Eratz

Wisdom & Trust

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In This Issue

Useful websites

www.oil-price.net

www.bloomberg.com/energy

Good Reads

Thinking, Fast and Slow by Daniel Kahneman

Money in the Ground by John Orban

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President's Corner

Every day you are bombarded with calls by O&G promoters and brokers pushing their "deals"; so let's compare *their deals* to *an Eratz project*. Eratz does only projects. First and foremost, promoters and brokers hawk deals because they are typically in-and-out opportunities (actually they are more like out-in opportunities, as in "let me take money out of your pocket and put it in mine; thank you very much!") We're not sure about such cynicism but there is more than a grain of truth because most deals are offered to promoters and brokers ***when*** operators can't raise the money themselves or they are way behind on funding. And since most drillers, operators, promoters and brokers--**Not Eratz**--make their money up front; there is little incentive to forge long-term relationships between operators and investors. However, a project speaks of long-term revenue stream where operating costs are kept low, the pay-back is reasonable and the profit is worthwhile. A successful project starts and ends with a good lease where there are sufficient reserves to blunt inherent risks in order to attract the savvy O&G investor. **If you are approached with a good oil-producing lease, the intrepid investor will always find the money.**

When we call about our project--and we will--remember all this. Please don't tell us what you think we want to hear because you're afraid to hurt our feelings. We are built on Wisdom and Trust, and honesty is the cornerstone of any good relationship. If it's right for you to invest, step up. If it's not, say so. In other words, you don't have to be "delicate". Don't be like the dutiful husband when asked by his wife of 30 years and four kids, "Do I look skinny in these stretch denim jeans?"

Company Highlights

Legendary investors Warren Buffet and Peter Lynch offer us timeless advice: "Invest only in things you like and things you know something about. These words are as true today as they were when first spoken so it's critical you know your stuff. To that end, we recently added **Drilling Rig Basics** to our evolving website; this is good stuff and will definitely increase your O&G knowledge. Now, if you haven't gone to our website, **do not pass Go but go directly to www.eratz.com .** Few investments offer as much fascination and excitement as drilling for oil and gas; and when you add the profit potential, it's no wonder many smart investors take advantage of tax-favorable oil and gas ventures.

The long standing drought that has plagued West Texas for years has finally lifted. In fact May has gone down as the wettest in Texas' history. We have done our best to work around the blessed rain to get the Sykes #1 on line. And now that we are finally drying out, we are 80% done with our part. All that remains is to complete the down hole work and then get the local electrical co-op to set the poles and install poles to this site—it could be the first week of this month. While somethings are settling down, others are popping up. For

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example, for some time now there has been pressure to change the long-standing spacing requirements between Texas wells. Several operators from different regions have petitioned our Texas Railroad Commission, the state's O&G oversight and regulatory agency, to change the minimum acreage spacing requirement from 20 acres of drainage per well to 10 acres. There are sound reasons for both positions. We will keep you posted.

Oil Patch Highlights

True to form, over the last month we took advantage of a great opportunity and exchanged some of the western half of our Sykes lease for an adjacent, more promising tract of land. We made this move based on several proven and consistent factors, but the biggest reason was that this attractive tract was not even available to us last year. It's amazing what happens when you come in with cash! As always we look to develop oil fields--as opposed to pushing deal--with multiple zone oil-producing sands with strong reserves for 12-15 year production runs. So...it's going to get hot in more ways than one!

True to our prediction, oil marches steadily ahead gaining around $2.50 per month. We expect seasonal slow-downs in the last half of the year, therefore the price of oil should be in the upper $50s by the end of the year. Regretfully yet predictably, when oil prices climb, so do the number and price of offers, the degree of confusion spikes, as well as the re-emergence of high-pressure telemarketers, promoters, brokers and operators that coincidentally exited the O&G business to pursue "other opportunities". Rest assured, many of these players have returned and are now hovering like turkey vultures over fresh road kill. Discern the difference between ***players*** and ***stayers***.

Things to Think About

Going back to Reserves, a critical question hardly asked and rarely stressed is: "What are the reserves?" which means: "how many barrels of oil should this well make before it's played out?" As always, show me the money! The lifting cost of one barrel from a vertical offset well-- the kind we do--is considerably less than a barrel from a horizontal or deep-drill well. So, the reserves on these kinds of wells should be significantly greater than an Eratz-type well. Remember, once a barrel hits the surface, operators expense taxes and lifting costs. For Eratz, this is typically $7 per barrel while most operators expense $19 or more. Another factor to consider is the price of oil. A good rule of thumb is: the lower the price of oil, the greater the reserves must be. It stands to reason that it takes more barrels when oil is low to pay back a well than it takes when the price is high. As oil prices climb, the fewer barrels needed for pay-back and the faster you profit. And, when you factor in risk, most savvy O&G men will look for at least a 3:1 proposition. For example, if it takes 24,000 barrels to pay off a well at $40 oil, a smart investor will need a reserve of 72,000+ barrels. Higher per-barrel price lowers risk and subsequently lowers the reserves needed. Incidentally, Eratz minimum reserve is 75,000 so we have always been built to operate profitably at lower oil prices and that's why we're still around.

Again. it's important to Eratz—and to you as well--that you familiarize yourself with our website, www.eratz.com. You should know who we are, what we do and how we do it.