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Executive Overview

Project Opportunity

CONFIDENTIAL EXECUTIVE OVERVIEW FOR ACCREDITED INVESTORS ONLY

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The date of this Overview is: **September 23, 2017**

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SUMMARY

Purpose The purpose of this Overview is to explain the potential merits of forming two limited liability companies (LLCs) to engage in 1) the acquisition of oil well servicing equipment for lease to 2) an operating services company that will service oil wells located in and around Odessa/Midland, Texas.

Company Structure TBD Holdings, LLC ("**Asset Co**") to be formed for the purpose of purchasing 10 land-based oil well servicing rigs and related equipment ("**Oil Rigs**"). Oil Rigs are projected to be acquired over a 4-6 month period for at total cost of \$9.5 million.

Asset Co will lease the Oil Rigs to JLN Energy Services, LLC, ("**Service Co**"), operator of the Oil Rigs. Service Co will engage approximately 46 employees for the operation of the leased land-based oil wells.

Asset Co will also provide a \$500,000 Working Capital line of credit for the purpose of satisfying basic start-up costs and bridging 90 days operating expenses until receivables begin a normal collection cycle.

Total financial contribution by Asset Co is **\$10 million**.

Cross-ownership It is anticipated that Asset Co will own 49% of Service Co with the remaining 51% (majority interest) owned by its CEO and General Manager.

Financing Overview Capital lease payments for the Oil Rigs will be amortized equally over a 36 month period and carry an annual interest rate of 12.0% on the outstanding balance. At the end of the 36-month lease, Service Co will purchase leased equipment from Asset Co at a to-be-determined nominal amount i.e. \$1.

Working Capital line of credit will also carry an annual interest of 12% and is projected to be repaid in twelve (12) equal installments beginning six months from drawdown.

Projected Return The projected 36-month Post-tax IRR is in excess of 13% with

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positive cash flow to investors by the end of month thirty-two (32).
Five-year post-tax IRR of 24%.

Financial Overview

It is projected that Service Co will generate:

| | |
|-------------------|----------------------|
| Annual revenues | \$8.5 - 10.8 million |
| Operating profits | \$5.0 - 6.2 million |
| EBITDA | \$4.5 - 5.7 million |
| Debt Service | \$3.5 - 4.0 million |

Distributions

Cash & Capital
Distributions

Distributions by Service Co to its partners will be made in the following order:

- 1) EBITDA to be allocated to repayment of interest to Asset Co for leased assets and working capital line of credit; then
- 2) Amounts to satisfy tax obligations of limited partners in accordance with equity ownership interests; then
- 3) Principal payments for leased equipment and working capital balances.
- 4) After the full and complete satisfaction of outstanding lease payment obligations, future partnership distributions are to be made in accordance with equity ownership interests i.e., 49% to Asset Co, 51% Management.

RISK FACTORS

- Competition is great by both independent service companies and nationally recognized companies with substantially more resources and experience.
- An inability or delay in acquiring requisite equipment.
- We may not be able to attain requisite insurance at costs described.
- Vulnerability to the risks associated with rapid growth.
- Operations are subject to the hazards inherent to the energy services businesses.
- Potential for legal challenges from the present employer of future Service Co employees.
- Investor legal, and tax considerations, if any, are not contemplated herein.

BUSINESS

The economy of the area is heavily dependent on the petroleum industry and has experienced a series of booms and busts as the price of crude oil has fluctuated. The Permian Basin is the source of the New York Mercantile Exchange's benchmark West Texas Intermediate Crude. Traditionally, the core cities of Midland and Odessa have played very distinct roles in the petroleum industry. In even-numbered years, Odessa hosts the Permian Basin International Oil Show—the world's largest inland petroleum exposition—at the Ector County Coliseum.



Midland-Odessa is well positioned to become an energy nexus for the region and for the United States as a whole. The recent high price of crude oil has led to a significant economic boom in the area.

