

ENERGY, OIL & GAS

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Powering forward

HAVING RECENTLY MADE HORIZONTAL OIL AND NATURAL GAS DISCOVERIES IN LAWRENCE COUNTY, KENTUCKY, ENCORE ENERGY IS ENTERING 2022 WITH PLANS FOR GROWING BOTH PRODUCTION AND INCOME FOR INVESTORS



Energy

When considering alternative fuels, hydrogen is one of the innovations that requires investment, research and development

Carbon pricing

Support is growing for carbon pricing, but harmonizing a global system and disparate mechanisms will be a challenge

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- ◆ **Cable contract:** Nexans wins significant deal with Ocean Winds for Moray West windfarm

Exclusive Feature

Powering forward

With exciting new discoveries being explored and ambitious plans for future development, Encore Energy has positioned itself as an attractive proposition to qualified investors



Created just over a decade

ago, Encore Energy (Encore) is a small, independent oil and natural gas producer, located in the southeastern United States. Specializing in the horizontal drilling of what company President, CEO, Chairman and Founder Steve Stengell describes as 'shallow-tight oil and natural sandstone', the company is currently focusing its attention in the Berea sandstone oil and natural gas formation of Lawrence County, Kentucky. The horizontal Berea oilfield is the highest producing formation and oil production play in the Commonwealth.

As the most prominent oil play in Kentucky, the Berea reportedly yields an estimated 20 percent of the state's annual oil production,

making Lawrence County the number one oil producing county in Kentucky, in a state where more than 60 counties produce oil. With thousands of acres of land under agreement in Lawrence County, Encore's proven reserve position includes select tracts such as Peters Branch and Fallsburg that are located offset to existing proven oil fields. "We have recently made horizontal oil and natural gas discoveries in the Peters Branch area, and we are currently developing a natural gas transmission pipeline system, which will assist us in optimizing oil production and selling natural gas to the end purchaser," Steve reveals to *Energy, Oil & Gas*. "We also plan to drill multiple horizontal wells to optimize long-term production and reserves

for oil and natural gas. There are multiple off-set producing wells nearby to Encore's projects that have reported initial production rates of more than one hundred barrels of oil per day per well," added Steve.

The pipeline to which Steve referred is three miles long, and while natural gas is a secondary source of income for the company, it still offers a significant opportunity. "That project is currently underway and we anticipate it should be fully operational in the very near term," Steve states. "We are in the process of permitting to drill additional wells to go into that pipeline and we foresee as many as six horizontal wells producing into that pipeline eventually."

While the gas pipeline project clearly

represents a noteworthy part of the operations of Encore, oil remains its primary product, and extracting it from what is considered a 'tight oil play' requires innovative technology, dedicated staff and an experienced hand at the wheel. "We are utilizing 'state-of-the-industry' horizontal well technology and 'plug and perf' fracking technology to produce our oil, with our efforts focused on maximizing the reserve potential at each lease," Steve explains. "In addition to Peters Branch, we have a total of eight horizontal proposed drill site locations in Berea."

To ensure that it has the most experienced team on the ground, working in harmony with the best equipment and well service providers, Encore works exclusively with directional companies and contractors that specialize in horizontal drilling and fracking, and its projects feature extensive third-party geophysical/economic due diligence. The business is very proud of the relationships it has built with the 'good people' of East Kentucky, including mineral owners, landowners, contract drillers, geologists, well service companies, engineers and many other successful oil and gas operators, people and organizations across the state of Kentucky. It is also gratified to see the positive economic impact that its efforts are creating in some of the more rural and impoverished areas of Appalachia. Not only do qualified investors and mineral owners receive income and royalties from the production of oil and natural gas, the Commonwealth also receives additional income from the 4.5 percent severance tax, further creating and supporting many high-paying jobs for the region.

"The businesses we work with have very localized experience in shallow tight oil and natural gas plays," confirms Steve. Their expertise works in combination with his own impressive qualifications (an MBA from Western Kentucky University and graduate certification in reserves and evaluation from the Harold Vance Department of Petroleum Engineering at Texas A&M University) and his extensive career history in the oil and gas sector. Formerly the President and CEO of a highly successful, publicly-traded E & P Company with 50+ employees, Steve has comprehensive experience with oil and lease acquisition and production acquisitions, and has served as a keynote speaker at shale conferences and events. He also has broad investor relations and SEC compliance experience for private and public investors, and this is pertinent because Encore provides qualified high net worth investors with a niche



investment opportunity in the oil and natural gas industry. Steve gave some more details about why his business can be regarded as an interesting proposition. “What makes us unique, is that as we are a smaller, independent oil and gas operator, qualified, accredited investors participate directly with us, with no middlemen involved in the operations. We are the lease owner as well as the bonded operator for each project, so we can specialize in providing direct investment opportunities to high net worth, qualified investors. Encore’s horizontal projects are located in proven areas, and each proposed well is positioned off-set to existing horizontal Berea oil and natural gas production.

Steve emphasizes that investing in oil and gas is an undertaking that is suitable only for individuals who are sophisticated in making business and investment decisions, and are aware that these types of speculative investments are subject to a high degree of risk, uncertainty, unpredictability, indefinite delays, and potential loss of investment. To mitigate some of the risks, Encore ensures and verifies that all of its investors are SEC defined accredited, and Steve describes why this is important. “We operate in full compliance with all state and federal requirements,” he asserts, “as set forth by SEC Regulation D, Rule 506c. This rule from the SEC allows investors who qualify as an ‘SEC defined accredited investor’ to participate in direct projects with us. In addition to tax benefits and potential income, the long-term reserve value of each well project plays an important role in achieving the investment’s objective.

