun-18. The graph shows a significant increase, marked by a label indicating a “~2.7x increase.”](image)

1) See disclosures for list of 75 companies included in our calculation of average peer group ROACE and SG&A as a percentage of EBITDA. 2) Source: Bloomberg. 3) Source: EIA data.
Over the last three years, PDC has materially underperformed the XOP, SPX, and oil price. A $100 investment in PDC three years ago would be worth $59 today.

1) Bloomberg data through 5/2/2019. Peer group is based on peers from PDC’s 2019 proxy statement. See disclosures for more detail.
PDC Share Price Performance: II

PDC’s total shareholder return is negative over the last one, two and three years, materially underperforming the broader market and XOP index.

<table>
<thead>
<tr>
<th>PDC and Peer Performance - Absolute</th>
<th>1-year</th>
<th>2-year</th>
<th>3-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>PDC</td>
<td>(31%)</td>
<td>(30%)</td>
<td>(41%)</td>
</tr>
<tr>
<td>PDC peer group</td>
<td>(45%)</td>
<td>(37%)</td>
<td>(33%)</td>
</tr>
<tr>
<td>XOP</td>
<td>(27%)</td>
<td>(16%)</td>
<td>(18%)</td>
</tr>
<tr>
<td>SPX</td>
<td>11%</td>
<td>22%</td>
<td>40%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PDC Relative Underperformance</th>
<th>1-year</th>
<th>2-year</th>
<th>3-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>PDC v peer group</td>
<td>14%</td>
<td>7%</td>
<td>(7%)</td>
</tr>
<tr>
<td>PDC v XOP</td>
<td>(4%)</td>
<td>(14%)</td>
<td>(22%)</td>
</tr>
<tr>
<td>PDC v SPX</td>
<td>(42%)</td>
<td>(52%)</td>
<td>(81%)</td>
</tr>
</tbody>
</table>

Source: Bloomberg data through 5/2/2019. See disclosures for more detail.
PDC has underperformed, albeit largely in line with its internally defined peer group on a one, two and three-year basis.

Source: Bloomberg data through 5/2/2019.
Consistently Poor ROACE vs Peers and vs the WACC

- PDC’s ROACE over the past ten years has averaged 4% and has never been above 6%. This is materially lower than its WACC of 10.5%\(^1\).

- Elementary finance theory explains that investments should only be made if their expected return exceeds the cost of capital. PDC’s investments over the past 10 years have not met this basic threshold.

1) Kimmeridge estimate; see disclosures for more detail. 2) Data from public company filings. See disclosures for list of 75 companies included in our calculation of average peer group ROACE.
Since 2009, PDC has invested in projects that generate a return below its WACC, resulting in significant value destruction.

1) Economic value added/(destroyed) = NOPAT – (Invested Capital * WACC). Data from PDC’s public filings. WACC is Kimmeridge’s estimate. See disclosures for more detail.
Historical Focus on Production Growth Over FCF

PDC’s strategy of outspending cash flow to grow production has not benefitted shareholders.

Source: PDC public filings.
In a recent presentation, PDC listed four broad strategic priorities. These priorities are gradational (versus the transformational change required) and have never historically been achieved.

<table>
<thead>
<tr>
<th>PDC Strategic Priority¹</th>
<th>Historical Performance²</th>
</tr>
</thead>
</table>
| **Sustainable FCF**     | • $0 returned to shareholders  
                          • No FCF in any of the last three years  
                          • Cumulative outspend of >$1.5bn since 2015; ~$0.4bn outspend when excluding M&A |
| Year-over-year growth in FCF of >$50M  
Consideration of opportunities to return capital to shareholders | |
| **Financial and Operational Discipline** | • G&A/boe averaged > $4.50/boe since 2015  
                          • LOE/boe averaged > $3.50/boe since 2015 |
| Target both G&A and LOE per BOE of < $3/Boe  
Achieve CF neutrality at $45/bbl | |
| **Return on Capital** | • -75% average FCF margin since 2015 (-12% when excluding M&A)  
                          • “High returning projects” never result in corporate level returns above the WACC |
| Emphasis on FCF Margin (FCF over capital investment)  
Average portfolio rate-of-returns of >50% | |
| **Solid Growth** | • CF/DAS 3-year CAGR = ~1%  
                          • Production/share 3-year CAGR = ~16% |
| Debt-adjusted CFPS growth of >10%  
Production per share growth of >10% | |

