

How You Can Cash In on the *American Shale Renaissance*



We take comfort for granted.

Well, most of us do.

When we flip a light switch, we expect the light to come on. The refrigerator stays cold. The heater keeps us warm. Internet speeds are lightning fast. The car starts when you turn the key.

What would our day-to-day lives be like without the “simple” comforts?

Could you survive without running water, electricity, or use of a car?

The irony is the politicians would have you believe there are greater threats to your comforts, so they push “Green” energy bills to save the planet.

While there is a future for green energy, and it should be welcomed, the reckless pace being pushed by the politicians and social warriors could, ironically, send us back to the stone age first.

The dirty little secret they don't want you to know is green energy isn't so green. Even worse, it can be unreliable, dangerous, and even deadly!

I should know. In a time of great need, I not only watched the unreliability of green energy unfold, I survived it.

Maybe you saw it on the news or read about it on the internet.

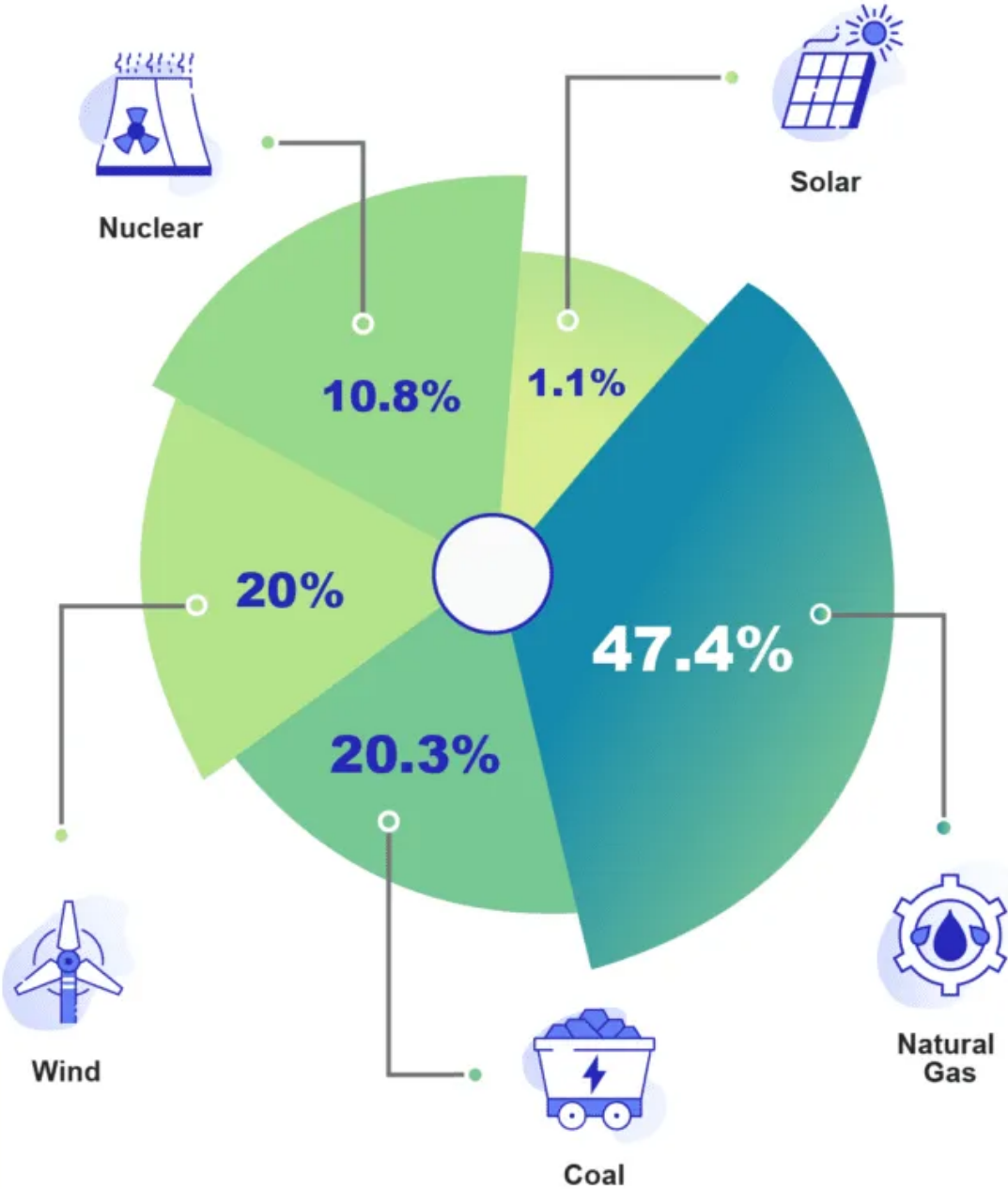
In February 2021, the unimaginable happened...

