

# Drill Bits

Aresco News & Notes | Summer 2014



Dear Valued Partner,

I am pleased to share with you the summer edition of 'Drill Bits', our quarterly newsletter designed to provide a snapshot of our E&P and A&D efforts.

As weather is heating up across the nation, so is our activity and project development plans for the year. Most of you are aware of the oil and gas boom taking place in the great state of Texas and New Mexico. We are in fast-forward taking advantage of it! We are currently seated in three Permian Basin fields and we've just solidified a position to drill large horizontal wells in the Anadarko Basin!

After experiencing weather-related drilling delays through the first quarter, we are scheduled to drill three wells before the end of 2014. With the Perryton #1-H and the East Fowler #1 right around the corner, we are all getting excited about what's to come. We set out in January to expand our foothold in the best areas of the oil patch and as of today, we've achieved that goal and will continue to pursue additional acquisitions and drilling projects.

While summer is a busy time for exploration, we recognize that many of our partners will be taking time off to enjoy the season with family and friends. As a reminder, to stay informed when returning our call isn't easy, important project updates will be provided in our Partners Portal for your convenience.

We hope you all have a safe and happy summer and we look forward to updating you again in our next edition. Contact us anytime with questions or to learn more.

– Brandon Laxton, Founder & President

## Feature « Permian Basin: Economic Powerhouse

Energy booms power people. Texas derives fully one-third of its economic might and approximately 2.1 million jobs from the oil and gas industry, according to recent data. Oil and gas firms generated an estimated 389,000 high-quality, high-paying jobs in the Lone Star State in 2012, earning an average of \$128,100 annually. That compares to an average of \$54,995 per year for the rest of the private sector workforce.

But that's just the beginning. As a result of large purchases—as well as the high pay—the industry triggers substantial economic multiplier effects. These indirect gains account for another 1.8 million Texas jobs in supporting industries and consumer sectors, resulting in a total of over 2.1 million Texas jobs.

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Connect with us...

Our corporate page is listed on LinkedIn, Facebook, and Twitter as Aresco LP. For convenience, simply visit our website at [www.arescotx.com](http://www.arescotx.com) to connect.



## IN THIS ISSUE

FEATURE « Boom Stresses Expose Rich Permian Basin Opportunities

SPOTLIGHT « The Science Behind Drilling – Geo-chem Analysis

FIELD NOTES « East Fowler #1 Update

OPPORTUNITY OVERVIEW « Eastern Shelf of Midland Basin – Tannehill #1



## Immediate Opportunities

### Permian Basin – Tannehill #1

Dickens County, Texas

- Five Formations
  - Cummiled Production Potential
  - Low Drilling Cost / High Return Potential
- (continued on page 3)

### Andarko Basin – Perryton #1-H

Ochiltree County, Texas

- Horizontal Drilling in Conventional Formation
- Multi-Well Development Potential
- High Daily Production and Longevity Potential

(continued on page 2)

SOLD OUT

## Feature « Permian Basin: Economic Powerhouse, continued

The Permian Basin is driving the bulk of the Texas energy boom. More than 400 rigs dot the Permian Basin, or 1 in 10 worldwide. That compares to more than 200 rigs—or 1 in 20 worldwide—in the burgeoning Eagle Ford Shale formation. Outpacing Eagle Ford's production rate of 1.28 million barrels per day, the Permian Basin generates an average of 1.5 million barrels per day. The U.S. Energy Information Administration (EIA) predicts the Permian will expand production more than any other region in the U.S. through 2015.

In the core 10-county area of West Texas for 2012, the oil and natural gas industry has precipitated around \$14.5 billion in economic impacts, and generated 21,450 full-time jobs paying \$1 billion in salaries and benefits. According to the U.S. Bureau of Economic Analysis, the fastest growing metropolitan areas in the U.S. are Midland and Odessa. Last December, the unemployment rate in Midland plunged to 2.8 percent.