¹ Based on PDC's April 2019 presentation. ² Historical performance based on public company filings.
PDC: A History of Operational Underperformance
Creating Value in E&P: Maximizing the Recycle Ratio

• Over the long-term, Kimmeridge believes the best performing E&P companies are those that can find oil and gas cheaply and generate a high cash margin.
• The key to this is the ability to minimize cash costs to maximize cash margin and add barrels at the lowest possible well cost (lower proven developed F&D costs).
• Combined, these factors drive the ability to grow debt adjusted cash flow per share and to generate a ROACE above a company’s WACC.

\[
\text{Revenue per barrel less production costs, taxes, transportation and SG&A} \rightarrow \frac{\text{Operating Cash Flow per barrel}}{\text{Proven Developed F&D Cost}} \rightarrow \frac{\text{Capital costs}}{\text{Reserves added}} \rightarrow \text{Recycle Ratio} = \frac{\text{Operating Cash Flow per barrel}}{\text{Proven Developed F&D Cost}} \rightarrow \text{ROACE} \rightarrow \text{Free Cash to Shareholders}
\]
The U.S. E&P peer group has demonstrated a strong relationship between recycle ratio and performance over time. PDC has underperformed peers and offset operators on this metric.

1) Please refer to the recycle ratio formula found on slide 17. Data from public company filings. 2) 2016-2018 share price performance from Bloomberg. See disclosures for more detail.
PDC has consistently revised up Permian well costs. The Company’s long laterals are nearly $3.5M above offset peers.

1) Based on PDC’s public presentations. 2) Well cost based on public filings; average lateral length from RS Energy data; see disclosures for more information.
Underperformance on Productivity Per Lateral Foot

Since buying its Permian asset from Kimmeridge, PDC’s Permian wells have materially underperformed the wells that Kimmeridge drilled and completed.

- Production data further demonstrates PDC’s lower productivity per foot, despite higher well costs.
- In a June of 2017 PDC presentation\(^2\), the company showed its wells underperforming those drilled/completed by Kimmeridge.

![Graph showing underperformance in PDC Well Productivity]

Underperformance in PDC Well Productivity\(^1\)

Kimmeridge wells | PDC well
---|---
First 3 Months Oil Production: -35% | -22%
First 3 Months Total Production: -22% | -34%
First 6 Months Oil Production: -34% | -22%
First 6 Months Total Production: -22% | -34%

1) Source: RS Energy data. 2) Source: PDC public presentations.
PDC originally guided to 785 net locations in the acquired Delaware Permian acreage. The company revised, and redefined these to “MRL equivalent locations”, while lowering the number to 690 locations. These locations have been further revised down to 450 and now 365 locations.

1) Based on public filings and presentations. June 2017 location count was presented on a different methodology to February 2018.
2) Total Delaware Basin entry cost divided by company-identified locations.
PDC has a history of poor capital allocation. The company has written off approximately $1Bn over the last five years, and lost nearly its entire investment in the Utica (approx. $0.5Bn).

**PDC Utica**
- 64,700 net acres acquired (2011-2014)
- Approximately $200M spent on land
- 21,200 acres allowed to expire
- 23 net wells drilled
- $285M of D&C capex
- Approximately $485M of total investment
- Sold in 2018 for $40M

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1) Based on public filings and presentations.
PDC’s SG&A is materially higher than peers, lowering the company’s cash margins.

A telling metric is overhead per active rig running. PDC’s overhead in 2018 was 65% above the peer group average.

Data from 10Ks and other public filings. See disclosures for peer group information. SG&A/rig not calculated for companies with significant offshore operations.
At the start of 2018, PDCE forecasted an outspend of less than $90 million for 2018. The actual result was nearly twice as high, with an outspend of $176 million despite materially higher commodity prices.