A blizzard in Texas.

Where I live in Austin, we're accustomed to the heat. The city is built for it, but when Mother Nature dumped more than six inches of snow, added another inch of ice from freezing rain, and topped it off with temperatures below freezing for days in a row, life, comfortable living, began to break down. Fast.

The massive Texas energy grid, an energy grid heavily reliant on green energy, crumbled. Natural gas and wind energy power most of Texas.

Where Does Texas Get Its Electricity From?



Unfortunately, the infrastructure isn't winterized against freezing temperatures, and those freezing temperatures triggered a massive failure of the Texas energy grid. The loss of power brought essential infrastructure resources like water and transportation to its knees.

Millions lost power, some for days. For many, their tap water wasn't considered safe to drink. Water needed to be boiled, but many lacked the power resources for their stoves.

Unfortunately, some folks took drastic measures like sleeping in running vehicles with the heater on... or burning wood furniture indoors to keep warm.

Sadly, the results for some, were deadly. They suffered from carbon monoxide poisoning.

In fact, in a three-day period during the storm, nearly 700 people visited the hospital with carbon monoxide poisoning.

But some didn't make it there...

A woman in Houston died in her car trying to keep warm. An elderly man in San Antonio died in his bedroom while an eleven-year-old child died from the cold while sleeping in his own bed.

It took only a few days of extreme weather to not only steal our day-to-day comforts in Texas, but also steal lives... all in the name of green energy.

If things continue to trend in the direction the politicians and the eco-warriors want to take you, the power grid's failure isn't just my problem or even a Texas problem.

It's a nationwide problem.

That means you may not only have to sacrifice the comforts of your everyday life, but risk it as well.

Already, the United States has more power outages than any other developed nation in the world. In the last three years alone, we've seen 292 power outages affecting 50,000 homes or more.

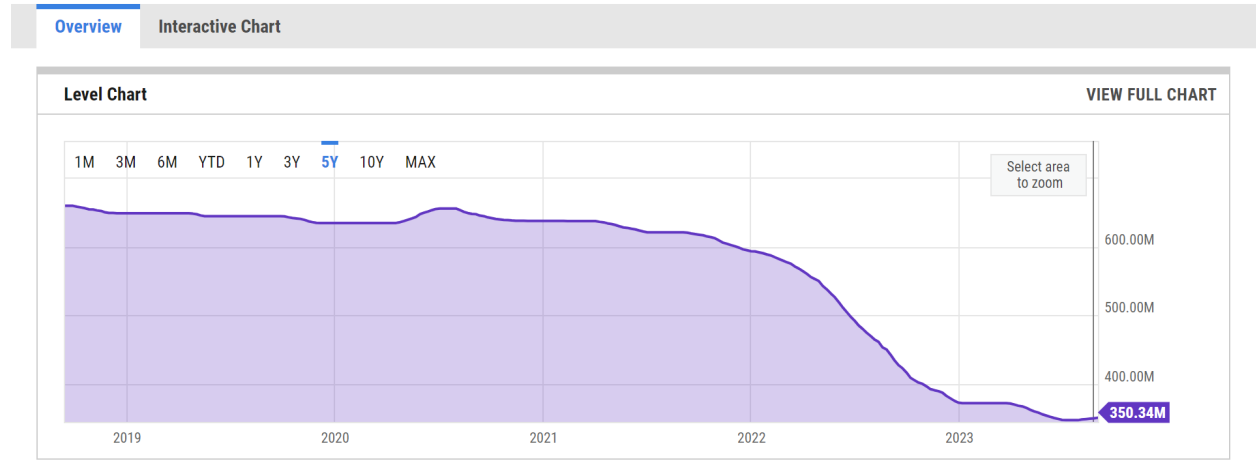
Between 2000 and 2002, there were only 37 such power outages. Power outage frequency has increased dramatically over the past couple of decades. It may be no coincidence it correlates to the continued increased use of green energy.

But it's not just a threat to your personal well-being, but also your economic one.

