

A hand holding a pen over a document with a calculator and a ruler.

# Successful Efforts Accounting Conversion Overview

**MAY 2019**

# WHY WE ARE IMPLEMENTING



## Better comparability

- > Our peer group and all major integrated oil and gas companies use the Successful Efforts method.



## Greater transparency

- > Our operating decision making will be better reflected in our financial statements.
- > The financial statements will better align with our capital allocation process.



## Alignment with operational thinking

- > Our financial statements will be more reflective of the way we evaluate and track the company as a business.
- > Proved property impairments will be based on forward-based pricing, which is more indicative of the value of assets than historical prices.



## More effective use of systems and data

- > Improved automation of processes based on system and data integration and automated accounting calculations.



# Summary of Effect on Retained Earnings

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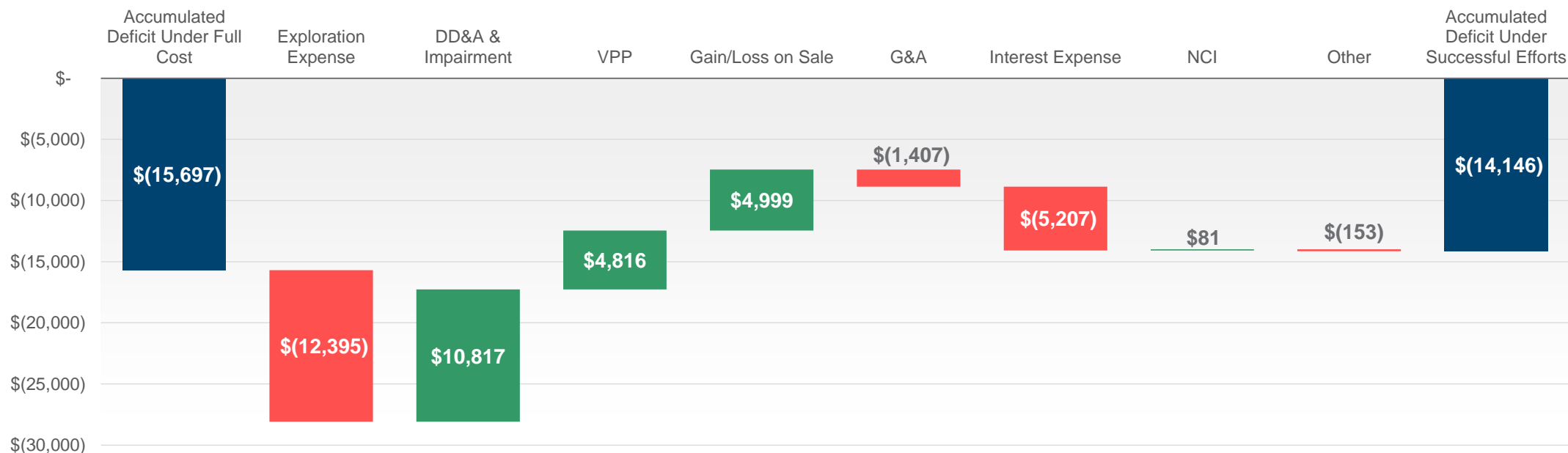
# SUMMARY OF EFFECT ON RETAINED EARNINGS

## Retained Earnings change as of 3/31/2019:

Accumulated Deficit under FC 3/31/19	\$ (15,697)
Cumulative Effect of Differences on earnings under SE	\$ 1,551
Accumulated Deficit under SE 3/31/19*	\$ (14,146)*

\* Does not include impact of WRD Acquisition

## Conversion of FC to SE Retained Earnings Impact



Amounts presented here are in millions.

