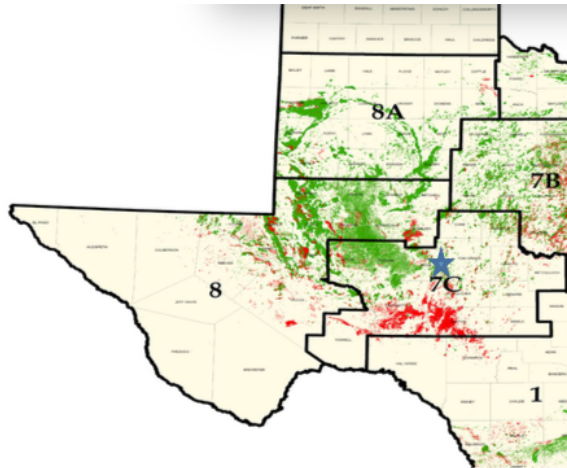


## Overview

**PERMIAN BASIN LEASES WITH PRODUCTION AND DEEP RIGHTS**  
**73MMBO EUR - DOUBLE OR TRIPLE 1100 BOPD PRODUCTION**  
**ONE OF BEST-OPERATED FIELDS IN TEXAS**

**\$165 MILION FOR 75% MAJORITY OWNERSHIP OF 8200 ACRES**



The Oil Field (herein referred to as the “Field” with location shown via the blue star above) is on the Howard County and Mitchell County line. The Field was discovered by Mobil in 1920s and subsequently assigned to the Operator’s predecessors. The Field has maintained production between 1,000 b/d and 3,000 b/d since then and still has 73 MMBO EUR remaining. The production efforts have focused upon only the shallow structural producing formations, but hold 5,000 net acres of deep rights including Wolfcamp and Cline formations.

The Field produces from 2 to 40 feet porosity stringers in fractured Permian age Clear Fork and San Andres dolomites of structures at 2300 to 3200 feet in depth. Reservoirs are a really discontinuous due to original depositional controls on porosity development and distribution. Pay zone reservoir parameters such as porosity and permeability vary from 4 to 17% and 0.1 to 120 md, respectively. There is good experience with positioning injectors and new wells to enhance the production from these formations. To access these EURs there is room for 250 Clearfork wells and 50 San Andres wells. There are 35 PUD Clearfork opportunities.

The Field is located in the main Clear Fork Production area as shown on the following diagram:

**MAIN CLEAR FORK PRODUCTION, PERMIAN BASIN**



There are about 8200 gross, 7500 net acres within the field, with better than 86% Net Revenue Interest. As stated, 5000 acres of full depth rights are held by production. This acreage has potential for the Wolfcamp and Cline Shale horizontal plays. There is a Wolfcamp structure on the acreage that produces as well, but the horizontal potential has not been accessed. Acreage in the Permian Basin has recently gone for as much as \$90,000 per acre. The value of the deep rights in this area approaches the asking price for the 75% interest. The knowledge of the Wolfcamp horizontal play in the Permian is well documented, but less is known of the Cline:

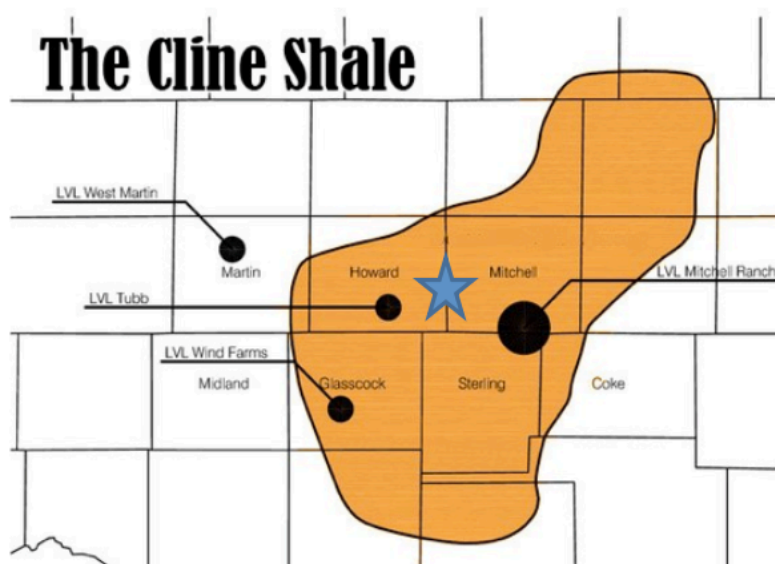
*Excerpt from the May 2012 issue of AAPG Explorer Magazine*