By vilifying the oil and gas industry while simultaneously forcing a zero carbon “green” strategy, the current administration is crushing our economy. A fossil-fuel based economy that once allowed the U.S. to proclaim itself the greatest economy in the world. The current administration has allowed the US Crude Oil Strategic Petroleum Reserves to fall to an alarmingly low level.

US Crude Oil in the Strategic Petroleum Reserve Stocks (I:USCOSPRE)

350.34M bbl for Wk of Sep 01 2023

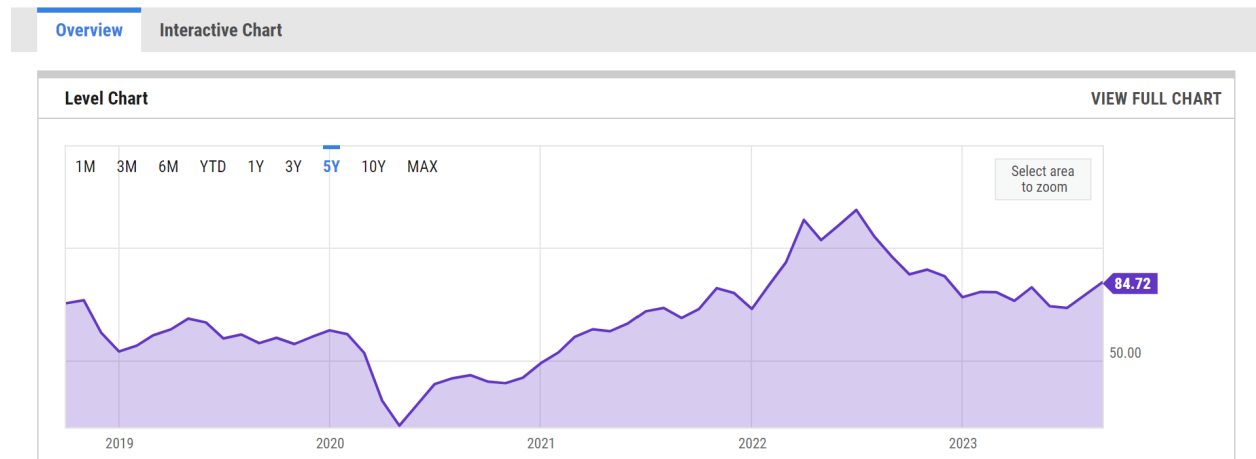


We now sit with nearly half the same reserves as we had just two years ago.

Now, compare that to the price of US Crude Oil over the same time frame.

Average Crude Oil Spot Price (I:ACOSP)

84.72 USD/bbl for Aug 2023



We're nearly critically low levels without a major spike in oil prices. It's not that prices haven't risen. We've seen a big rally since the lows in 2020, but the reserves never rose when prices crashed.

And now, we find our reserves depleted while oil is just beginning to climb.

The United States has lost a major tool to fight the effects of rising crude prices and their impact on the prices you pay at the pump.

While the current administration would have you believe oil is evil, the truth is the world needs low-carbon energy.

Acknowledging the need isn't enough. It needs to be affordable and secure. Putting up barriers to additional production, increasing the costs of current production, and moving too fast to implement green energy could cause disruption to the energy system in North America.

We already witnessed a near collapse of the Texas power grid that would have likely led to hundreds or thousands of deaths.

It's about balance.

With Presidential elections a little more than a year away, we could see a change in the White House. Fortunately, for the oil and gas industry, it can't get more challenging than the current administration, so a change at the top could create a strong catalyst for the industry.

Ironically, the Biden administration did approve a 30-year drilling project in Alaska's Beaufort Sea that would allow ConocoPhillips to drill for over 500 million barrels of oil.

Additionally, they have auctioned off 73 million acres of federal Gulf Coast water for drilling leases.

In other words, despite how outspoken this administration is against oil, they also realize the United States has a great need for the resource and a greater need for energy security.

The cold, hard truth is that without fossil fuels like crude oil, we'd be thrown back into the dark ages, both economically and physically.

But I'm not going to preach about the misgivings of the current administration. We've done that plenty at Streetlight over the past few years.

Instead, I want to tell you a story, one that may very well be a fairy tale for investors.

Our Story Begins

Not long ago, Ed Kovalik and Garry Hanna, came together with a goal of creating the next billion-dollar oil and gas company. It's a fantastic dream, but requires lots of communication seeking opportunities, so you can imagine both of these guys are busy.

In fact, Ed's phone rings all the time and he has a policy to always answer it whenever possible.