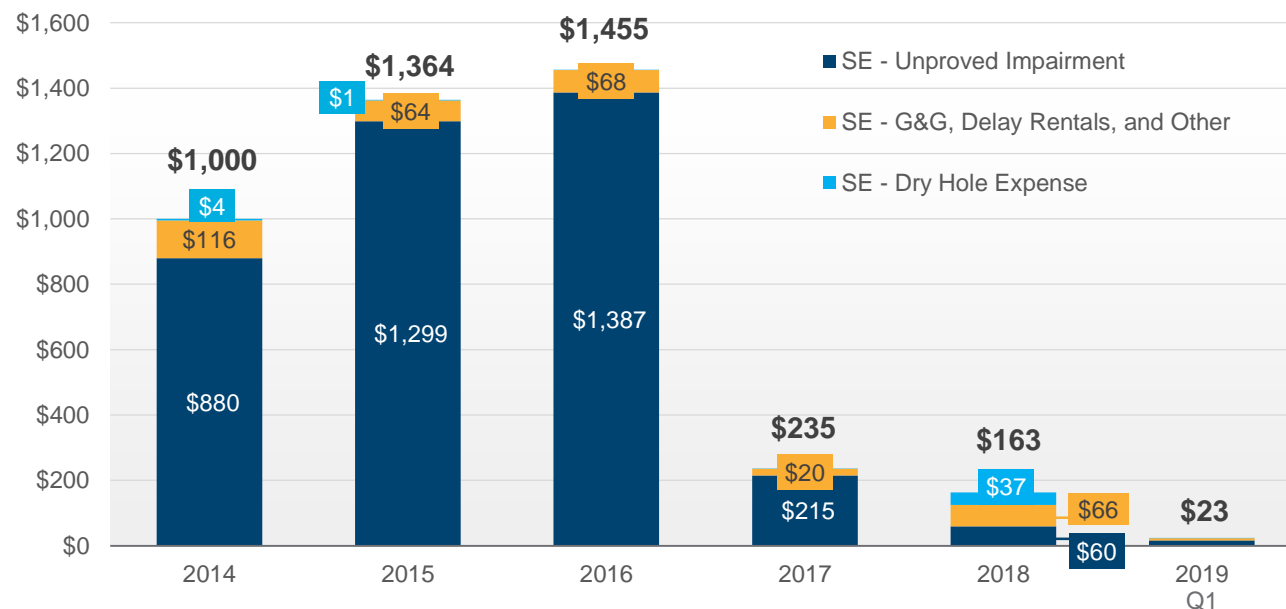
# SUMMARY OF EFFECT ON RETAINED EARNINGS

Exploration Expense	Under successful efforts, all costs associated with exploration activities are expensed with the exception of leasehold and well costs of successful exploratory wells, which are capitalized. Under full cost, similar costs are all capitalized.
Impairment & Abandonment of Unproved Leasehold	Costs associated with the abandonment and decrease in the value of leases without proved reserves.
Geological and Geophysical, Delay Rentals, and Other	Costs of maintaining or retaining unproved properties, exploratory geological and geophysical costs, delay rentals and other exploration costs.
Unsuccessful Exploration	Costs of drilling exploratory wells that fail to identify new SEC proved reserves or provide information expected to lead to the discovery of SEC proved reserves.

Total Exploration Expense Adjustment



Exploration Expense



# SUMMARY OF EFFECT ON RETAINED EARNINGS

## DD&A and Impairment Expense

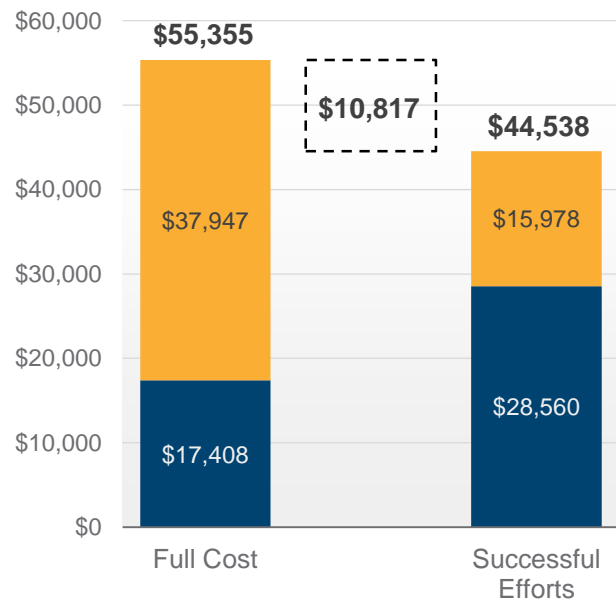
### DD&A

Under successful efforts, depletion is calculated at a depletable unit (“DU”) level, which is an aggregation of properties with common geological or stratigraphic condition. Lower capitalized costs under successful efforts generally result in lower depletion; however, significant full cost write-downs could occur in periods with higher depletion under successful efforts.

