

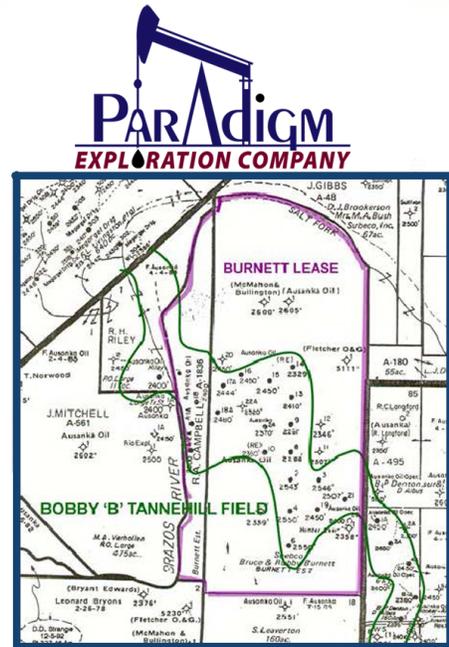
# Paradigm Exploration Company

## Eastern Shelf Waterflood Project For Sale

Burnett Estate (operations) plus 987 Leasehold Acres  
Bobby B (Tannehill) Field  
Knox County, Texas (6 miles NW of Knox City)

### Property Highlights:

- 100.00% WI, 78.00% NRI
  - 4 Producing Wells
  - 14 Inactive Wells, most of which have pumping units
  - 1 Active Injection Well
- Tannehill A and Tannehill B production from 2,200'-2,300'
- 6-Month Average 8/8ths Production: 6 BOPD
- 6-Month Target 8/8ths Production from re-works: 25 BOPD
- 129,111 Bbbls Net Proved Reserves (NPV of \$1.5 million)
- 453,831 Bbbls Net Probable Water Flood Reserves (NPV of \$7.6 million)
- Comprehensive electronic data room
- Includes full complement of well service equipment:
  - Single-double Franks telescoping double drum well service rig
  - 80-bbl vacuum truck
  - 5-ton and 1-ton gin pole trucks, dump truck, backhoe
  - wash & acidizing trailer, welding trailer, pipe trailer, steam trailer
  - 54' box trailer converted to shop & air conditioned office
  - 1,020 bbls of oil tanks and 900 bbls of water tanks



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### Burnett Lease Remediation and Waterflood Project, Knox County, Texas As of November 2018

We own a 100% Working Interest (78% net revenue interest) in a 973-acre oil, gas and mineral lease from the Burnett Estate, et al, in Knox County, Texas (the "Burnett Lease") in and around the Bobby B (Tannehill) field at a depth of 2,200'. The lease does not have a Pugh clause and a single commercial well holds the entire lease. It is located 6-1/2 miles NW of Knox City, Texas on the southern side of a bend in the South Fork of the Brazos River.

When we purchased the Burnett Lease in 2013, there were eighteen oil wells (sixteen of which were shut in), a water injection well, two tank batteries, and related equipment. We worked over and returned six of the shut in wells to production and began designing a secondary recovery system. One of the six was converted to a water injection well. Low oil prices during 2015 and 2016 caused us to shut down most of our operations on the Burnett Lease. During that period a contractor spilled oil in a tank battery dike causing the Railroad Commission to require a full remediation of the battery. We constructed a new battery pad, remediated the old battery pad and successfully moved three 300-barrel water tanks and two oil tanks to the new battery location. With the recent stabilization of prices we started resuming activities, and as of the date above have three wells on line making 5 barrels per day, with four more pump changes and wash jobs planned in the coming weeks. We see every reason to believe the field can be restored to more than 25 barrels per day from the existing wells without drilling new wells. Additional wells drilled to fill out the water flood spacing would increase the primary production rate even before water injection is begun. We estimate that the total capital cost for continued remediation and water flood will be approximately \$500,000. Our total investment to date in the properties, inventory and well service equipment is approximately \$1,500,000 before depreciation, depletion and amortization.

### **Well Service Equipment Inventory (Included in the Purchase Price)**

Franks double drum, single double well service rig with sand line and power tongs (7,000' capacity)  
Vacuum Truck with 80-bbl capacity  
High volume wash and acidizing trailer with well service rig connections  
International 5-ton gin pole truck with single pole extension for pulling rods  
GM 1-ton gin pole and welding truck  
1-ton dump truck  
Welding trailer, Pipe trailer, Steam pressure wash trailer  
Echometer  
High pressure compressor  
Portable shop and office box trailer (air conditioned)  
Tools, spare parts, jet nozzle  
2500' 2-3/8 tubing work string

