

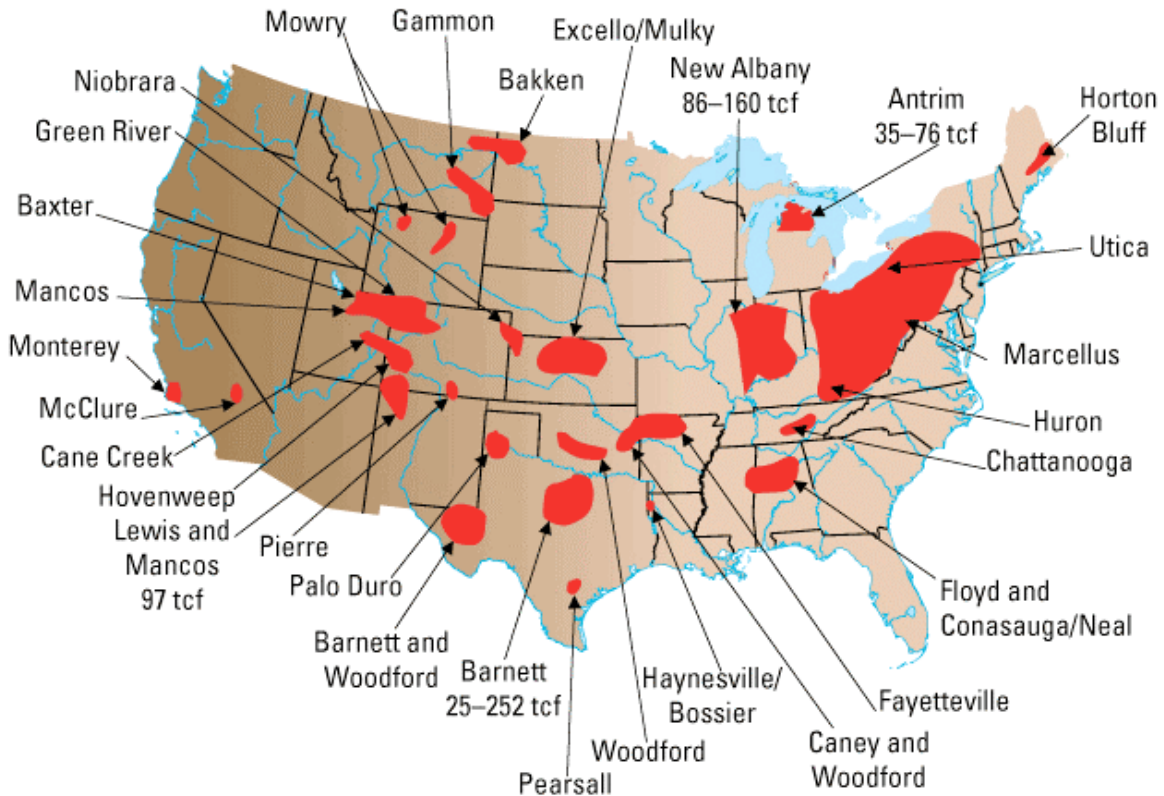
INTRODUCTION

There are many factors that will determine your success in oil and gas investment projects. We are going to talk about some simple tips that will increase your chances of success while investing in oil and gas. I have personally invested time and money in oil and gas for many years now. My fundamentals in oil and gas have come from a gentleman who has more than 40 years experience in oil and gas projects including drilling, title work, and deal structuring.

I took his base fundamentals and added the Internet component. We are going to explore some simple ways for you to look at oil and gas investments, find information using the Internet, and conduct better due diligence on properties and the operators before you invest. This is a NO B.S. Reference to Oil and Gas Investing... I hope you enjoy!

WHERE IS OIL AND GAS LOCATED GEOGRAPHICALLY

Oil and Gas Formations are located across the planet but for practical purposes, we are going to explore some major basins here in the United States considering that you will need to have familiarity domestically before you start planting dollars internationally. If you look at the maps below, you will see the major plays in the US. You will also notice that oil and gas resides currently in approximately 21+ states throughout the US.



