Eratz

Wisdom & Trust

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Useful websites

www.oil-price.net

www.bloomberg.com/energy

Now Available:

Eratz Oil and Gas Investor Handbook

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President's Corner

The year is practically over and two things are certain: this is the last Wisdom and Trust for 2017, and it's time to consider taxes. Have you read our website recently? For you first-time investors or serious prospects, know that tax breaks afforded to O&G investors are largely due to our government's desire for the USA to be energy independent from foreign sources. As a result private investors realize substantial benefits through tax incentives that come from directly investing in oil and gas via O&G joint ventures. Tax advantages also provide partial protection in the event of an investment loss. How? Because of these tax breaks, investors are essentially using pre-tax dollars to fund their investment. If a well turns up dry and there is no return on the investment, part of what investors are losing are pre-tax dollars which would have otherwise been paid to the government in the form of income tax--sometimes up to 30%-40% of the total investment. Because oil and gas are finite resources that will exhaust, depletion allowances are granted for a portion of the producing well's gross income. These allowances can shelter 15% of the annual production from income tax. Deductions can be taken as long as the wells are productive. Tangible equipment and resources used to complete a well are generally considered salvageable and thereby depreciated over seven years. These tangible completion expenses can account for between 25% and 40% of the total well costs. Tangible Drilling Costs (TDCs) also represent substantial expenses like drilling equipment, pump jacks, and casing. TDCs are capitalized and depreciated over five years. Talk to your accountant to capture the full extent of oil and gas tax benefits.

Company Highlights

Here we are cruising into the Holidays and we at Eratz have been so blessed. Although 2017 hasn't been the smoothest sailing year, we covered a lot of water While Eratz moved forward despite the oil price doldrums, many O&G companies foundered, scuttered or came about, seeking familiar harbors to wait out the year. It has been written that the seasoned mariner can always move forward if he just sets his sails correctly. Eratz is an experienced sailor in the oilpatch. Not only has Hodges #2 been drilled, it's flowing. And it's not just flowing, it's filling the pit! In the 28 years of operation, this has happened to us three times! And when those wells performed like this, they were extremely profitable. For our Hodges #2 investors, thank you again for your patience and belief in Eratz. We never wavered in our commitment to Staying in Our Lane while staying Lean and Clean. Here are a few Hodges #2 factoids. Hodges# 2 is our 32d well in Coleman County—and it could be are best. Porosity is 21% (the average is 8-10%). The larger the number, the faster the oil percolates through the sediment—so this is a good thing. Water saturation (percentage of water to total fluid) is an outstanding 24%. The average well ranges 35-40%; most drillers will set pipe on anything that is less than 50%.

Did we do anything different? No. We never borrow money; we didn't partner with other companies. We continued to use top-shelf equipment, best geology and proven talent to get it done. Eratz stayed calm and focused. Many of our competitors chased proverbial rabbits down holes, consolidated or got "creative in their financing"; subsequently most are out of business or have filed bankruptcies. And on the supply side, things really turned around for Eratz. Interestingly… but not surprisingly…those leases that were so lofty and unapproachable that we couldn't even hope to be considered are now asking Eratz to drill and operate. As you read this, we have seven prospects in our pipeline and all of them are rated from Good to Excellent. That's what happens when you've been in business continuously for over 28 years staying Lean and Clean.

Oil Patch Highlights

One of our newest leases is the Harris Prospect. This is a perfect example of what Eratz does best. We honor the past by studying our predecessors' passion and body of work. We sit down and talk with time-tested geologists and land managers to discern the potential of older and out-of-favor leases. This Permian Basin tract performed well in the late 50's but the operator just didn't have our technology or geology to go any further. One shallow well was so prolific it produced 9500 barrels without casing, just tubing! However, with four lines of 3D seismic data we can now see that this dig just caught the edge of the Mississippi Reef. And with current technology we can set our bits with pin-point accuracy on at least three structural highs. Our data suggests that a 5500-foot multi target well will pierce the Caddo and Mississippi Reef with a reserve ranging from 100-250,000 barrels of WTC and millions of cubic feet of gas.

Things to Think About

In our September newsletter we touched on the concept market inelasticity. Since we didn't receive too many howls of protest, we reached a little further. By no means are we suggesting that we're experts but like this section suggests, please ponder the questions. Sure, we'll give our thoughts but our purpose is to engage our readers thoughtfully. So, is the market over rated? When you consider past market cycles, we are profoundly past due. Most economists believe that the last true market correction was the high-tech bubble burst of 2000. Remember the mind boggling P/E ratios, the notion that anything with a .com would make millions? We didn't include the sub-prime mortgage fiasco of 2007-2008 because our focus is on market bubbles, not bad US fiscal policy and federally sponsored free-market gluttony, Howard Ma of Meritocracy Capital (http://www.zerohedge.com/news /2017-09-21/stock-market-bubbles-perspective-or-why-wont-end-well) addressed the pros and cons of two popular market mean evaluation tools . The CAPE and Hussman P/E ratios suffer from the influence of outliers (these are events or phenomena far outside the norm) and both tend to look at markets with rose-colored glasses, but most economists strongly prefer them over the CAPME evaluation tool that simply looks at the median (the number in the middle of a number sequence) over 10 years of the S&P Composite Index. But even this harsh tool has our current market floating in the fourth highest market bubble of the past 70 years. Haven't you wondered why companies' stocks are posting record highs even though their earnings are average at best? And don't be misled by the improvement in salaries. Cameron Keng opines in EForbes that salary-improvement is not with long-standing employees but with new hires. In fact, he points out that employees lose money if they stay with any company longer than two years. Does that seem right? And finally why are so many marquee companies still closing or reorganizing? But let's go back to Mr. Ma; he concludes that stock market bubbles form when the composite P/E ratio of the S&P Composite Index exceeds 20+. And that's where we are! From our vantage, it's like we're partying on the Titanic drinking champagne and dancing the night away, but this time we know where the iceberg is…and still no one cares.

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.

Do you have an article you want to submit? Let us know by emailing us at the address below.

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For up to date information on Hodges #2 Well, please visit our website: www.eratz.com

Rumor

The Saudi's may be offering their oil on the NYSE sometime soon…

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