Eratz

Wisdom & Trust

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Useful websites

www.oil-price.net

www.bloomberg.com/energy

Industry Forecasts

www.forbes.com/sites/arthurberman/2016/03/07/oil-prices-should-fall

www.reuters.com/article/us-global-oil-idUSKCN0W9045

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President's Corner

Hello investors and thank you for taking the time to read our second Newsletter. You are the reason we remain; without your loyalty and faith in what and how we responsibly operate in the hectic world of oil and gas, we would have closed our doors long ago. I would like to think we have earned your trust, but truth be told, I know we must continue to prove our worthiness to you, our intrepid investors, and for that opportunity, past, present and future--I thank you.

Since 1989 Eratz has been drilling in American soil for American oil. And over those past 25 years we have consistently looked for the safest returns for our investors, and that's why we have perfected developmental off-set wells using the best field technology, on-site expertise and precious wisdom. We've been through the hype of horizontal drilling and shale plays and frankly, for the risk, initial investment, recurring costly expenses, the social costs associated with fracing and the short run of production; these geological fantasy stories just don't make sense. *On the other hand, to drillers and operators who have little to any of their own skin in the game or the tail-drafting promotors and brokers who make all their money front end...yea...these are fantastic investments—for them!* But for you and me, people who actually demand profit from the sale of oil? No...these are not for us and haven't been for almost a decade.

Company Highlights

In Jim Collins' ***Good to Great*** he is very open about slow times, down markets, retractions, etc., and offers these pearls. First, never look at normal recurring downturns as problems like most do but as opportunities; second, successful companies do what unsuccessful companies are unwilling to do; and third, the best changes occur when the pressure is on. But all of these responses, not reactions, demand strong leadership, inspired wisdom and clear vision.

Mr. Collins cites Kimberly Clark and Walgreens. Both industry leaders were again struggling with deep cyclical market downturns; however, instead of doing what was normal or expected, each decided to go radical and really rethink their competitive strengths and weakness. And this is key: make real changes. Kimberly Clark, *The Paper Company*, sold off low-margin paper mills in order to focus on marketing high-margin finished goods. Walgreens, instead of following the thundering pack by launching just another on-line pharma retail portal, they slowed down. They knew customer loyalty was key in a world of encroaching "superstores" so they first launched the first on-line informational pharmacology site ***before*** they opened their on-line store. Each company responded differently, clearly yet decisively.

Eratz continues to refine itself. Currently, we are selling off old oil and gas leases in order to acquire better leases. These leases a year ago were simply out of our league...but now...things have changed. We have acquired more in-field assets, reworked drilling and completion agreements; we've dropped our fixed costs by

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realigning duties while keeping key people. We roll forward while the competition slides backward. For example, we've relaunched our website, www.eratz.com, making it truly impactful. Eratz eight months ago initiated a mail-card campaign in order to create recurring contact forging deeper stronger relationships with our prospects and clients. And our latest entry, ***Wisdom and Trust*** newsletter, which is the perfect format to keep everyone up to date, fills a critical gap. Just because *we stay in our lane*, doesn't mean we don't pull into the passing lane—we do and often. Not surprisingly, we've passed most of our competitors of which many have taken the proverbial exit ramp to nowhere.

Oil Patch Highlights

The Sykes #1 is in its completion phase, now being wired for electricity. We hit three strong producing pay zones. Since investors are paid directly by purchaser of oil, you'll receive your revenue checks 30 days sooner than what you've probably been accustomed to. Expect your first revenue check in late April for March production. The Sykes #2 is schedule to start funding in Late April with drilling expected to begin early June.

The Hodges #2 offset is 50% funded with four shares already invested. We should be funded by early May; drilling starts the end of May. This well is in a very productive long-lived oil patch. Even with 14-year technology in place, the Hodges #1 is still producing a load a month!

Things to Think About

By now you know that we've reduced our completion costs and have passed these savings on to you. *But why only a 28% discount when oil is trading less than half a year ago?* That's a good question. Virtually every major retailer around the Holidays offer huge discounts. Now ask: *How can they discount so deeply yet make almost 50% of their fiscal year's profits during those few weeks?*

The normal mark-up is huge! Clothing, linen, shoes for decades have been an easy 300% markup, and most consumer electronics are at least a 150% bump. This is the give and take of capitalism and it hasn't changed—ever! And oil is no different. Most offerings were over promoted and over priced with several layers of middle-men and inefficiencies. With lower demand and lots of inventory, the fat has quickly melted; and none of this came as a surprise to Eratz!

About two years ago when oil was trading over $100 a barrel, anybody who wore a big hat and pointy boots could claim to be an oil man; and pretenders, opportunists, brokers and promoters ran rampant; their offerings were fat and heavily weighted upfront. This bloated model persisted for years because...simply put...the market could bear it. A year ago, the industry started to "right itself" and now many of these *players* have left the O&G industry ***again***, pursuing other interests. Regretfully, there are those that still don't need oil revenue to stay afloat because, although direct, their deals have ample fat on the front end. These operators ***do not burden themselves*** with the need to hit oil, let alone completing a well that not only pays their investors back in one to three years but also makes a multi-year revenue stream.

Eratz ventures have always been weighted heavily on the back end. And that's just one of the reasons why we remain the best value, offering the biggest bang for the buck. Seeking the hearts and minds of our investors, we keep lean and clean, stay in our lane; and, most importantly, operate with wisdom and trust.

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