And when his phone rang one particular morning, he was never so happy to have that policy.

It was his business partner, Gary.

There was an opportunity in Colorado. Chevron screwed up. Majorly.

The deal was his. All he and his partner Gary had to do was come up with \$20 million.

Easy, right?

Couch Cushion Money

Putting together \$20 million isn't as easy as digging through the couch cushions for loose change.

Time was short.

Ed made a call of his own to an ally with deep pockets and an even deeper history of success:

Greg O'Neill

- 2011 - Wealth Executive of Year Nomination
- 2012 - Australian Entrepreneur of the Year Nomination
- 2013, 2014, 2015 - Social Media Power 50
- 2016 - Financial Services CEO of Year Winner
- 2019 - Medal of the Order of Australia

Greg worked as the CEO of La Trobe Financial, a company founded by his father in 1952. In 2022, La Trobe was sold for \$1.5 billion to Brookfield. It was then Greg resigned as the CEO and created Watermill Capital Partners, a private family office.

As you can see, we're not talking about some fly-by-night wildcatter.

We're talking about an executive, an entrepreneur, and a leader with a history of success.

After a conversation with Ed and a review of the opportunity, Greg agreed to invest \$20 million in Prairie Oil and Gas.

The Land Shark

The original call to Gary came from a “Land Shark.” This is a person that closely watches land rights, leasing permits, and mining rights on different properties throughout the United States.

After energy behemoth Chevron bought Noble Energy in 2020, the Land Shark watched a giant parcel of land Noble owned in Weld County, Colorado. Chevron valued the oil and gas leases on Noble’s property because they sat right in the middle of surrounding land which Chevron was actively drilling.

Chevron decided to lay off about 25% of Noble’s employees a week after the transaction closed. It didn’t take long before COVID wreaked havoc on the United States.

During the mess of lockdowns and shortages, the oil and gas leases in the DJ Basin of Weld County, Colorado expired.

The Land Shark jumped at the opportunity, acquiring oil and gas leaseholds on 23,485 net mineral acres and 37,159 gross acres of land previously held by Chevron.

Chevron quickly realized their mistake. They called the Land Shark and offered to buy the permits back.

Despite being offered millions of dollars more than he had just paid for the leases, the Land Shark turned down Chevron.

Instead, he chose to part with Prairie Oil and Gas. He even sold the leasing rights to the company at a rate below what Chevron offered, passing up fast millions!

You might think he’s nuts, but it’s exactly the opposite. The royalties, a share of all the revenue from the oil sold after it is pulled from the ground, could be worth tens of millions of dollars or more.

But a \$300 billion company like Chevron moves slowly. Eventually, they will drill the property in the DJ Basin, but it might be years, or even decades, before they do.

That means the Land Shark could be dead before Chevron drills.

Those royalties will do him no good in the grave.

The Deal

With money in hand, the Land Shark quickly came to terms with Prairie, a company he knows won't wait decades to drill.

It is also the reason Prairie could acquire the leaseholds at a discounted rate compared to what Chevron was willing to pay. A rare win-win situation for all the parties involved, the Land Shark, the Prairie executive team, the Prairie shareholders, and Greg O'Neill, the big financial backer.

As an investor, my heart skips a beat when I see a whale take a huge position like this in a small company.

As an analyst, my Spidey sense tingles.

Any time you have an investor take a \$20 million position with preferred stock and warrants; I immediately worry they could negatively impact a stock price with a click of the sell button.

However, after digging into the S-1/A filing, the regulatory filing with the details of the deal, I discovered the structure of the offering is genius. Based on what I've read, Mr. O'Neill, the major investor in this deal, is in this for the long haul, much like the Land Shark.

The only clear paths to him making a significant return on his \$20 million investment are two-fold:

1. Prairie is acquired for a significant premium to its current valuation, the same valuation you can buy shares at today.
2. Prairie spends the next decade pulling tens of thousands of barrels of oil from the ground each month, which would result in a significant increase in the company's valuation.

In other words, he won't win big unless you, the shareholder, wins big.

It's rare to find these deals in the public or private markets. It's even rarer to find them at this valuation.

When you have a property like this, you need the right team to execute the business plan.

Prairie's C-suite is loaded with experience and success, but what makes this land so special?

Crude Capital, USA

The acreage in play lies in the Denver-Julesburg Basin, better known as the DJ Basin. It has been producing crude for over 70, now at a rate of over 500,000 barrels per day.