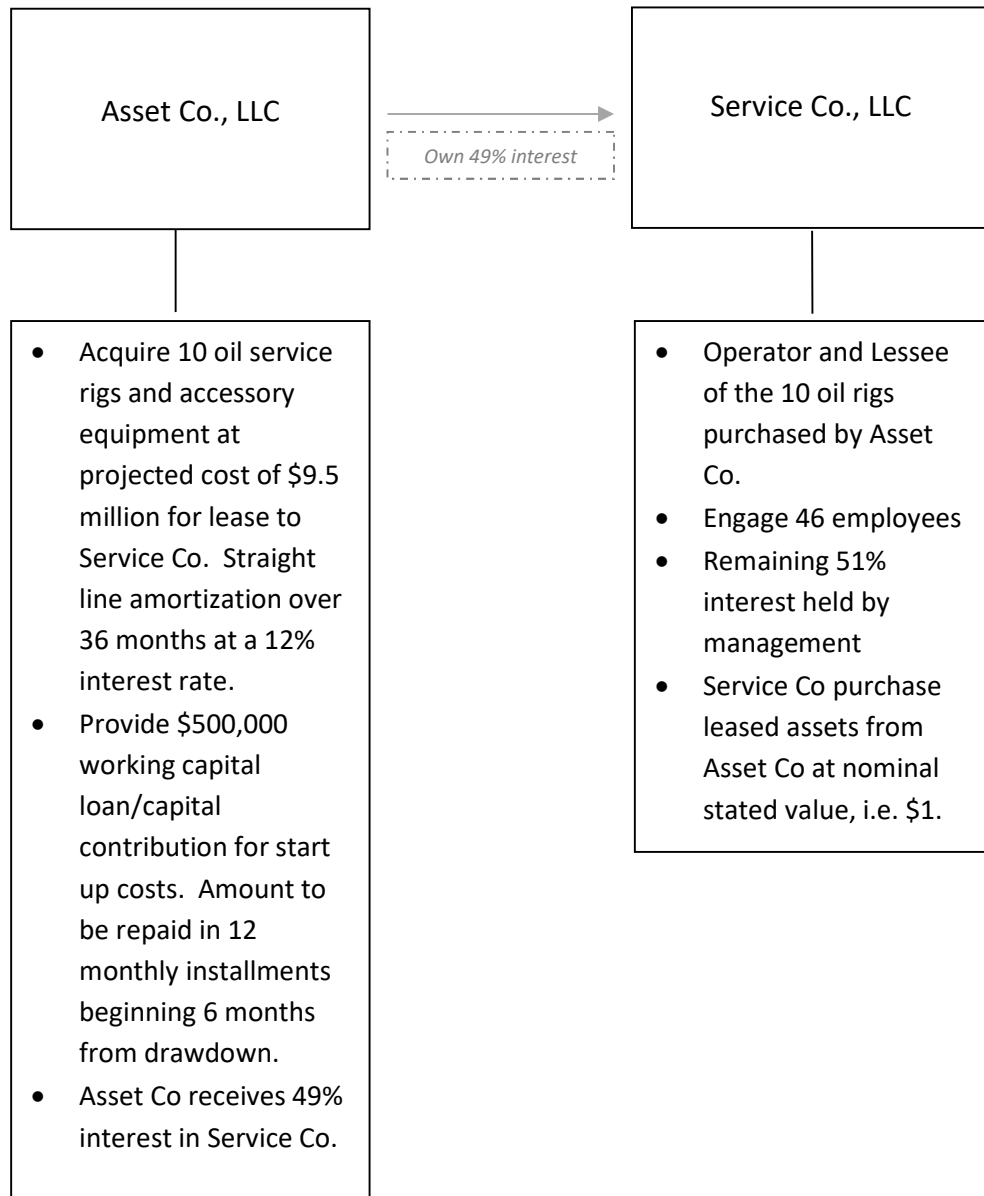
While it is difficult to report the number of competitors and the number of rigs presently engaged in service, it is estimated that are in excess of 40,000 oil and gas wells located within R.R.C. Districts 8, 8-A, and 9 of West Texas and that several known oil producers have reported lengthy delays awaiting rig service for their wells. It is the view of the Organizers that there is sufficient capacity to engage 10 rigs in full-time service.