### 2018 FY Actuals vs. February 2018 Guidance

- **Oil pricing**: +$7.50/bbl
- **Gas pricing**: +$0.09/mcf
- **Capex Actual**: +$100M
- **FCF Actual**: -$86M

### February 2018 Presentation

- **YE Leverage Ratio**: ~1.9x, ~1.4x, ~1.0x
- **Capital Investment (MM)**: $790, $850 - $920, $950 - $1,050
- **(Outspend)/FCF**: ($211mm), (< $90mm), ~$100 - $200mm
- **Production Profile**: 31.8, 38 – 42, 30 – 40% growth
- **Rig Program (WB/DE)**: 3/3, 3/3, 3/3
- **NYMEX Prices ($/Bbl / $/Mcf)**: ~$51/$3, $57.50/$3, $55/$3

Based on PDC’s public presentations.
Benchmarking to Offset Operators (SRCI & CDEV)

SRCI and CDEV are similar-sized operators to PDC who offset the company in the DJ Niobrara and Permian Delaware, respectively. Based on offset company analysis, PDC’s G&A should have been closer to $91M in 2018. Instead, it was nearly double at $170.5M.

### Key Stats¹

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>PDC</td>
<td>$2,525</td>
<td>$3,813</td>
<td>138,000</td>
<td>133</td>
<td>$1,011</td>
<td>3.8x</td>
<td>$28,669</td>
</tr>
<tr>
<td>SRCI</td>
<td>$1,368</td>
<td>$2,046</td>
<td>86,200</td>
<td>65</td>
<td>$572</td>
<td>3.6x</td>
<td>$31,477</td>
</tr>
<tr>
<td>CDEV</td>
<td>$2,720</td>
<td>$3,537</td>
<td>80,200</td>
<td>70</td>
<td>$635</td>
<td>5.6x</td>
<td>$50,529</td>
</tr>
</tbody>
</table>

### PDC G&A Based on Comps¹

<table>
<thead>
<tr>
<th></th>
<th>PDC Key Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 DJ Production (mboepd)</td>
<td>84.0</td>
</tr>
<tr>
<td>2018 Implied DJ G&amp;A $M</td>
<td>$64.2 Using SRCI's 2018 G&amp;A/boe of $2.09</td>
</tr>
<tr>
<td>2018 Permian Production (mboepd)</td>
<td>25.6</td>
</tr>
<tr>
<td>2018 Implied Permian G&amp;A $M</td>
<td>$26.6 Using CDEV's 2018 G&amp;A/boe of $2.84</td>
</tr>
<tr>
<td>Total Implied G&amp;A $M</td>
<td>$90.7</td>
</tr>
<tr>
<td>Actual 2018 G&amp;A $M</td>
<td>$170.5</td>
</tr>
<tr>
<td>Potential Savings $M</td>
<td>$79.8</td>
</tr>
</tbody>
</table>

### DJ Niobrara Acreage Map²

### Permian Delaware Acreage Map²

1) Public company filings and Bloomberg consensus data as of 5/2/19. 2) Source: DrillingInfo data. CDEV acreage does not include its northern Delaware asset.
What Could Have Been: Annual Cash Leakage from Operational Mismanagement

By reducing well costs and overhead, improving well productivity to peer-group leading levels and being better stewards of capital, PDC could have generated $450M in additional cash flow annually. This equates to an 18% FCF yield based on the company’s current market cap¹.

1) Market cap as of 5/2/2019. See disclosures for more information.
Kimmeridge’s cash leakage analysis suggests that PDC could have generated a recycle ratio of nearly 250% if operations were improved and management allocated capital more prudently. This implies an improvement in 3-year share price performance (2016-2018) of approx. 70% based on the chart below.

1) Recycle ratio data from public company filings. 3-year share price performance from 2016 to 2018 from Bloomberg. See disclosures for more information.
PDC’s announced buyback is a step in the right direction but it is small relative to its 2018 cash leakage, midstream sale proceeds, 2019 G&A budget and forecasted free cash flow for 2019 (at $60/bbl).

Source: PDC’s public filings and Kimmeridge analysis.
On 5/1/2019, PDC reported first quarter results that were largely below expectations as evidenced by the sell-side research quotes below. The company managed to miss production estimates for the quarter despite burning ~$90 million in cash (worse than street expectations for a $30 million cash burn).