That's roughly \$40 million of revenue per day, every day, flowing from the grounds of the DJ Basin. It is one of the most sought-after areas in the entire world in my opinion.

The area surrounding the DJ Basin is very rural, so both Weld County and the state of Colorado welcome drillers.

They've welcomed some of the biggest producers in the world, including Chevron, Occidental Petroleum, Civitas, and EOG Resources. In fact, the Prairie property sits adjacent to active Chevron oil property.

With all these large companies actively pulling oil from the ground, the ability to move oil, or what the industry calls "takeaway," is plentiful. Sometimes, oil drillers can locate plentiful reserves, but the cost and easy to move the oil to a refinery makes it economically disadvantaged.

Prairie faces no challenges moving their oil.

Management anticipates the company will be able to draw 10,000 barrels per day from the ground, starting in 2025. By 2032, they anticipate that number will be closer to 17,000 barrels.

Simply looking at the 2025 estimates, that means the company could be generating \$750,000 per DAY in revenue.

Over a year's time, that's roughly \$275 million in revenue.

Peers like Occidental, EOG Resources, and Civitas trade in the range of 2 to 3 times sales. Even if Ed and Garry only reach half their goal, Prairie Oil and Gas would be worth \$275 million by the end of 2025. If the company hits its goal, then its valuation could be well over a half billion within the next 30 months.

That's eight times the current valuation.

And this isn't a one-shot deal. Prairie anticipates drilling multiple holes into a proven reserve. Fortunately, it has the financials to do it.

A Black Gold Balance Sheet

Prairie carries with it no debt.

Let me say that again. The company has no debt.

It's a huge advantage. So many small and mid-sized drillers are burdened with debt in an environment where interest rates are rising and refinancing debt is crippling, if not impossible.

The fact that Ed and Garry were able to acquire the DJ Basin property at a discount also means the company boasts a strong book value. There is equity in the oil and gas leasehold rights. Right, we know, Chevron once owned and already tried to reacquire.

That means there will be ample opportunity for Prairie to acquire additional small to mid-sized oil producing properties. Seizing more opportunities like the original purchase, or even a property already cash flow positive, could catapult the company's valuation even faster.

Small Fish in a Big Pond

Normally, being a small fish in a big pond is a bad thing. There are too many bigger creatures that can gobble you up. In this case, that's exactly what I expect to happen...

But not at first.

As I mentioned, with their strong balance sheet and financial backing, I anticipate Prairie will acquire other similar size producers.

The best part is, with or without additional acquisitions, I am confident Prairie's position in the DJ Basin will make it attractive to the bigger fish. We already know Chevron tried to repurchase the leasehold rights, but it goes well beyond that.

Chevron also paid \$6.3 billion earlier this year to acquire PDC Energy, providing it with significant assets in the DJ Basin.

And don't forget, Chevron bought Noble Energy for \$5 billion in 2020 for its first entry into the DJ Basin. A portion of those assets they purchased are now in the hands of Prairie.

Earlier this year, Civitas bought DJ Basin operator Bison Oil and Gas for \$346 million. Two years earlier, the company acquired Crestone Peak Resources in the same region. This comes after the combination of Bonanza Creek Energy and Extraction Oil and Gas to create Civitas.

In other words, Civitas is an acquisition-based company centered in the DJ Basin and looking to grow both within the Basin and externally. It actually provides a solid roadmap for Prairie to copy, assuming Civitas doesn't buy them out first.

My first thought is Chevron will get more aggressive in its bid to correct a possible billion-dollar mistake. That's what I would do.

It doesn't hurt that Prairie's land sits directly adjacent to Chevron's territory in the DJ Basin, making for an easy acquisition.

To reach the goal of being a multi-billion company, it takes more than just being in the right place at the right time. A company needs management that can execute their strategy and deliver on promises.

Management

This is a team seasoned in not only the oil and gas industry, but also the capital structure, operations of a new enterprise, and financial markets. It's difficult to find such an extensive list of experience in all the needed areas of a business.

We've already seen them execute a flawless transaction to acquire significant oil and gas leaseholds in one of the best locations in the world.

And at a discount to market value!

Let's take a look at the key players on the Prairie team.