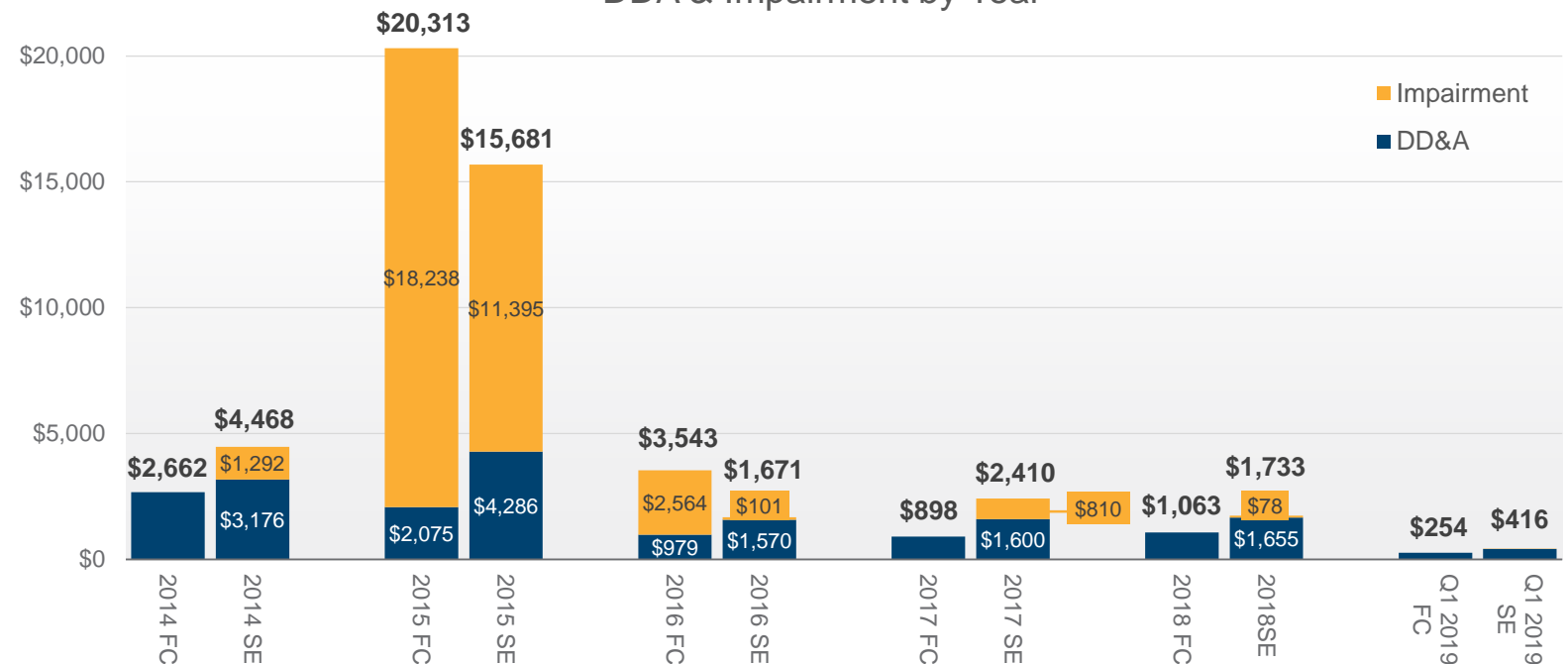
### Impairment/ Ceiling Test Write Down

Under full cost, ceiling tests are performed quarterly using historical commodity prices at the country level. The amount written down includes items capitalized under full cost that would be expensed under successful efforts, such as exploration costs. Under successful efforts, proved properties are reviewed at least annually or when an impairment indicator exists by comparing capitalized costs to undiscounted future net cash flows at the DU level. If the capitalized costs are higher, a fair value of the assets is calculated and the properties are written down to that fair value through an impairment charge.