“We expect to see a knee-jerk reaction in PDCE shares tomorrow given the company’s ~5% oil miss versus JPM/Street coupled with a capex and cash flow miss, particularly given the stock’s YTD performance...” – JP Morgan

“We expect shares of PDCE to have a slightly negative reaction tomorrow as 1Q19 CFPS was 8% below consensus of $3.20 due to lower realized oil and gas prices, higher costs, and lower oil production. 1Q19 Capex was also 19% above consensus.” – KeyBanc

“The focus though remains the upcoming proxy vote on May 29th, with the outcome providing a better sense of corporate direction. There’s potential upside if the activists are successful...” – Wolfe Research

“Cash G&A was well ahead of our expectation...” – Credit Suisse

“...higher than expected Q1’19 capital spend and a touch light production result may incrementally weigh on relative share performance on Thursday.” – Citi
PDC: A Lack of Alignment and Accountability Leads to Underperformance
Pay for Underperformance

Despite a three-year TSR of -44% (2016-2018), PDC’s top five executives were paid a total of $16.2M in 2018 and a total of $43.8M over the last three years.

1) Source: Bloomberg data. 2) Compensation data based on PDC’s public filings. See disclosures for more detail.
In 2018, the company awarded its management team cash bonuses of 115% of target despite missing four out of five internally-set targets.

Source: PDC’s proxy statement.
PDC introduced two new metrics into its 2019 compensation plan: free cash flow margin and debt-adjusted cash flow per share. With little downside risk for missing targets, new metrics won’t matter.

<table>
<thead>
<tr>
<th>Metric</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>![Green Circle]</td>
<td>![Red Cross]</td>
<td>![Red Cross]</td>
</tr>
<tr>
<td>Production, Exploration and G&amp;A Expense per Boe</td>
<td>![Red Cross]</td>
<td>![Red Cross]</td>
<td>![Red Cross]</td>
</tr>
<tr>
<td>Adjusted Cash Flow from Operations per Share</td>
<td>![Green Circle]</td>
<td>![Green Circle]</td>
<td>![Red Cross]</td>
</tr>
<tr>
<td>Debt to Adjusted EBITDAX</td>
<td>![Red Cross]</td>
<td>![Red Cross]</td>
<td>![Green Circle]</td>
</tr>
<tr>
<td>Capital Efficiency</td>
<td>NA</td>
<td>![Red Cross]</td>
<td>![Red Cross]</td>
</tr>
<tr>
<td>Liquidity</td>
<td>![Green Circle]</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

**Bonus as a % of Target**

<table>
<thead>
<tr>
<th>Year</th>
<th>Bonus as a % of Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>165%</td>
</tr>
<tr>
<td>2017</td>
<td>120-130%</td>
</tr>
<tr>
<td>2018</td>
<td>115%</td>
</tr>
</tbody>
</table>

Source: PDC’s proxy statements.
CEO Pay Rising as PDC Stockholder Value is Destroyed

Economic Value Added (Destroyed) = NOPAT – (Invested Capital * WACC)\(^1\)

1) Using Kimmeridge’s calculated WACC of 10.5%. 2) Compensation data based on PDC’s proxy statements.
In a recent presentation, PDC included a chart from a May 2018 ISS report implying that it is a top performer. This chart was based on performance data through the end of 2017. Accurate and current data paints a different story.

ISS Chart in PDC’s 4/9/19 Presentation

2015 – 2017 Data

Similar Chart with Most Recent Data

2016 – 2018 Data

PDC is a poor performer with above average pay

Below average performance, above average compensation

See disclosures for detail.
The COO Scott Reasoner’s pay has risen despite missing targets. Well costs have risen and capital efficiency has underperformed. The COO also received a special equity grant in 2017.

**Scott Reasoner Pay**

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**Cost Underperformance**

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**Capital Efficiency Underperformance**

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**Permian XRL Costs $M**

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Source: PDC’s public filings and presentations.
Under Lance Lauck’s watch, PDC has spent $1.9Bn on land, of which $0.74Bn has been impaired, to add 52,000 net acres at an average cost of $35,930/acre. This will rise to $57,840/acre by the end of 2019 based on PDC’s forecasted expirations.