MANAGEMENT

Service Co

- Jeru L. Morgan, CEO – has nearly 30 years’ experience in the oil exploration, production and services industry and is the founder and CEO of Success Oil Co., a company founded in 1990. Success Oil is registered with the Rail Road Commission in the State of Texas and has operated as many as 121 wells. Mr. Morgan previously served as CEO and managing partner of Texca Petroleum and also worked for an American fossil energy company, for which he supervised the drilling of 42 wells in Parker, Erath, Palo Pinto, Corsicana and Johnson Counties. He is a certified gemologist and graduate of St. Stephens Bible College with at BA in Business Administration.
- Elario (Larry) A. Lujan, General Manager– has over 40 years experience in the oil services business. Mr. Lujan began his career as a floor hand and pulling unit operator in 1971 and worked his way up to assume several senior management roles with four organizations as Operations Manager & Partner leading the safe and efficient engagement of 19 pulling rigs and employing more than 100 employees. Mr. Lujan is experienced in hiring, training and development of staff; attracting, maintaining and growing a stable client base and successfully managing the business to budgetary growth targets.
- Organizers: Messrs Morgan and Lujan are the “Organizers “of this Executive Overview.

DESCRIPTION OF ORGANIZATIONAL STRUCTURE



SOURCES, USES, AND REPAYMENT OF FUNDS

| Source, Uses & Repayment of Capital | | | | |
|--|-----------------|-----------------|-----------------|------------------------------|
| | YR 1 | YR 2 | Yr 3 | <i>Cummulative Total</i> |
| Sources | | | | |
| Capital Contribution | 10,000,000 | | | 10,000,000 |
| Uses | | | | |
| Equipment Purchases | (9,500,000) | - | - | |
| Working Capital | (500,000) | - | - | |
| Total Uses | (10,000,000) | - | - | (10,000,000) |
| Repayment | | | | |
| Equipment Principal Repayment | 2,243,056 | 3,166,667 | 3,166,667 | 8,576,389 |
| Working Capital Repayment | 250,000 | 250,000 | - | 500,000 |
| Principal Balance Outstanding | (7,506,944) | (4,090,278) | (923,611) | (923,611) |
| <i>Interest Payments</i> | 838,958 | 671,250 | 285,000 | 1,795,208 |
| <i>Principal Repayment</i> | 2,493,056 | 3,416,667 | 3,166,667 | 9,076,389 |
| <i>Equity Interest Profit Allocation[^]</i> | 46,167 | 71,220 | 266,924 | 384,311 |
| Total Repayments | 3,378,181 | 4,159,136 | 3,718,591 | 11,255,908 |
| <i>Cumulative</i> | | 7,537,317 | 11,255,908 | |
| [^] Post-Tax Distribution Payments | (6,621,819) | 4,159,136 | 3,718,591 | [^] IRR 13% |
| [^] Post-tax * Pre-tax IRR | | | | *IRR 22% |

It is anticipated that 10 rigs will be purchased in Year 1: five (5) during the first month and another five (5) during month six (6). Each rig is projected to cost \$950,000 comprised of \$800,000 for the rig itself and \$150,000 for tools and accessories necessary for the rig’s operation. In aggregate \$9.5 million is required for equipment purchases and \$500,000 for working capital purposes which include basic start up costs (\$50,000) and three (3) month’s operating expenses to bridge the timing difference that results from the date of billing for service to collection of receivables (\$450,000).

The working capital loan is repaid in twelve (12) equal installments commencing six (6) months following initial drawdown.

Sixty percent (60%) of the outstanding loan balance is repaid by the end of two years and all of the borrowed capital is returned by the end of three and one-half years or 42 months.

