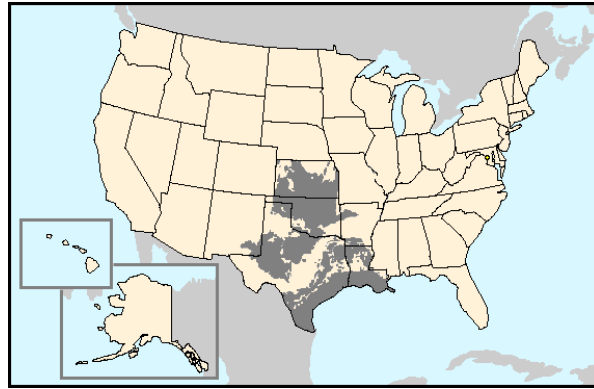


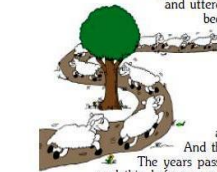
The Oil & Gas Industry in Texas & Oklahoma Investing & Business Opportunities



The Anti-Herding, Swiss cheese, Accordion, Rainy Day, Practical Science Business Model

The calf path

One day through the primeval wood
a calf walked home as good calves should;
but made a trail all bent askew,
a crooked trail as calves all do.
Since then three hundred years have fled,
and I infer the calf is dead;
but still he left behind his trail — and thereby hangs my moral tale.
The trail was taken up next day, by a lone dog that passed that way;
and then a wise bellwether sheep
pursued the trail o'er vale and steep —
and drew the flock behind him too,
as good bellwethers always do.
And from that day o'er hill and glade,
through these old woods a path was made;
and many men wound in and out,
and dodged and turned and bent about;
and uttered words of righteous wrath
because 'twas such a crooked path.
But still they followed — do not laugh —
the first migrations of that calf.
This forest path became a lane
that bent and turned and turned again.
This crooked lane became a road,
where many a poor horse with his load
toiled on beneath the burning sun
and traveled some three miles in one.
And thus a century and a half, they trod the footsteps of that calf.
The years passed on in swiftness fleet, the road became a village street,
and this, before men were aware,
a city's crowded thoroughfare.
And soon the central street was this,
the hub of a renowned metropolis.
And men two centuries and a half
trod in the footsteps of that calf.
A hundred thousand men were led
by one calf near three centuries dead.
For we are prone to go it blind
along the calf-paths of the mind,
and work away from sun to sun
to do what other folks have done.
We follow in the beaten track,
and out and in, and forth and back;
and still our devious course pursue,
to keep the path that others do.
We keep the path a sacred groove
along which all our lives we move —
but how the wise old wood gods laugh
who saw that first primeval calf!



Joel H. Weldon &
Associates, Inc.
www.jhweldon.com

Courtesy: Joel H. Weldon & Associates INC

Sam Walter Foss

Is it possible to make money – in the Texas/Oklahoma upstream oil industry – with WTI at \$40/BBL¹? I believe it's. With that said the question would be, "how"? There are many ways to skin a cat, and the strategy and business model described below is, I believed, a god way to go about it, provided the investor-to-be meets three conditions: 1. It must have his own money. Borrowing to enter into a petroleum venture is not advisable; 2. It must have certain appetite for high return, reasonable risk oil & gas projects, and; 3. It must have the endurance to stay 2 -5 years in a business requiring initial investment with possible negative cash flow during the first 24 months of operations.

¹ WTI @ \$40/BBL means oil at \$30-\$32/BBL at the field (wellhead or facility)