From the map above, you begin to understand how widely spread oil and gas formations truly are across the US. It's important to understand that some of the states above are easier to make

Resources/Links you will need:

W-1 Search: Will allow you to find leases, operators, and production in the counties you specify based on name search; you only need to know the first couple of letters.

<http://webapps.rrc.state.tx.us/DP/initializePublicQueryAction.do>

GIS Mapping

<http://gis2.rrc.state.tx.us/public/>

The GIS maps are highly effective because they will allow you to not only pull up wells and view other wells in adjacent leases, you also have the option by using “Map Tools” to view production records right off your web page. This tool takes some practice and seems difficult to use. I would start with the W-1 Search because you can still pull the GIS mapping right off the W-1 Searches

Title and Due Diligence for Majority of Counties:

www.texasfile.com

This site is perfect for title work or if you need access to read or study any instrument that has been filed with the Texas county clerks indexed through the site. This is a paid site but well worth the few bucks, especially if you are serious about investing in Texas. The major counties are all indexed.

MAKING COMPARABLES – 3 THINGS TO LOOK FOR

Now that you know where to access information, here are some suggestions and additional things to look for and consider in your due diligence.

1. Look at Offset Production for Wells in next-door leases. This can give you a good gauge on what production should be; additionally you can compare this to county averages and then State averages.
2. Look at County Well Averages to see if the people you work with are high or low on production estimates.
3. Look at how many dry holes have been drilled in offset leases in the County and what the ratio to wells online to wells that are dry holes.

As Ronald Reagan once said, “Trust but verify”. You need to verify everything and trust only when the information presented or being communicated is worthy of being trusted.

7 Things You Need from the Operator or Promoters?

1. Production Estimates/Actuals (Generally these are from wells producing out of the same sands or formations)
2. AFE’s (Authorizations for Expenditure). This instrument gives you the full scope of the well economics, costs, liabilities, etc.
3. Leases on which the wells are located; this will help with the title work and diligence.
4. Financial Projections on the wells and/or leases. Then calculate your share.

5. Track Record of the Operators. Look at the last 2 or 3 projects and the status.
6. JOA – The Joint Operating Agreement, majority of Operators use the standard State agreements.
7. Geological Data – If available, it's never a bad idea to have someone specialized in the area review it; however, it is important to understand that most of the geological data is "self serving" and would be argued from one scientist or geologist to the next, so generally two professionals will never agree or see exactly eye-to-eye on that kind of data. Use the information you can from it for guidance but do not base your 100% decision on this. As I previously stated, this information is just one professional's opinion.

RISK FACTORS: SIMPLE WAYS TO LOWER RISK

One way to lower risk in oil and gas is to stay away from non-producing properties, meaning properties that currently have no wells online. You are investing in the *possibility* of hitting a well and getting production going on the leases. These investments seem to be the most attractive because of the high propaganda on returns; however 50% ROI of nothing is still nothing! Instead, take a different approach. Look for investments that already have wells producing and have upside for future drilling potential down the road. By purchasing PDP (Producing Developed Property) properties you cut all the risk from that phone call where the gentleman tells you the "J Frost #1 Discovery Well was not a commercial producing well and would not have produced in commercial quantities, therefore, we plugged it". Translation: "We lost all your money and we are sorry because we missed the zone"! If you need tax advantages/losses, then you may not mind hearing the conversation above; however I personally look for both losses and income simultaneously, here's how:

BUYING PDP (PRODUCING DEVELOPED PROPERTY)

Buying a Producing Developed Property (PDP) has significant advantages over purchasing a property with all downside and no hedge. By having production in place, that is your investment insurance and will significantly decrease your exposure to losses. By having production from day one, the property is cash-flowing income from day one, so your first check should come in 45-60 days unless strict circumstances apply.