FINANCIAL INFORMATION

OVERVIEW

| Service Co Projections | | | |
|--|------------------|------------------|------------------|
| | Year 1 | Year 2 | Year 3 |
| Total Revenues | 8,592,712 | 10,853,952 | 10,853,952 |
| Rig Expenses | 3,614,983 | 4,600,204 | 4,739,804 |
| Corporate Expenses | <u>519,203</u> | <u>551,228</u> | <u>564,445</u> |
| EBITDA | 4,458,526 | 5,702,520 | 5,549,703 |
| Interest Payments | 838,958 | 671,250 | 285,000 |
| Depreciation | <u>752,083</u> | <u>950,000</u> | <u>950,000</u> |
| Pre-tax Income (Loss) | 2,867,484 | 4,081,270 | 4,314,703 |
| Taxes [^] | 1,032,294 | 1,469,257 | 1,553,293 |
| Net Income (Loss) | <u>1,835,190</u> | <u>2,612,013</u> | <u>2,761,410</u> |
| Add Back Depreciation | 752,083 | 950,000 | 950,000 |
| Cash Available for Principal Repayment | <u>2,587,273</u> | <u>3,562,013</u> | <u>3,711,410</u> |
| Principal Repayment | 2,493,056 | 3,416,667 | 3,166,667 |
| Coverage Ratio | 1.04 x | 1.04 x | 1.17 x |
| Surplus Cash Flow | 94,218 | 145,346 | 544,743 |

[^] Taxes @ 36% Marginal Individual Pass Thru Rate

Ten rigs generate annual revenue of approximately \$10.8 million. Gross operating margins hover around 58% resulting with EBIDA ranging between \$4.5 to \$5.7 million. Net Income available for principal repayment ranges between \$2.5 - \$3.7 million providing a coverage ratio averaging 1.1x.

FINANCIAL INFORMATION

REVENUES

| Service Co Projections | | | |
|-------------------------------|-------------------|-------------------|-------------------|
| | Year 1 | Year 2 | Year 3 |
| Rigs | 10 | 10 | 10 |
| Billable Hourly Rig Rate | \$315.00 | \$315.00 | \$315.00 |
| Rig Working Hours Monthly | 260 | 260 | 260 |
| Rig Working Hours Weekly | 60 | 60 | 60 |
| Diesel Fuel/gallon | \$3.90 | \$3.90 | \$3.90 |
| Revenues | | | |
| Billable rig time | 7,780,500 | 9,828,000 | 9,828,000 |
| Crew Travel per diem | 122,087 | 154,215 | 154,215 |
| Permit Charges | 48,851 | 61,707 | 61,707 |
| Accessory equipment chgs | 317,433 | 400,968 | 400,968 |
| Special Services | 15,740 | 19,883 | 19,883 |
| Consumable items | 95,154 | 120,195 | 120,195 |
| Safety accessories | 167,499 | 211,578 | 211,578 |
| Third party charges | <u>45,448</u> | <u>57,408</u> | <u>57,408</u> |
| Total Mis Revenue | 812,212 | 1,025,952 | 1,025,952 |
| Total Revenues | 8,592,712 | 10,853,952 | 10,853,952 |

Over the projected three year period, Service Co is expected to generate approximately \$8.5 - \$10.8 million in gross billable revenues by engaging 10 oil rig service vehicles 60 hours a week.

The current rate for billable rig services is \$315 per hour. Over the past five years, the billable rate for oil rig service has remained relatively stable fluctuating between \$290 and \$280 per hour.

Miscellaneous revenues add an additional 10% to total revenues and are comprised principally of billable job expenses including: accessory equipment charges, consumable items, safety accessories and crew travel time.

FINANCIAL INFORMATION

OPERATING EXPENSES

| Service Co Projections | | | |
|-------------------------------|-------------------|-------------------|-------------------|
| | Year 1 | Year 2 | Year 3 |
| Rigs | 10 | 10 | 10 |
| Total Revenues | 8,592,712 | 10,853,952 | 10,853,952 |
| Rig Expenses | | | |
| Employee Compensation | 2,867,049 | 3,748,289 | 3,879,479 |
| Rig Operating Expenses | 370,845 | 416,341 | 416,341 |
| Yard Expenses | <u>377,088</u> | <u>435,574</u> | <u>443,983</u> |
| Total | 3,614,983 | 4,600,204 | 4,739,804 |
| Gross Operating Profit | 4,977,729 | 6,253,748 | 6,114,148 |
| <i>Gross Operating Margin</i> | <i>58%</i> | <i>58%</i> | <i>56%</i> |