**EVP Corp Dev and Strategy: Pay For Underperformance**

**Lance Lauck Compensation**

- Total Compensation
  - 2016: $2,534,065
  - 2017: $2,357,517
  - 2018: $2,769,927

**Declining Delaware Position**

- Net Delaware Acreage
  - Acquired
  - YE 2016: 57,000
  - YE 2017: 62,501
  - YE 2018: 59,900
  - YE 2019F: 51,400
  - YE 2020F: 33,500
  - YE 2021F: 31,700

**$1.9Bn spent v $0.74Bn Impaired**

- Cumulative Capex & Impairments
  - 2015-2018

**Static DJ Basin Position**

- Net DJ Basin Acreage
  - YE 2015: 95,700
  - YE 2016: 91,300
  - YE 2017: 91,300
  - YE 2018: 96,300
  - YE 2019F: 96,300
  - YE 2020F: 96,300

*Source: PDC’s public filings and presentations.*
Excuses for Pay

PDC’s Board has provided excuses for why management should not be held accountable for missing targets...

“The Committee estimates that without the Wattenberg Field midstream issues, the Company would have been at the high end of production targets for the year.” – 2018 Proxy

“DCP and Aka Midstream line pressure challenges, which were out of the Company’s control, significantly impacted the quantitative metrics; if line pressures had been as budgeted, the Company would have exceeded its quantitative metric targets on three of its five metrics, and the two metrics currently outside of the target range would have fallen inside the target range.” – 2019 Proxy

…and key items are excluded from metrics for no particular reason.

“Production, Exploration and G&A Expense per BOE excludes approximately $41 million of cost associated with two Culberson County, Texas dry holes.” – 2018 Proxy

“[Adjusted ‘Debt to Adjusted EBITDAX] Excludes our $600 million senior note offering and the provision for uncollectible note receivable.” – 2018 Proxy

How can new debt be excluded from a target leverage metric?

Source: PDC’s proxy statements.
Material Weaknesses In Internal Control


“Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2017 based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO because material weaknesses in internal control over financial reporting existed as of that date related to not maintaining a sufficient complement of personnel within the Land Department as a result of increased volume of leases, which contributed to the ineffective design and maintenance of controls to verify the completeness and accuracy of land administrative records associated with unproved leases.”

Resulted in a 10% impact to cash bonuses for CEO Bart Brookman and COO Scott Reasoner, lowering their bonus from 130% to 120% of target


“Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2018 based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO because material weaknesses in internal control over financial reporting existed as of that date related to not maintaining a sufficient complement of personnel within the Land Department as a result of an increased volume of leases, which contributed to the ineffective design and maintenance of controls to verify the completeness and accuracy of land administrative records associated with unproved leases.”

Did not impact executive compensation
Bart Brookman, PDC’s CEO, has generated an average yield on his personal PDC equity of 27% over the last three years.\(^1\) This is the amount of cash Bart receives each year (salary, bonus, and stock sold in the open market) as a percentage of the market value of his total PDC stock ownership.

Meanwhile, PDC shareholders have received zero cash distributions while the stock price declined 44\(^2\).\(^2\)

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\(^1\) See disclosures for detail. \(^2\) Calculation assumes a shareholder bought PDC stock at year-end 2015 and sold at year-end 2018.
Private equity in the upstream energy sector has materially outperformed the XOP over the last ten years despite owning assets in the same basins as public operators.

- US oil and gas private equity has generated a weighted average IRR of roughly 10% over the last ten years (2009-2018).
- In contrast, the XOP has traded sideways over the same time period despite owning similar assets.
- Kimmeridge believes this bifurcation of performance results from compensation misalignment among public energy companies.
- Aligning pay with performance and increasing stock ownership should lead management to think like owners.

1) Private equity returns based on data from Preqin Ltd; see disclosures for more information.
Kimmeridge believes that more equity and longer hold periods will cause management teams to act like owners. As board members, we would advocate significant change to compensation and governance models.

**Compensation**
- Total cash compensation lower (under $1 million for CEO)
- No cash bonuses
- Equity awards heavily weighted to absolute TSR
- Requirement to hold a portion of annual equity grant until retirement

**Governance**
- Board compensation largely in stock
- Requirement to hold a portion of equity for duration of board service
- End staggered terms for directors

Greater stock ownership will align management and the Board of Directors with shareholders.

Kimmeridge would not seek to lower overall compensation provided that it is aligned with shareholders. In this structure, management would be rewarded well as TSR rises.

This will likely result in more cash being returned to shareholders and opportunistic buybacks/M&A.
PDC: A Better Board and a Path to Profitability
A New Board for a New Business Model

• Kimmeridge is nominating three directors for PDC’s eight-person board at the Company’s 2019 annual shareholder meeting.