The Components of the Business Model

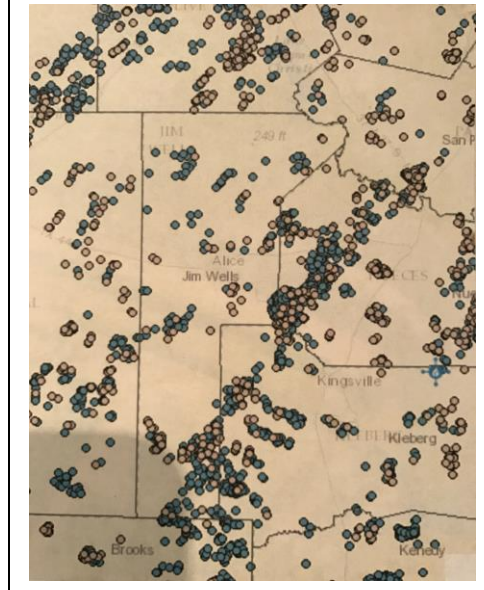
✚ Avoid the crowd, the sheepherding syndrome by looking where not very many people are looking. After ExxonMobil move into the Permian², Sanchez acquisitions of Anadarko acreage in the Eagle Ford and Conoco Phillips plans to come back in the Eagle Ford shale in 2017, makes acquiring acreage in these two attractive areas attractive no more. Only deep-pocket, mid-to-large independents and the majors can compete in that environment. To further complicate things for newcomer investors to the oil and gas business, the crew shortage and the competition for fracking equipment and rigs, and the high cost of drilling tight sand and shale, make getting into the business a bite too big to swallow. Besides, looking into the conventional, bypassed, behind pipe oil is – considering the proportionality of exposure and risk – equally profitable and more palatable;



✚ Looking somewhere else and avoiding the crowd does not mean considering the wrong places or not looking at all. On the contrary, it means looking for what the crowd does not see, not because they are blind, no, because they are (maybe) dazzled by the tight-sands, shale “revival”. Then this component of the business model strategy is to look for: “conventional, overlooked low-hanging-fruits, small but productive deposits, behind-pipe potential, low recovery factor reservoirs, shut-inn because of mechanical, formation-damaged, low productivity reasons, poorly drained pools, small operators in distress or impeded to grow because of lack of capital or poorly developed areas because of the lack of technology and appropriate management”.



✚ In addition to prospects with the characteristics listed above, the “10” prospects would be those with upside from two sources: additional acreage – location, location, location – and, deeper prospective strata. Once the “core area” is put on stream generating positive cash flow it would be possible – and recommended – to dedicate part of the income to assess the potential of the prospects derived from either source. Development would be contingent to commodity prices and to the degree of risk associated with the prospects. The deeper formation may be susceptible to horizontal drilling-fracking and to farm-outs to stronger financial sheet, specialized, more risk adept oil & gas teams.



² In A separate note I'll offer my views on the significance of ExxonMobil's entry in the Permian and unconventional oil & gas business

This would create a “petroleum accordion” to be expanded when possible to catch extra funds and to be contracted when financial lungs with plenty of “air” allow to further increase value of assets. The basic idea is not to develop the evaluated and tested areas/deeper strata – unless the risk are deemed palatable and risk capital is secured – but to create upside to the core area being developed allowing a holistic approach to the development and valuation of the assets at hand;



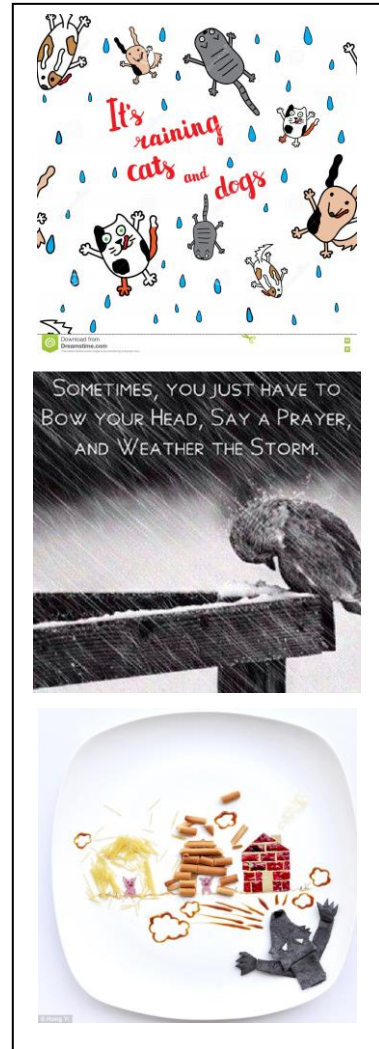
✚ “It’s raining cats and dogs” and, “when it rains it pours”, if you don’t believe it, just ask around in the oil producing countries, or closer to home, in the Texas oil patch. Once land is secured, prospects evaluated and reservoirs are put in production, the upside assessed with reasonable certainty and the projects begin to produce positive cashflow, the idea would be to save for a rainy day, to return money to investors and to dedicate part of the gains to scout and evaluate prospects to create additional potential upside for the existing, on stream projects. Saving for a rainy day would allow the continuation of operations even when the oil prices fall under the estimated “threshold” value.