### DDA & Impairment Adjustment



### DDA & Impairment by Year

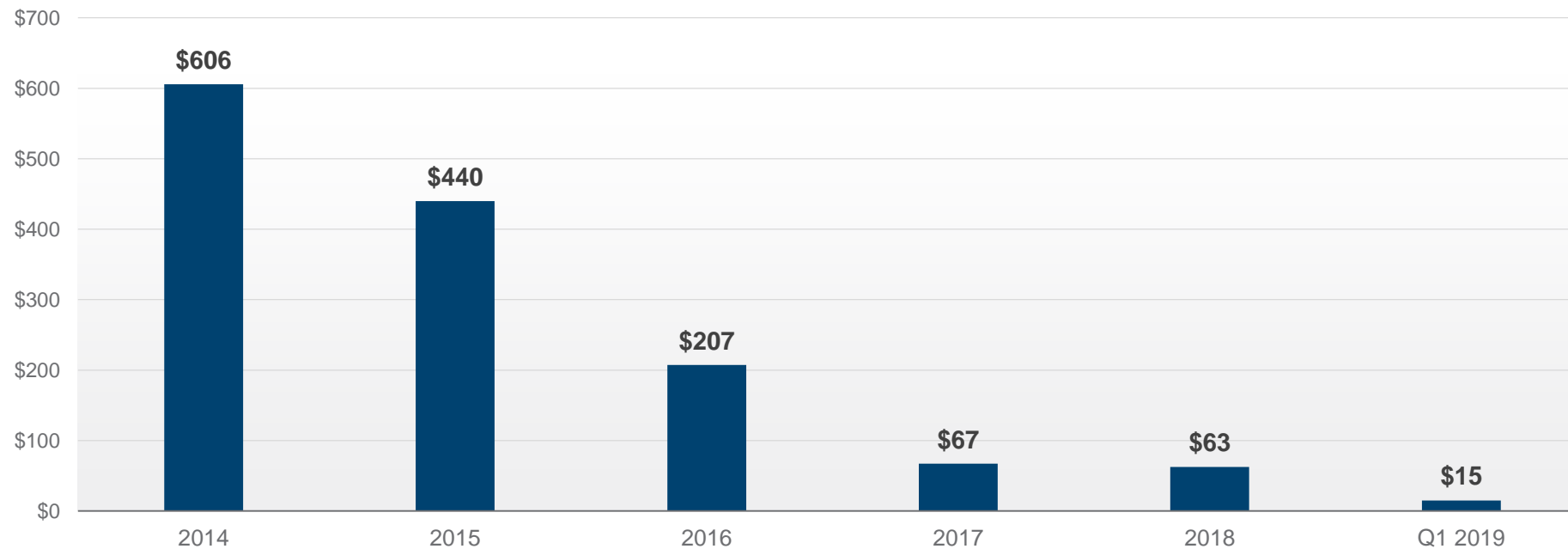


# SUMMARY OF EFFECT ON RETAINED EARNINGS

## Volumetric Production Payment (VPP) Revenue

Under successful efforts, the sale of VPPs is treated as an increase in deferred revenue, which is recognized over time in accordance with the delivery of those production payments. Under full cost, the transaction is generally treated as an asset sale that decreases the full cost pool.