These economic and employment drivers will not abate anytime soon. According to a study by the University of Texas at San Antonio's Institute for Economic Development, those impacts in West Texas will surge to \$20.5 billion in 2022 and support 30,500 full-time jobs paying a staggering \$1.8 billion in wages, salaries and benefits. That's a *jobs increase* of 42.2 percent.

In addition, an abundance of inexpensive natural gas from Texas energy producing formations, such as the Permian, is fueling a manufacturing renaissance generating billions of dollars in new plant and equipment investments, as it lures thousands of well-paying jobs back from overseas.

Covering 55 counties in West Texas and southeast New Mexico, the Permian Basin is one of the oldest oil and gas producing areas in the U.S.

The first commercial well was drilled in 1921 and the area still contains large oil and gas reserves. Historical production from the area totals 29 billion barrels of oil and 75 billion cubic feet of gas.

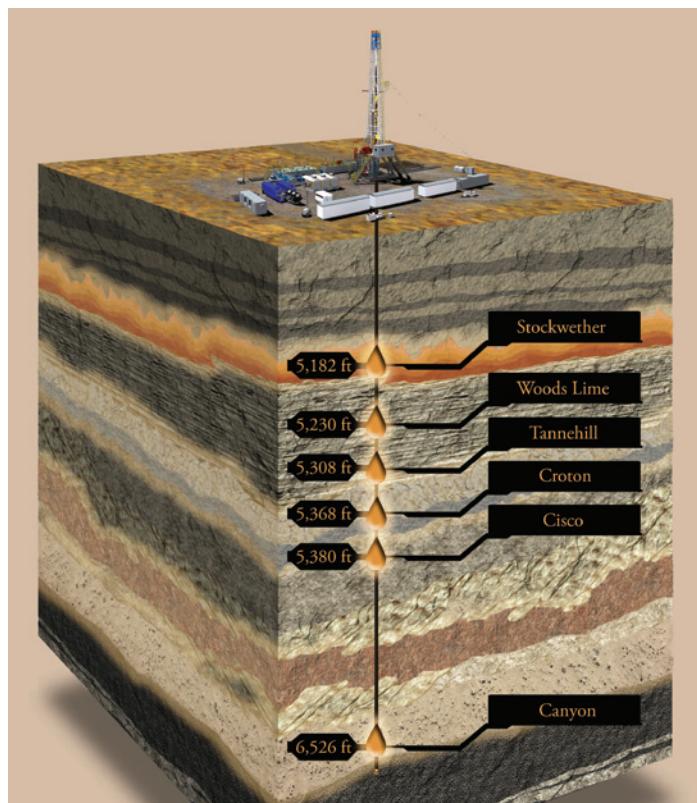
The Permian Basin represents a unique dynamic. While energy producing basins adhere to a typical life cycle—discovery, production, and gradual decline—the Permian Basin is experiencing a renaissance. Through the innovative application of technologies such as fracking and horizontal drilling, the industry is successfully extracting resources from areas long thought to be impractical or inaccessible.

*Example: New reserve estimates in the prolific Midland Basin's Spraberry/Wolfcamp hit 75 billion barrels of recoverable oil, up from 50 billion in 2013. In the Permian's Cline Shale field, spanning nearly 10,000 square miles and described as "10 Eagle Ford Shales stacked on top of each other," there is an estimated 3.6 million barrels of oil per square mile.*

In fact, the Cline Shale formation alone could turn out to be the largest North American oil play of all time, harboring the potential of an estimated 30 billion barrels of recoverable oil. And that spells continued job and economic growth for West Texas well into the future.