The business model foresees two sources of potential gains, from producing properties cashflow and from the capital gains obtained from the sale to third parties of the upgraded, up-valued, further developed reservoir-oilfields, data base, proved resources combos.

The strategy – business model – calls for the creation of a self-sufficient commercial structure capable of sustaining itself after 3-5 years of operations³.

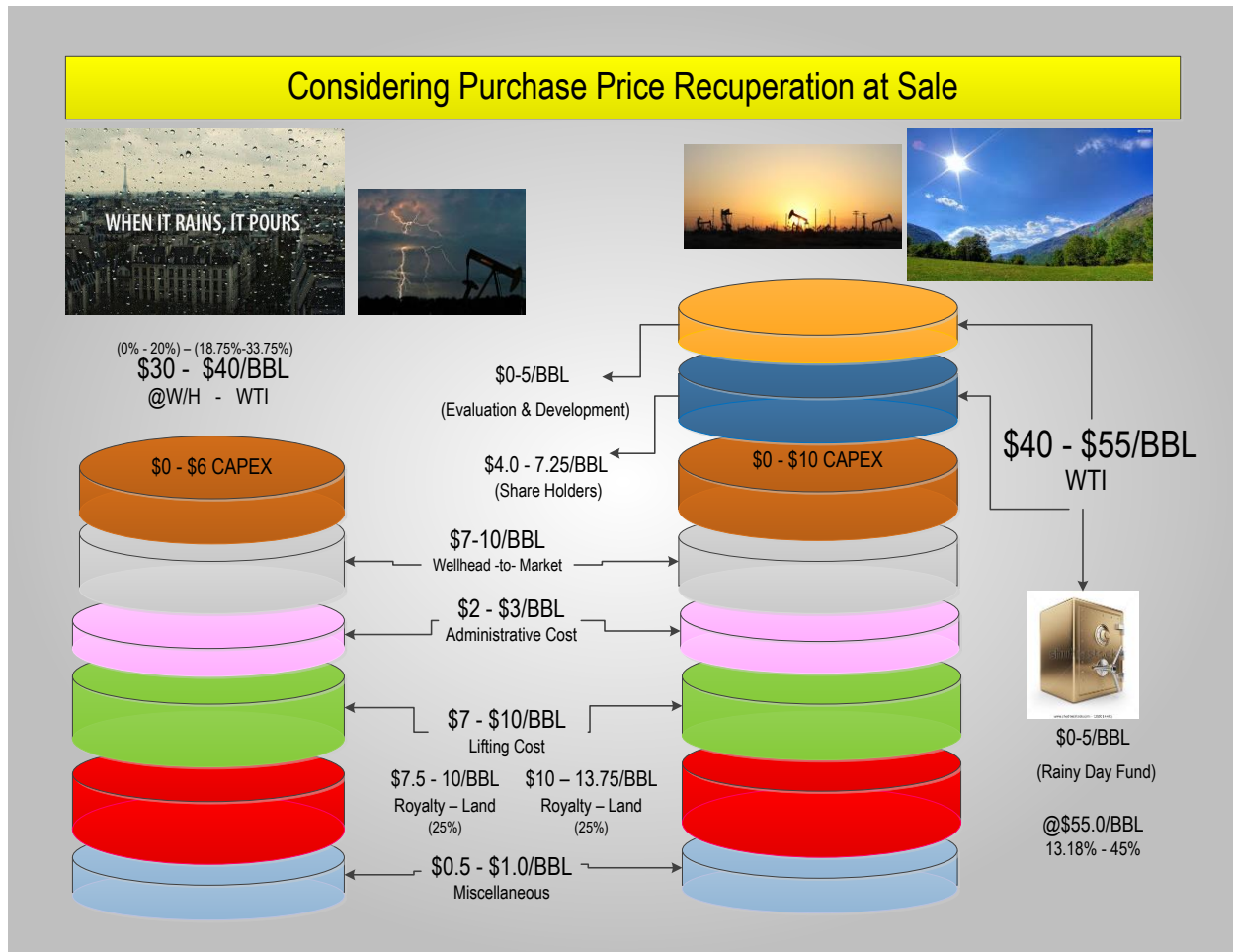
The chart below depicts the components of the costs associated with producing oil necessary to profit from a \$30/BBL to \$55/BBL oil price scenario. These numbers would vary with time and as acreage is added to the “pool” of producing properties and prospective producing properties.