VPP Impact by Year

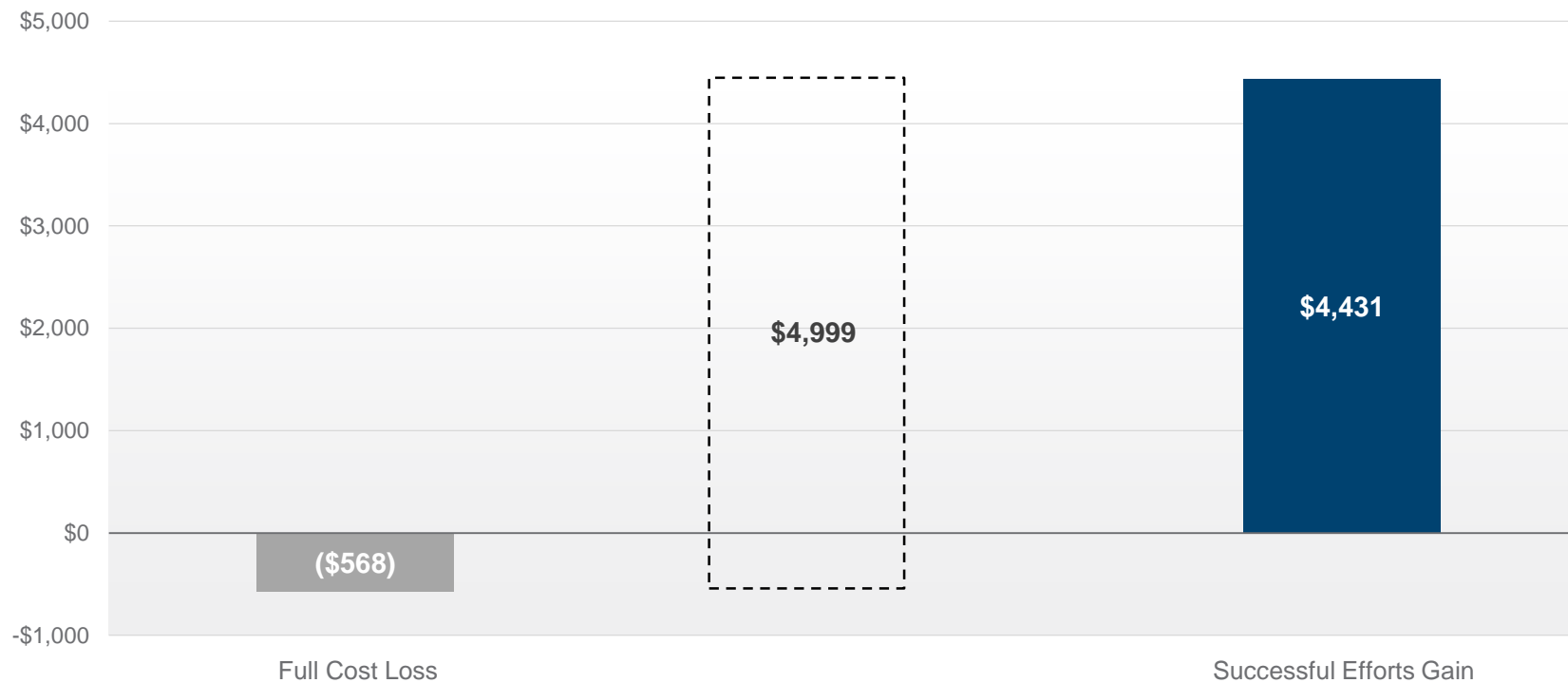


# SUMMARY OF EFFECT ON RETAINED EARNINGS

## Gain/Loss on Divestitures

- Under successful efforts, gains or losses are realized upon the sale of oil and gas property calculated as the difference between the consideration received and the net book value of the asset sold.
- Under full cost, no gain or loss is recognized unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves. Generally, this is when properties sold are greater than 25% of reserves in the related full cost pool.