Pros to PDP:

1. Reduced Risk Exposure to Loss
2. Tax Advantages for:
 - Tangible and Intangible Depreciation
 - Depletion
3. Monthly Income from Production
4. Anti-Inflation Hedge against the dollar's diminished value
5. Additional Development.

Cons to PDP:

1. Higher Prices – PDP generally fetches a higher price because of additional value.
2. Same Risk Factors as all Operations/Working Interests. (Covered below under Operators)
3. Reserves – This is where market and county well comparables comes in handy, this data gives you an average on (Money vs. Time) factors. Simple reserve and county comparables can significantly lower this aspect of PDP.

ADDITIONAL THINGS TO KNOW ABOUT PDP

1. Lease Production History - You need to find out as much information as possible on how long the lease or production from the lease has been marketable and sold. This not only gives you metrics on how much oil and gas has been extracted, it will also give you a basis on how long the wells may last for your investment.

2. Operator's Reputation and Creditability - Some Operators just get things done better than others; this can easily mean more cash in your pocket if they are focused on lowering expenses while raising profits on the lease, a portion of which go to you. This is one of the most critical elements with oil and gas investing.

3. Commodities Being Produced (Oil & Gas) - Ideally, you want to participate in an investment that is producing both oil and gas. Most companies will try and talk you into to participating in one or the other or just whichever they have available at the time; however by investing in both you are double hedging your investment and capital in the event one significantly decreases in value over the other. One important factor to consider is that natural gas is more a domestic commodity for the United States and crude oil is an international commodity as it can easily be loaded and shipped by the barrel anywhere in the World.

4. Reservoir Characteristics - The Reservoirs or Formations that are being produced from the property that you participate in are an extremely important part of your due diligence. By understanding the characteristics of the formations produced, you can easily gauge how long your investment may last just by taking averages on wells producing out of the same formations in the same county in the state.

5. Additional Development - It's important to understand if the Operator has plans to prove up a property. Before you participate, go over the plans in detail with the operator and see if they have mapped or platted wells within the unit. One important fact to consider is that your resale value will be determined by the amount of additional locations that are available in the prospect leases that you own an interest in. The more additional locations, the higher the resale value on the investment and the more profit you put in your pocket.

THE ULTIMATE “DUE DILIGENCE” CHECKLIST

The Due Diligence check list that came with this guide but in another document, is the “Bible” for property information. In fact, if you are thorough, and go through everything on that list, your chances of success are greater than 99% of all folks who invest in oil and gas. That list has been put together over the years and is the ultimate template for success in oil and gas investing by conducting due diligence.

OPERATORS (JOINT INTEREST PARTNERS)

As previously stated, having a great operator/partner in a joint interest opportunity can make you or break you. It is important to find out as much information as possible before you ever invest with one. You will need to interview many, work with a select few and make sure you are always asking questions and they are addressing your concerns with real answers, not responses that sound as if they came from a book. The operator should be on the same page with you, meaning, they are looking to increase revenues and lower lease expenses. What you need to watch out for is

the fine print; operating companies that make money from the lease but also tax you on the operations, including their salaries, wages, vacations, hidden fees, etc. They charge you barely legitimate expenses that you end up paying and so do they; however their percentages go out of one of their pockets right into the other. They end up paying themselves and you end up paying them. You end up losing money on your interest. You should never consider partnering with someone or some company that does not make money the same way you do; from production payments, not side deals or management fees. The ideal partner is a “non profit” operational company.

SUMMARY

In closing, I hope you find the information listed in this book useful. If you conduct good due diligence using this book and the check list that came with it as a reference point your chances of success will increase. I think you’ll find that oil and gas investing is not as difficult as many think. The saying that “oil and gas” is “difficult and risky” is myth. Any investment vehicle carries certain degrees of risk; its up to you by doing your homework to find out what is right for you.