***Be sure to check out our blog and social media accounts at [www.arescotx.com](http://www.arescotx.com) for regular updates.***

***COMING SOON – Two Permian Basin projects targeting the Wolfberry and Spraberry Formations. Contact us to learn more. Limited Availability.***



## Opportunity Overview, continued

### **Permian Basin – Tannehill #1**

#### **Dickens County, Texas**

- Extensive geoscience including subsurface geological mapping, surface mapping, corehole data, landsat data, geomorphology, geochemistry, micromagnetism, magnetic susceptibility, and radiometrics
- Experienced geologist with proven oil-finding track record in Dickens County
- Relatively shallow depths of the primary and secondary formations result in lower cost drilling
- Multiple secondary opportunities including Woods limestone, Cisco/Canyon sandstones
- Existing oil & gas gathering infrastructure
- Rural area with no urban restrictions
- Estimated PRIMARY oil reserves up to 200,000 to 300,000 BOE per well

***For detailed information on this project, please give us a call at 972-992-3127.***

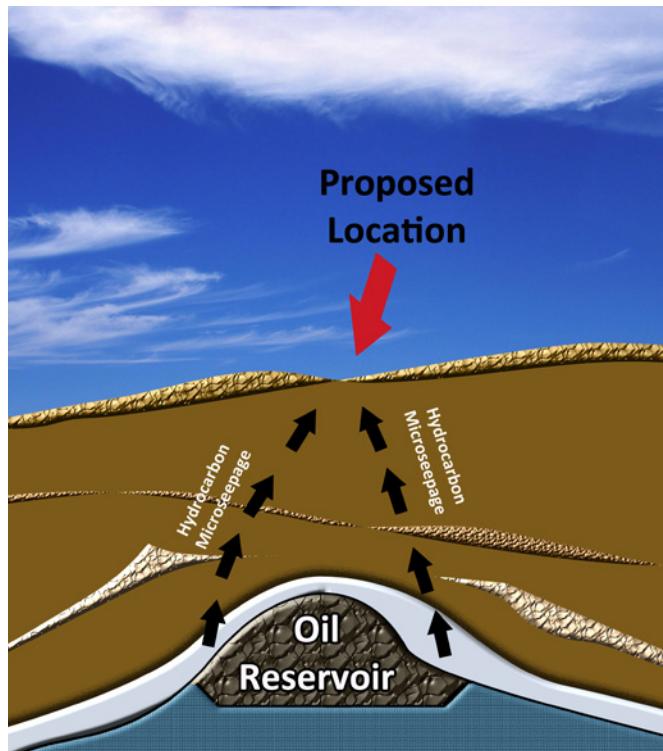
# Spotlight

The Science Behind Exploration AUTHOR: B. CANNON – TANNEHILL #1 GEOLOGIST

## Geo-Chem Analysis

Present day exploration of oil and gas requires a coordinated effort based on the successful integration of geophysics, geology and often geochemistry when available. Geo-chemical soil surveys can help E&P companies to substantially improve their success ratios in hydrocarbon exploration and reduce risk at all stages of the exploration cycle.

**Geo-chem analysis tests the soil in an area of interest, and looks for light hydrocarbon molecules. A methane reading indicates a gas reservoir, whereas an ethane reading indicates an oil reservoir. Once the soil samples are taken they are sent to the lab and tested. The sample with the highest reading is where the well will be drilled.**



## Geo-Chem Helps Improve Success Rates in the Field

Geochemical surveys contribute to increased discovery potential--a fact proven by comparing geochemical results with subsequent drilling.

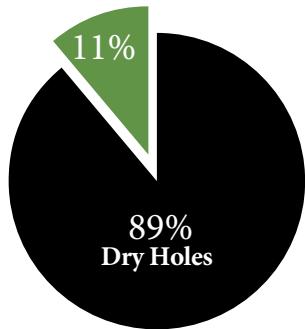
"A review of 2774 U.S. and international exploration wells--all drilled after completion of microseepage surveys--document that 82% of wells on prospects with microseepage anomaly were completed as oil or gas discoveries; in contrast only 11% of wells drilled on prospects with no seepage anomaly resulted in a discovery. When hydrocarbon microseepage data is properly acquired and interpreted, it can significantly reduce exploration and costs by improving success rates and shortening development timeline." (Source: D. Schumacher; search and discover article #400943 (2012)).

It should be noted that dry means dry or non-commercial; Discovery means the well resulted in a commercial discovery.