• Kimmeridge’s candidates have extensive experience as investors and asset owners.

• Kimmeridge currently owns 5.1% of PDC. Kimmeridge’s position is unhedged and does not use options.

• According to the Company’s 2019 proxy statement, the entire management team and board combined own just 1% of the outstanding shares.

• By refreshing the Board with directors focused on creating value for all shareholders and aligning management compensation with absolute performance, Kimmeridge believes it can work with PDC to deliver a path to profitability.
### Kimmeridge’s Director Nominees

<table>
<thead>
<tr>
<th>Nominee</th>
<th>Bio</th>
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<tbody>
<tr>
<td><strong>Ben Dell</strong></td>
<td>Ben Dell is the founder of Kimmeridge where he leads the firm’s investment activities, including overseeing the screening and diligence of new geological opportunities as well as the negotiation and execution of investment strategies. In 2016, Mr. Dell led the sale of Kimmeridge’s Delaware Basin assets to PDC. Prior to founding Kimmeridge, Mr. Dell served as Co-Head of Energy Investments at Alliance Bernstein and prior to that he was a Senior Equity Research Analyst for Oil and Gas E&amp;P at Sanford Bernstein. Mr. Dell was also a member of British Petroleum’s M&amp;A and finance group. He has an undergraduate degree in Earth Sciences from St. Peter’s College, Oxford.</td>
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<tr>
<td><strong>Alice Gould</strong></td>
<td>Alice Gould is a member of the Board of Directors of CorePoint Lodging, Inc. (NYSE: CPLG), serving on its Compensation and Nominating and Corporate Governance Committees. Alice previously led the Private Investments team at DUMAC, Inc., an investment office that manages over $18 billion for Duke University’s endowment and other assets. Her responsibilities included the evaluation, selection, and monitoring of venture capital, leveraged buyout, credit, real estate, energy, and natural resources investments. She has also served on the advisory boards of over 20 private equity and real assets partnerships in the U.S. and abroad. Prior to joining DUMAC, Alice was a management consultant and worked for ten years at IBM in various management roles. Alice received a B.S. in Engineering from Duke University (magna cum laude) and an MBA from The Fuqua School of Business at Duke University (Fuqua Scholar).</td>
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<tr>
<td><strong>James Adelson</strong></td>
<td>James Adelson serves as the President and CEO of Nadel and Gussman, LLC, a fourth-generation family oil and gas business. He also serves as manager or managing partner of Nadel and Gussman’s various energy affiliates, as well as Elbar Partners, LLC, the family office entity that focuses on non-energy related opportunities. Jim is an experienced industry executive with over 30 years in oil and gas, including management, operational strategy, exploration and development, together with significant financial expertise in corporate finance, strategic planning and risk management. Jim received his B.A. in Economics from Cornell University.</td>
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Assuming Kimmeridge holds 3 of 8 board seats, the team will work with the remaining board members on a 180-day plan to deliver better performance.

### 180-Day Plan

<table>
<thead>
<tr>
<th>Category</th>
<th>Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SG&amp;A expenses</strong></td>
<td>• Assess current staffing, IT costs, data costs, etc. by item</td>
</tr>
<tr>
<td></td>
<td>• Develop a clear benchmark for best in class and put PDC on a path to become competitive with peers</td>
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<tr>
<td><strong>Capital costs</strong></td>
<td>• Evaluate all historical and current AFEs, analyzing actual cost vs. AFE</td>
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<tr>
<td></td>
<td>• Review daily drilling reports</td>
</tr>
<tr>
<td></td>
<td>• Develop best in class metrics for drilling, completing, facilities and service costs</td>
</tr>
<tr>
<td><strong>Management alignment</strong></td>
<td>• Review compensation structure and develop a model aligned with shareholders (e.g. Brigham Minerals compensation structure)</td>
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<tr>
<td><strong>Capital allocation</strong></td>
<td>• Undertake a look-back analysis on historical land acquisitions in an effort to learn from past mistakes</td>
</tr>
<tr>
<td></td>
<td>• Establish process for senior leadership to evaluate M&amp;A on a consistent ROACE-focused framework</td>
</tr>
<tr>
<td><strong>Planning</strong></td>
<td>• Aggregate the above analysis to develop a clear path to profitability and a ROACE above the WACC at $50/bbl and $3/mcf</td>
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<tr>
<td></td>
<td>• Establish and message a framework for returning cash to shareholders</td>
</tr>
<tr>
<td><strong>Strategic</strong></td>
<td>• Review options for scaling up in core basins that are accretive to both shareholders and ROACE</td>
</tr>
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The Need for Change: Performance, Pay and Putting PDC on a Path to Profitability

• PDC Energy owns high quality assets that are trapped behind a poorly performing team, with a board that is asleep at the wheel.