It’s obvious that it would be very difficult⁴, unless you are trading oil, to make a profit with oil at \$5,000/BBL if you have one barrel only. Therefore, one of the fundamental, essential task of any technical – G&G, Engineering – team would be to find enough productive reservoirs to allow the creation of a critical mass of pools necessary to sustain profitable operations in the \$30-55/BBL oil. This would be a combination of sustainable minimum rates and resources to provide proved, producing reserves. These would be the bases for the “rainy day” component of the business model advocated here.



³ Two basic assumptions are sine qua non: Oil price stays above \$30-40/BBL and sold, or depleted resources are replenished at the same pace. This warrants a sort of “lasting motion” until it’s decided to shut-down the business.

⁴ Life has made me humble, therefore I no longer say “impossible” but “I don’t know how to do it”



“What would be the minimum oil rates (BBL/D) and resources (OOIP, BBL) necessary to profit from oil operations in the \$30-\$55/BBL? range”

- State of the art petroleum technology and access to capital have made possible the incorporation of significant amounts of “producible oil” from “unconventional – shale and tight sands. Oilmen and investment bankers are shepherding one more time towards moderate geological risk, capital intensive projects making the Permian and the Eagle Ford mirages for deep pocket companies and entrepreneurs. On the other hand, there are opportunities in the mature, highly developed Texas and Oklahoma’s “conventional formation” landscapes where non-or little technology and project management have been applied leaving behind a significant amounts of oil to be recovered with moderate amounts of venture capital and a balanced combination of technology.



science, hands-on experience and in-depth landscape knowledge. Affordability and accessibility to 3D seismic and to processing and reprocessing techniques would allow the identification of prospective strata to guide successful well spudding. These would be followed by well-thought development plans and well monitored and managed lean oilfield operations. The appropriate amount of brain storming, planning, engineering, data gathering and analyses would be applied to support recommendations to drill, complete and produce wells. There is a saying in Spanish that goes like this: "Enough candles to illuminate the holy statue, but not too many to set it on fire" This is what I define as "The Science of Experience, Applied Science, or, Practical Science"

Buying and selling decisions would be guided and based on in-depth knowledge of the reservoir and the oilfield realities, opportune market perceptions and by access to well informed networks of oil producers, land men, field hands, investors and specialized service companies. The thing to do is the exact opposite of the figure below:



"No greed in your buys and no fear or regrets in your sales,....., repeat until happily wealthy!"

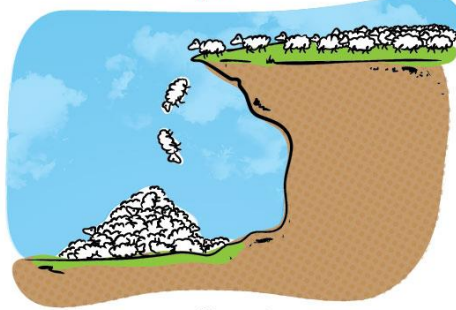


"Leapfrog – or leap-sheep – the herd"

Because if you:

Follow the ~~rules~~ too closely...

herd



©Maxims/Mavericks.com

...and you'll end up in a
heap of sheep.

Kent

And finally, don't blow it all away, save for the
next deal!



www.shutterstock.com · 102014401