Garry Hanna, Founder

Having served as the president and CEO of KLR Energy, Garry alone has more than 40 years of experience in oil exploration, development, and production. It's worth noting that KLR Energy itself reached a production level of 22,000 barrels of oil equivalent per day (BOEPD), which is huge. And it's also significant that Garry was part of the leadership team at EPL Oil & Gas, which sold for \$2.4 billion in an all-cash deal. Garry knows oil and he knows how to grow oil companies and get them sold. Indeed, as president and CEO of Maritech, he took the company's market capitalization from \$150 million to \$2.5 BILLION.

Ed Kovalik, Co-Founder

Alongside Garry, Ed brings a whole different kind of experience to the board — and an edge that really stands Prairie out from the crowd. You see, Ed served as a managing member of what's known as the KLR Group. It's a merchant bank focused on the energy sector. The role has given him a huge amount of experience in founding oil and gas companies, which included a SPAC that the KLR Group founded that acquired and built Rosehill Resources, who has had enormous success in the Permian basin.

Bryan Freeman, Executive Operations Engineer

As the Senior Vice President of Drilling and Completions at Rosehill Resources, Bryan was able to manage the execution of the company's huge \$750 million

capex program over three years. Before then, he was the Production & Operation Engineering Manager for SM Energy, leading an 82-person team and three frac fleets. He's worked at Hess and at Chevron as well.

You've probably heard the saying, it's better to be lucky than good.

It's true, Ed and Garry were lucky to be in the right place at the right time for Prairie shareholders.

But...

They were good enough to outmaneuver a \$300 billion behemoth to strike black gold.

In this case, it's best to be lucky AND good.

Putting It All Together

No start-up company is perfect, but Prairie checks so many boxes for me, it offers a top tier reward potential against the risk.

MARKET DEMAND

We only have to glance back to the earlier chart showcasing the rising price of oil and the plummeting strategic oil reserves for the United States.

The US Energy Information Administration (EIA) released a report in late July 2023 where it forecasted demand will be greater than supply, potentially pushing crude oil prices ever higher.

RISK MANAGEMENT

Prairie purchased oil and gas leasehold rights on 23,485 net mineral acres holding proven reserves. The land sits in the heart of the DJ Basin, a region producing over 500,000 barrels of oil per day.

Management intends to use a multi-hole drilling approach. That means if one well produces less than expected results, it won't put the whole company at risk of failure.

FISCAL RESPONSIBILITY

Prairie avoided the use of debt to complete their acquisition and maintains a balance sheet that remains debt free. This provides the flexibility to obtain attractive financing, pursue accretive acquisitions, and to be acquired at an attractive premium to the current valuation.

SIGNIFICANT CAPITAL APPRECIATION POTENTIAL

Based on management's projections of production reaching 10,000 barrels per day in 2024, Prairie's valuation could quickly increase five-to-ten-fold the current valuation.

And that's taking a conservative view, using 1 to 2 times price-to-sales of its larger competitors. Those competitors lack the growth rate and upside potential of Prairie because they are laden with debt and/or focus on paying low single-digit dividends. That strong growth also makes Prairie an attractive acquisition target to bigger, slower moving oil and gas giants. A purchase could either be immediately accretive or provide the purchaser with assets in the DJ Basin.

Don't forget, Prairie's acreage sits adjacent to Chevron's DJ Basin properties. Not to mention, Chevron used to own the permit rights to drill on Prairie's acreage before they mistakenly allowed the permits to expire without renewing.

Conclusion

Prairie isn't without risk. As an oil and gas company, it will always be subject to Federal regulation. Administration policy can impact the price of oil or where it can be sold, but Prairie resides in the very oil friendly Weld County, Colorado, so I view the risk as much lower than many other parts of the country.

And there is no sovereign risk, so that's a big positive for Prairie.

All start-ups carry execution risk, and Prairie is no different. Fortunately, the company has management with significant experience and success in the industry. If management were to change, then we would reevaluate this risk, but as it stands now, I believe management is a strength, and not a risk or weakness, for Prairie.

Although I believe management can execute on their plan, grow the company through acquisition, and become a major player in the DJ Basin, I don't believe they will get the chance to fully execute.

And it's not because they will fail, but quite the opposite.

Early growth and early success will result in one of the major players in the DJ Basin breaking open their checkbook and paying a huge premium to purchase Prairie.

Whether through acquisition or execution, the rewards appear to significantly outweigh the risks of a young company, making Prairie Operating Company an attractive under-the-radar opportunity.

If you believe Prairie Operating Company (OTC: CRKRD) warrants a position in your portfolio, I recommend you consult your financial advisor to determine if an investment in the stock is appropriate for you.

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