• Over the last three years shareholders have borne the brunt of this mismanagement with the company delivering a total shareholder return of -41%\(^1\), underperforming peers, commodity prices and the market.

• As shareholders have suffered, management has won, earning $43.8M over the last 3 years, with pay uncorrelated to performance.

• The board is responsible for this misalignment. In 2018, the company missed four of its five internally set targets yet PDC’s management team has been compensated as if it delivered peer group-leading performance.

• The board and C-Suite want shareholders to believe that nothing is wrong. However, an analysis of the company’s operating costs, well performance, capital allocation, and ROACE clearly demonstrates underperformance.

• Kimmeridge believes that if elected, its nominees can hold management accountable for performance, realign compensation with performance and tackle the inflated cost base.

• These changes should position PDC to deliver a ROACE above the WACC, implement a dividend, return cash to shareholders and to create value for shareholders.

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1) Source: Bloomberg. Data through 5/2/19.
Disclosures

1. Broad Peer Group Constituents used for industry ROACE and SG&A as a percentage of EBITDA: APA, APC AR AREX, AXAS, BCEI, CDEV, CHAP, CHK, CLR, CNX, COG, COP, CPE, CRC, CRK, CRZ, CXO, DNR, DYN, ECR, EGN, EQP, EQU, FANG GDP, GPOR, GST, HES, HK, RHR, HVST, JAG, JONE, LLEX, LPI, MCF, MPO, MRO, MTDR, MUR, NBL, NXR, NOG, OAS, OXY, PE, PQ, PDCE, PVAC, PXD, QEP, REI, REN, REXX, ROE, RRC, RSPP, SBOW, SD, SGG, SM, SN, SRCI, SWN, UNT, UPL, USEG, WLL, WPX, WRD, WTI, XEC, XOG. Data from public company filings. (Slides 8 & 12)

2. Performance results reflect: SPDR® S&P® Oil & Gas Exploration & Production ETF (XOP). S&P 500® Index (SPX). WT represents the WTI crude oil price. PDC's self-defined 2019 peer group is comprised of: CDEV, CPE, CRZO, JAG, LPI, MTDR, OAS, PE, QEP, SM, SRCI, SWN, XEC, XOG. NFX is excluded because the company was acquired by Encana. (Slides 9 - 11)

3. Kimmeridge uses the after-tax cost of debt and CAPM model to estimate PDC's cost of capital. Equity cost is calculated using the CAPM model: [Expected Return = Risk-Free Rate + Beta x (Expected Market Return – Risk Free Rate)]. Kimmeridge assumes a beta of 1.5 based on relative volatility between PDC and the broader market (SPX) over the last five years. Kimmeridge also assumes a risk-free rate of approximately 2.5% and an expected market return of 10%. (Slide 12 & 13)

4. Broad Peer Group Constituents: APA, APC AR AREX, AXAS, BCEI, CDEV, CHAP, CHK, CLR, CNX, COG, COP, CPE, CRC, CRK, CRZ, CXO, DNR, DYN, ECR, EGN, EQP, EQU, FANG GDP, GPOR, GST, HES, HK, RHR, HVST, JAG, JONE, LLEX, LPI, MCF, MPO, MRO, MTDR, MUR, NBL, NXR, NOG, OAS, OXY, PE, PQ, PDCE, PVAC, PXD, QEP, REI, REN, REXX, ROE, RRC, RSPP, SBOW, SD, SGG, SM, SN, SRCI, SWN, UNT, UPL, USEG, WLL, WPX, WRD, WTI, XEC, XOG. Data from public company filings. (Slide 12)

5. Share price performance from 2016-2018. The IPO share price was used for companies that did not go public until after 1/1/2016. (Slides 18 & 27)