## Proven success using Geochemical Surveys

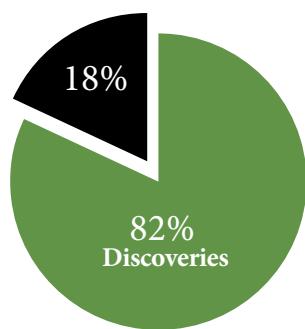
2,774 wells, various companies, various basins, various methods

### Negative Anomaly



1,430 Wells Drilled

### Positive Anomaly



1,344 Wells Drilled

Source: D. Schumacher; search and discovery article #400943 (2012)

## Opportunity Overview, continued

### Andarko Basin - Perryton #1-H (Ochiltree County, Texas)

SOLD OUT

The Perryton #1-H marks an exciting beginning of our E&P efforts in the Anadarko Basin. This exclusive project is fully funded and should begin drilling early summer 2014.

*From time-to-time I establish opportunities that allow a small group of Partners to participate in select targeted drilling projects with our operating partners. Because these projects have limited participation capacity, and often have immediate funding timelines, we do our best to match these opportunities with select Partners. These Partners have expressed interest in remaining positioned to take full advantage based on their investment objectives such as additional write offs, growth, and/or income. If you are interested in amplifying your oil and gas asset portfolio and would like to be kept informed, please contact me directly to learn more. -- Brandon Laxton, Founder & President*

# Field Notes...

Brandon Laxton, Aresco's Founder and President, spoke with the CEO of Spindletop in late May to get an update on the status of drilling schedule for East Fowler #1. Spindletop was happy to report that preparations are underway for location access road construction, which will be followed by the location build. Road/location crews, as well as the drillers, are getting back on schedule in the immediate area after enduring weather delays from January through March.

For those of you unaware, in each state where oil and gas exploration and production takes place there is a regulatory entity that oversees all oil and gas related activity. In Texas we have the Texas Railroad Commission (TXRRC) and in New Mexico, they have the State of New Mexico Oil Conservation Division (OCD). Being that our project is being drilled on federal land, hence the name of some of the previous wells like Fowler Federal and Greenback State, we've learned that the OCD likes to meet with Operators before work is done. Apparently, they request to meet Operators face to face to discuss proposed land work and operations. Although this isn't practiced in Texas, or any other state we are aware of, it makes sense given we are on Federal lands and that the state remains highly focused on conservation.

Once the work begins on the road, it will take approximately 30 days to conduct all necessary on-site meetings, complete the access road and build the padsite in preparation for the rig. With that said, it's estimated that drilling could commence sometime this summer.



## Aresco LP

*A continuing legacy of superior performance*

Aresco is a privately held exploration and production company actively engaged in developmental drilling, mineral leasing, and production acquisitions in conventional and unconventional oil plays throughout Texas. We specialize in production-driven projects designed to provide income stability and strong growth potential. Our trusted relationships with proven operators and prospect generators have resulted in a track record of successful prospects, asset acquisitions, and divestitures.

***For more information on our company, we invite you to visit our website.***

The screenshot shows the Aresco website homepage. At the top, there is a navigation bar with links for Home, About, Projects, Areas of Interest, Photos & Videos, Resources, News, Contact, and Partners. A "Partner Logout" button is also present. The main header features the Aresco logo and the tagline "A continuing legacy of superior performance". Below the header, a large banner image shows an oil rig at night. Overlaid on the banner are three hexagonal icons: one black containing "VISION", one orange containing "OPPORTUNITY", and one dark grey containing "DRIVE". To the left of the banner, the text "TARGETED OPPORTUNITIES" and "Drilling & Income Programs" is displayed. At the bottom of the page, there are three columns: "Texas Oil & Gas Investment Opportunities" (with a paragraph about energy production in Texas), "Featured Projects" (with a brief description of the current asset portfolio), and "Latest News" (with a link to the Gulf Coast Project Begins article).

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**Detailed information and updates regarding your partnership can be found by logging into Aresco's Partners Portal at [www.arescotx.com](http://www.arescotx.com)**

**If you have not received a username and password or if you have any issues logging into the website, please email: [admin@arescotx.com](mailto:admin@arescotx.com)**

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