“It’s important to us that we make sure that our investors are qualified as required by the SEC, and we are dedicated to fully disclosing

risks associated with these projects. We are very transparent through all phases of operations to the qualified investor and the methodologies that we utilize to mitigate various types of risk. Making full material disclosure to each qualified investor is very important to us,” added Steve.

According to Steve, the approach that he and his team have adopted at Encore makes for ‘a better business relationship between Encore and its partners’. “When risks are appropriately disclosed to investors and those investors are properly qualified it makes for a more successful connection between the company and its investors,” he concurs.

Indeed, working very closely with investors is a priority for the business and Encore’s management team encourages each investor to tour Encore’s corporate office and its field operations in Kentucky to see the company’s processes, first-hand. Steve believes it is this overall company philosophy that sets Encore apart from the rest of the competition. “We are the operator and the developer and investors make their investments directly with us, so there is no participation with a brokerage firm or an investment company. This allows for better transparency, better real-time reporting and it actually slightly increases the benefit of the tax deduction, because there are no companies serving as middlemen in the process,” he reiterates.

Having referred to the tax implications of investing in oil and gas, Steve then went into explain some further specifics about how qualified SEC defined accredited investors are able to mitigate a good amount of the risk associated with oil and gas drilling, completion and production operations, through the gaining of quite generous tax benefits. The US government provides qualified industry investors with the ability to deduct nearly 100 percent of their investment in oil and gas against ordinary income in year one. “These tax savings can be quite lucrative, and are really huge in giving investors somewhat of a head start,” says Steve. “They can be deducted against all forms of active income, both state and federal, and can really provide major savings, especially in some states where the state and federal taxes collectively are 40-50 percent.”

The tax benefits can be gained in the first year, and investors can then expect to receive potential revenue for many years following. “Furthermore, investors can not only deduct nearly 100 percent of their investment in the first year, but also benefit from something called tax depletion,” Steve adds. Depletion allowance for

small producers (and investors) means that they pay zero tax on 15 percent of their production income. Alongside these substantial tax benefits, investors in Encore also gain the advantage that they will own a direct working interest in oil and natural gas wells, rather than energy company stock, which is at the mercy of the stock market. When it comes to the revenues, Encore oversees the distribution of monthly income to participants for the shipments and sales of oil and natural gas. As an operator, Encore receives payment directly from oil and gas purchasers, such as Ergon and the Kentucky Oil Refining Company. As compared to nonconventional shale plays across the US, the Berea produces a high quality refiner-preferred crude oil that demands a premium price. “We look to maximize income from production revenue, as well as maximize reserves and optimize production and their values long-term - much like a real-estate investment,” adds Steve.

Having worked in the oil and gas sector for his entire career and with experience in Texas, Oklahoma and now Kentucky, Steve has witnessed all the highs and lows that for which this market is known. EOG spoke to him right at the very end of 2021, and as he looked back at the past 12 months he reflected on this particular rollercoaster of more than a year, and the challenges that Covid-19 had wrought on the industry. “I could describe it as ‘the good, the bad and the ugly’,” he says, somewhat ruefully. “Like many other operators in the oil and gas industry, we have suffered from labor and equipment shortages, logistical problems, cost overruns and project delays, all caused by issues in the supply chain and the working environment. These were created by Covid and remain ongoing, despite higher prices for oil and natural gas.

“The silver lining - if you will - of this, is that many oil producers may not be as active as they were, or might even no longer be in business, and that means there are more opportunities becoming available during a time where oil prices are going up. In fact, I would describe this as an unprecedented time, because we have a really bright future for oil and natural gas prices, and we have the lowest level of activity we have ever seen under these types of price levels.”

Describing the current market conditions as ‘interesting’, Steve elaborated further on the significance of oil and gas prices and supply and demand – noting that these are always cyclical

Cautionary Statement

Oil and natural gas investments involve a high degree of risk, uncertainty, volatility, and are only suitable for SEC defined investors. Actual results may vary and are beyond the control of management. No assurances can be made as it relates to the production, income, reserves, well costs, timelines and other projected estimates.



in nature and also, that some people feel the current US administration has made decisions that created even higher domestic oil prices. “We currently have a supply and demand model where the rig counts for drilling are at record lows,” he says. “The US domestic oil production industry (as well as the global oil industry) is operating and producing at a deficit to the actual demand and needs of supply, and so what we are seeing, since we are not drilling enough wells to replace the decline from our current production, is that we have reached an environment where we, and other experts, are projecting much higher oil and natural gas prices in the short, near and long-term.”

Entering 2022 with increased confidence in its reserves and production potential and the belief that a strong recovery for the oil and gas sector is under way, now and in the years to come, Steve has a vision of growth for Encore over the next three to five years. “Once we drill and develop all of our existing horizontal Berea projects, I think we will see us moving onto reviewing and evaluating other similar shallow oil and natural gas plays across Kentucky and the Appalachian basin, some of which is already underway,” he finishes. “The overall objective for us going forward is to mitigate risk and grow production, income and reserve assets for our partners, long-term, while complying with all state and federal requirements and protecting the environment.”

For more information regarding Encore and its projects, please contact Steve Stengell at (270) 438-9956.

Encore Energy
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Services: Oil and gas
exploration and production
company