6. Average 2018 well cost based on public company filings. Average 2018 lateral length based on data from RS Energy. Diamondback Energy (FANG) cost per foot is based on its Q2 2018 Delaware DC&E cost from its Energen acquisition presentation. (Slide 19)

7. The source of production data presented is RS Energy, which aggregates publicly available information. (Slides 19-20)

8. Peer group data was prepared by Kimmeridge using publicly available information for a customized set of E&P companies chosen by Kimmeridge and determined to be substantially similar to PDC in structure, operations, basin focus and certain other characteristics (Custom Peer Group). Results could differ if the constituents of this customized peer group were changed. Constituents of Custom Peer Group: CDEV, CRZO, CXO, EOG, FANG, JAG, NBL, OAS, PE, PXD, SM, SRCI, SWN, XEC, XOG. NBL was excluded from the chart showing SG&A per rig due to its significant offshore operations. (Slide 19)

9. Capex savings assume PDC’s well costs averaged $11.5M instead of $15M. This results in $108.5M of capex savings based on the number of Delaware wells PDC drilled in 2018 (31). Key assumptions for cash flow lost per well from lower productivity versus Kimmeridge wells: $60/bbl oil price, $3/mcf gas price, and a 55% cash margin. This results in $1.4M of lost cash flow per well over the first twelve months or $45M of total cash flow lost for 31 wells. (Slide 23)

10. 'PDCE Potential' recycle ratio assumes the following: 1) capex reduction of $975M based on annualizing 2018 capex wasted and land mismanagement costs over a three-year period (both of which are found on slide 26); 2) cash flow increase of $239M based on annualizing SG&A savings over a three year period (see slide 26); 3) 3.7 MMBoe of additional reserves based on a 13% improvement in Delaware well productivity. (Slide 29)

11. Top five executive compensation defined as the total compensation for the five highest-paid PDC executives in a given year. (Slide 31)

12. Kimmeridge used PDC's self-defined peer group that determined 2018 PSU payout according to PDC’s 2018 Proxy. The following companies were excluded: EGN because it was acquired in 2018; MTDR because it had not yet released its 2018 proxy at the time this chart was initially published; GPOR because it had not yet released its 2018 proxy at the time this chart was initially published; BCEI because it entered bankruptcy during the three-year performance period. (Slide 35)

13. CEO yield calculated by taking the sum of Bart Brookman’s annual salary, cash bonus and PDC stock sold in the open market, divided by market value of the average number of shares Bart Brookman owned in a calendar year. Share count was calculated by averaging “qualified holdings” from PDC’s proxy statement at the beginning and end of each year. Qualified holdings include stock owned directly, shares held in the Company’s 401(k) and Profit Sharing Plan and unvested time-based RSUs. (Slide 40)

14. Private equity returns based on Preqin Ltd data. 10% IRR based on weighted average returns of all U.S. oil and gas private equity funds with a 2009-2018 vintage. Kimmeridge excluded private equity funds focusing on direct lending, distressed debt, infrastructure and co-investments. XOP performance data according to Yahoo Finance using the “adjusted close” price. (Slide 41)
Disclosures

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Legend
Kimmeridge Energy Management Company, LLC ("Kimmeridge"), Kimmeridge Active Investments, LLC, Kimmeridge Chelsea, LLC, Benjamin Dell, Alice E. Gould, James F. Adelson, Alexander Inkster, Noam Lockshin, Henry Makansi and Neil McMahon (collectively, the "Participants") have filed a definitive proxy statement with the Securities and Exchange Commission (the "SEC"), along with an accompanying GOLD proxy card to be used in connection with the Participants' solicitation of proxies from the stockholders of PDC Energy, Inc. (the "Company") for use at the Company's 2019 annual meeting of stockholders. All stockholders of the Company are advised to read the foregoing proxy materials because they contain important information, including additional information related to the Participants. The definitive proxy statement and an accompanying proxy card will be furnished to some or all of the Company's stockholders and are, along with other relevant documents, available at no charge on the SEC's website at http://www.sec.gov/. Information about the Participants and a description of their direct or indirect interests by security holdings are contained in the definitive proxy statement on Schedule 14A filed by Kimmeridge with the SEC on April 18, 2019. This document can be obtained free of charge from the source indicated above.