**The Cline Shale (also known as the Lower Wolfcamp)** lies over a very large area on the eastern shelf of the Permian Basin. The "Cline" is a localized name for the Pennsylvanian aged shale that some recognize as the D bench of the Permian aged Wolfcamp. Starting at the Wolfcamp A bench down to the bottom, Wolfcamp C bench, the rock has less carbonates. However, the underlying shale is interbedded with sand and silt, indicative of its depositional environment. The Cline source rock lies on a broad flat shelf, with very little relief. Total Organic Content (TOC), porosity, permeability, and OOIP are all fairly comparable in both the Wolfcamp and the Cline. Even though the Wolfcamp is thicker, which can be a driver for production in shale plays, it is the pressure and thermal maturity of the Cline that set it apart. The pressure gradient is around 0.55-0.65 psi/ft with an Ro value of 0.85-1.1%. Along with NGLs, this allows for a nice, light crude with an API gravity of 38-42 degrees, which some say is comparable to the Eagle Ford. The industry type curve for the Cline Shale is quoted at 420 Mboe EUR/well with 60% oil and a 30 day IP of 575 Boe/d with 75% oil.

**In short, the Cline** is an organic rich shale, with Total Organic Content (TOC) of 1-8%, with silt and sand beds mixed in. It lies in a broad shelf, with minimal relief and has nice light oil of 38-42 gravity with excellent porosity of 6-12% in thickness varying 200 to 550 feet thick.

**Counties included** in the shale are Fisher, Nolan, Sterling, Coke, Glasscock, Tom Green, Howard, Mitchell, Borden and Scurry.

This diagram shows the location of the horizontal Cline Shale Play:



The blue star shows the location of the Field within the Cline Shale Play. The Cline Shale Play is an oil shale play running 140 miles long and 70 miles wide. Devon Energy and Chesapeake Energy, two oil companies, reported figures based on the short amount of time they had to explore. Devon Energy's test wells show the shale contains 3.6 million barrels of recoverable oil per square mile. With about 9,800 square miles of Cline Shale, this would amount to more than 30 billion barrels of recoverable oil, exceeding both the Bakken fields in North Dakota and the Eagle Ford in Texas by nearly 50 percent.

Taking into account the projected 200 to 550 foot thickness of the Cline shale, this would be equivalent to having 10 Eagle Ford shales stacked on top of each other. The oil to dry gas ratio of the shale is also garnering attention, with the shale containing 85 percent oil and liquid-rich gas. The low operating costs in the basin are about 50 percent less than the Bakken. Acreage in this area has gone in excess \$30,000/net mineral acre, which yields a value of about the cost of this Program, without taking into consideration the shallow production and production potential of the shallow formations or EURs.

The Field is the subject of a multi-phase development Program to increase its production from the current 1100 barrels per day. The current production is principally from the vertical wells in the San Andres and Clear Fork formation. There is some current Wolfcamp formation production from a Wolfcamp high, but there have been no horizontal shale wells drilled on the deep acreage leases.

The first phase of the development program is to access a portion of this potential, consisting of: fracking the Clear Fork formation wells at 3000 feet; and drilling about twenty five additional vertical wells. The production is expected to double as a result of this first phase development. The cost of this first phase is estimated to be \$57 Million.

The Field is connected to Plains pipeline to Colorado City, Texas and by interconnects to the coast via Magellan East Houston, which in turn is connected to Beaumont and Port Arthur, Texas and St. James, Louisiana. The oil is committed to the pipeline for less than the six months.

The Operator is considered by many to be one of the very best independent operators in Texas. The Operator is open to continuing to operate with a 25% interest or would consider an outright sale.

This is a gloss, and a full evaluation of the field, updates and access to Petra files in the Operator's Dallas offices is available once an NDA is signed.

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