Significant Gains on Divestitures Under SE



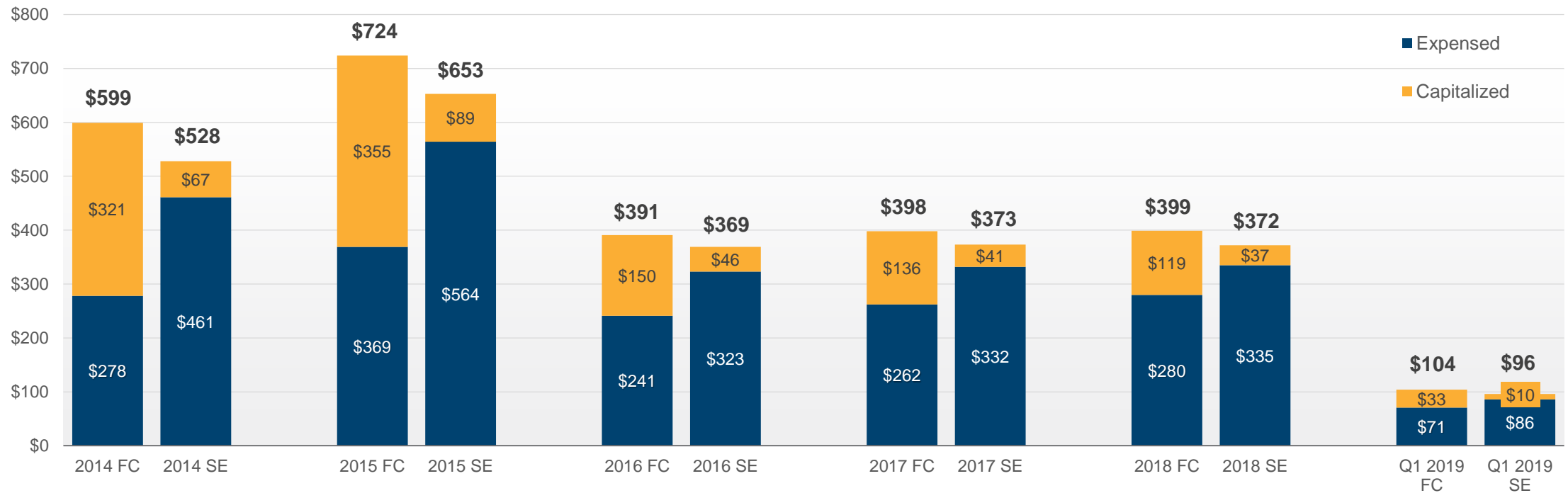


# SUMMARY OF EFFECT ON RETAINED EARNINGS

## G&A Expense

Under full cost, internal costs that can be directly identified with acquisition, exploration and development activities are capitalized. On the other hand, under successful efforts, only internal costs attributable to the development of proved reserves may be capitalized; internal costs associated with acquisition and exploration activities are charged to exploration expense.

Capitalized vs Expensed G&A by Year

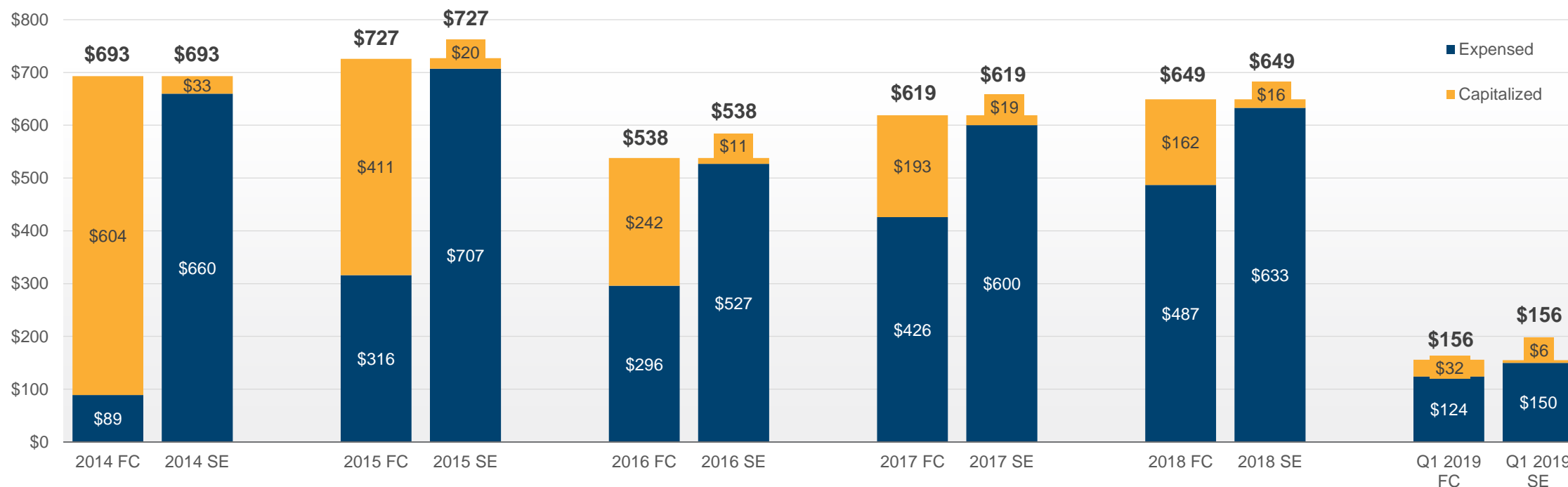


# SUMMARY OF EFFECT ON RETAINED EARNINGS

## Capitalized Interest

- Under full cost, investments in unproved properties and major development projects that are not being currently depreciated, depleted, or amortized and on which exploration or development activities are in progress are assets qualifying for capitalization of interest cost.
- Under successful efforts, capitalized interest is calculated based on the value of projects in which activities are in progress to ready the assets for its intended use and the portion of leasehold cost associated with prospects actively being developed.
- Chesapeake had a larger balance associated with assets that qualified for interest capitalization under full cost than under successful efforts.

Capitalized vs Expensed Interest by Year



# SUMMARY OF EFFECT ON RETAINED EARNINGS

## NCI

Change in the Non-controlling interest ("NCI") equity of Chesapeake Granite Wash Royalty Trust resulting from the conversion to successful efforts.