### **Production Equipment Inventory**

3-300 bbl fiberglass water tanks, recently lifted and inspected  
1-300 bbl steel oil production tank  
1-300 bbl steel oil sales tank  
1-210 bbl steel oil production tank  
1-210 bbl steel oil production test tank, skid mounted  
Oil-water separator  
Salt water injection pump  
Transfer pump and 1.5-mile transfer line, production battery to sales tank near county road  
3000' 4-1/2" production casing  
3000' 2-3/8" production tubing  
3000' 3/4" production rods  
150 joints construction grade tubing  
150 construction grade rods  
1-size 160 pumping unit located at well  
10-size 57 pumping units located at wells  
9-size 57 and size 40 pumping units in yard

**Initial Discovery and Development.** The Bobby B Field developed from an exploratory prospect generated by Billy J. Wilson, our consulting engineer and geologist, and drilled in 1978 by an independent oil and gas operator. The idea was formulated on a large structure that was mapped on two shallow formations. The first well was a dry hole with shows of oil, in the deeper Tannehill Sand formation. The second well drilled was the discovery well. After five years of drilling the Bobby B area, more than 40 productive wells in several different fields were found in a meandering Tannehill Channel system. The operator, Frank Ausanka, got the Burnett Lease up to a maximum of 450 barrels per day average during one month in 1985 and sustained 250 barrels per day average for the whole year. As Frank aged and oil prices declined in the last five years of the 1980's, the lease production also declined significantly. Following Frank's death in the early 1990's, the lease changed hands every year or two and was operated on a shoe-string by locals. Regular well maintenance was spotty at best until we took over and began our remediation project.

**Regional Geology.** The Tannehill is a Permian Age sandstone pay at a depth of 2,200'. During the early Permian, erosion from the Wichita Mountain uplift brought material from the North and deposited the Tannehill sands along the Eastern Shelf. This regression of the Permian sea developed the Knox-Baylor basin, and was a major sediment conduit for the Tannehill Sand. This conduit deposited sand in a fluvial meander belt, pre-delta, deltaic and pro-delta environment over five counties in Central Texas. As sea level fluctuated from transgression and regression of the Permian seas, prograding deltas and fluvial channels formed. This large deltaic system formed many oil traps, as the Permian sea transgressed and regressed this action caused the channel system to drop its load of sand and sediment. Shale was then deposited on these sand bodies and became the source rock and the trap for the Tannehill oil.

**Production.** Production on the Burnett Lease comes from two different Tannehill Sands, the "A Sand" and the "B Sand". The deposition of the B sand appears to be more of a pro-delta deposit, instead of a channel deposit. The A Sand exhibits the characteristics of a solution gas drive reservoir and the B Sand exhibits the characteristics of a water drive reservoir. With the two different reservoir characteristics and apparently different geologic settings,

staying in the A Sand channel and B Sand pro-delta was a challenge during the development drilling phase. The Bobby B Field (in the two Tannehill Sands) was ultimately delimited by 27 producers and 10 dry holes. Through September 2018, the Bobby B Field has produced 1,192,921 barrels of oil out of the A Sand and the B Sand, of which 559,961 barrels were produced from the 973 acres we hold. Because two zones were commingled early in economic life, there is limited data upon which to base an allocation of the production between the two sands.

**Waterflood Potential.** Isopach maps constructed at the end of most of the drilling in 1984 were used to calculate original oil in place and the possible ultimate oil recovery on the Burnett Estate Lease. The consulting engineer estimated 3,800,000 barrels original oil in place for the A Sand. Based on examination of the logs and 35 years of well files, he concluded that the B Sand was more likely than not to have contained 1,900,000 barrels of original oil in place, for a total OOIP of 5.7 million barrels on our lease. Tannehill channel sands in the Knox-Baylor Basin generally exhibit 25%-30% recovery from primary and secondary production, a rate that would indicate 1.4-1.7 million barrels of ultimate recovery from our lease. For our reserves and economics we have used expected ultimate recovery of 1.3 million barrels (23% of OOIP), split 720,000 barrels primary and 580,000 barrels secondary. Taking the cumulative production as of the end of September 2018 (559,961 barrels) from the expected primary leaves us with approximately 160,000 barrels remaining gross primary reserves.

**Exploratory Potential.** An interesting note is the possibility of a deeper pay zone below the Tannehill Sands on the acreage being operated. A very persistent North-South structural high could be seen in all of the shallow beds that might be reflective of a deeper anticline that should be tested down to the Strawn formation at about 5,000'. The five Strawn fields that we reviewed in Knox County have already produced an average of 163,000 barrels each with the range being from 94,000 to 308,000 barrels. The Katz (Strawn) field, 12 miles to the southwest, has produced 47.5 million barrels, almost 9 million barrels of which were produced from a carbon dioxide flood that commenced in 2010.

**Remaining Bobby B Field Potential.** Once we complete the remediation of the Burnett Lease and initiate its water flood operations, we can move over to the eastern and western edges by drilling new wells to the east and purchasing the western wells for remediation and water flood. If log analysis and isopach maps show similar calculations for original oil in place on the edge leases, then we might have two more similar projects to pursue with the combined objectives of adding another 600,000 barrels of recovery.

**Other Tannehill Field Remediation and Water Flood Projects.** There are 29 Tannehill fields in Knox County with cumulative production in excess of 200,000 barrels each, 13 of which have produced more than 500,000 barrels each. Of the 13, we own the gut of Bobby B and have immediate access to another that has already produced over 900,000 barrels. Of the remaining 11, five have already undergone water flood operations with secondary recoveries up to 80% of primary recoveries. This leaves six large fields and 16 smaller fields we can study and obtain leases for remediation and water flood projects.

**Reserves Report.** Based on the best information to date, a reserves report as of January 1, 2018 was prepared by our registered professional engineer. The engineering report (summary attached) estimates net proved reserves of 129,111 barrels of oil with an **after tax** net present value of \$1.5 million at 7.5% discounted cash flow rate. The probable net reserves from the water flood is 453,831 barrels of oil with 7.5% **after tax** net present value of \$8.2 million. This report was based upon the oil price at January 29, 2018, substantially the same as the current price.

**Data Room.** All the well files, logs, railroad commission filings, geologic studies, cross-sections, maps and other related data have been uploaded to a secure data room on our website. Access is available to any prospective purchaser who can demonstrate ability to purchase (i.e., no tire kickers or intermediaries).

**Trade Terms.** We are selling 100% working interest in the lease, production equipment, inventory and all the well service equipment. We can sell the assets only, or can sell the whole company, free from debt. A purchaser of the corporation might be able to take advantage of the \$3 million tax loss carry forward because of our unique structure and the relationship between the preferred shares and the common shares. We are willing to enter into an option agreement, to give the purchaser time to raise the money to make the purchase. Purchaser will agree to employ the current field supervisor/mechanic, rig operator/supervisor and one rig hand/pumper for at least twelve months as independent contractors at \$9,000 per month (in the aggregate for the three workers) for 40-hr work weeks.

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**SUMMARY OF OIL RESERVES  
BURNETT ESTATE LEASE  
BOBBY B FIELD, KNOX COUNTY, TEXAS  
AS OF JANUARY 1, 2018**

	<b>Proved Developed Producing</b>	<b>Proved Developed Nonproducing</b>	<b>Proved Undeveloped</b>	<b>Total Proved</b>	<b>Water Flood Probable</b>	<b>Proved and Probable</b>
<b>Knox County, TX</b>						
<b>Reserves (bbls)</b>						
Bobby B Gross Reserves	63,125	63,125	37,078	163,327	581,835	745,162
<b>Total Net Reserves</b>	<b>49,237</b>	<b>49,237</b>	<b>30,636</b>	<b>129,111</b>	<b>453,831</b>	<b>582,942</b>
Net future revenues	\$2,603,463	\$2,603,463	\$1,624,177	\$6,831,103	\$23,748,519	\$30,579,622
Net future production costs	(1,484,480)	(1,321,975)	(669,794)	(3,476,248)	(7,372,496)	(10,848,744)
Net future development costs	-	(40,000)	(100,000)	(140,000)	(450,000)	(690,000)
Net future net cash flows before income taxes	\$1,118,983	\$1,241,489	\$854,384	\$3,214,855	\$15,926,023	\$19,140,879
Net future income taxes	(149,827)	(174,504)	(133,509)	(457,840)	(2,620,012)	(3,077,851)
<b>Net future net cash flows after income taxes</b>	<b>\$969,156</b>	<b>\$1,066,985</b>	<b>\$720,875</b>	<b>\$2,757,015</b>	<b>\$13,306,012</b>	<b>\$16,063,027</b>
Discount at 10% per annum	(525,516)	(586,915)	(357,253)	(1,469,685)	(6,979,902)	(8,449,587)
<b>Standardized measure of discounted future net cash flows relating to proved oil reserves</b>	<b><u>\$443,640</u></b>	<b><u>\$480,070</u></b>	<b><u>\$363,621</u></b>	<b><u>\$1,287,331</u></b>	<b><u>\$6,326,110</u></b>	<b><u>\$7,613,441</u></b>
Discount at 5% per annum	(370,689)	(415,340)	(237,055)	(1,023,084)	(4,514,457)	(5,537,541)
<b>Adjusted measure of discounted future net cash flows relating to proved oil reserves</b>	<b><u>\$598,467</u></b>	<b><u>\$651,645</u></b>	<b><u>\$483,820</u></b>	<b><u>\$1,733,931</u></b>	<b><u>\$8,791,554</u></b>	<b><u>\$10,525,486</u></b>