Operating expenses run approximately 40% of gross revenues or \$4.6 million annually. Employee Compensation is the single largest operating expense representing \$3.7 million or approximately 75% of the total. It is projected that a service team of four (4) professionals: 1 operator, 1 derrick and 2 floor hands accompany each service rig. The Yard will engage 2 mechanics.

Supervisor and General Manager salaries are included in Corporate Overhead below.

Yard operating expenses approximate \$420,000 per year, decreasing the overall operating margin to approximately 60%.

FINANCIAL INFORMATION

CORPORATE EXPENSES

| Service Co Projections | | | |
|---------------------------------|-------------------|-------------------|-------------------|
| | Year 1 | Year 2 | Year 3 |
| Corporate | | | |
| CEO | 60,000 | 62,100 | 64,274 |
| GM | 103,000 | 106,605 | 110,336 |
| Supervisor | 70,833 | 87,975 | 91,054 |
| Secretary | 48,000 | 49,680 | 51,419 |
| Bonus | 7,724 | 8,948 | 9,261 |
| Payroll FICA | 21,684 | 23,613 | 24,439 |
| Payroll FUTA | 605 | 659 | 682 |
| Payroll SUTA | 208 | 227 | 235 |
| Workers Comp | <u>34,747</u> | <u>37,837</u> | <u>39,161</u> |
| Corporate Salaries | 346,802 | 377,643 | 390,861 |
| Cell phones | 3,273 | 3,415 | 3,415 |
| Fuel | 8,160 | 8,640 | 8,640 |
| Insurance auto | 1,789 | 1,894 | 1,894 |
| Maintenance | 2,608 | 2,762 | 2,762 |
| Repairs | 1,700 | 1,800 | 1,800 |
| Supplies | 2,659 | 2,816 | 2,816 |
| Misc | <u>783</u> | <u>829</u> | <u>829</u> |
| Corp Misc Expenses | 20,972 | 22,155 | 22,155 |
| General Liability | 60,914 | 60,914 | 60,914 |
| Umbrella | 42,515 | 42,515 | 42,515 |
| Land Lease | 48,000 | 48,000 | 48,000 |
| TOTAL Corporate Expenses | 519,203 | 551,228 | 564,445 |

Corporate expenses approximate \$550,000 per year of which salaries for the CEO, GM, Supervisor and a Secretary/Controller/Office manger comprise two-thirds (2/3rds) of the total. Bonuses are accrued at 6% and apply only to the Supervisor and Secretary/Controller/Officer Manager positions.

FINANCIAL INFORMATION

PROJECTED PROFIT & LOSS STATEMENT

| Service Co Projections | | | |
|--|------------------|-------------------|-------------------|
| | Year | Year | Year |
| | 1 | 2 | 3 |
| Rigs | 10 | 10 | 10 |
| Revenues | | | |
| Billable rig time | 7,780,500 | 9,828,000 | 9,828,000 |
| Total Mis Revenue | 812,212 | 1,025,952 | 1,025,952 |
| Total Revenues | 8,592,712 | 10,853,952 | 10,853,952 |
| Expenses | | | |
| Rig Expenses | | | |
| Employee Compensation | 2,867,049 | 3,748,289 | 3,879,479 |
| Rig Operating Expenses | 370,845 | 416,341 | 416,341 |
| Yard Expenses | <u>377,088</u> | <u>435,574</u> | <u>443,983</u> |
| Total | 3,614,983 | 4,600,204 | 4,739,804 |
| Gross Operating Profit | 4,977,729 | 6,253,748 | 6,114,148 |
| <i>Gross Operating Margin</i> | <i>57.9%</i> | <i>57.6%</i> | <i>56.3%</i> |
| Corporate Compensation | 346,802 | 377,643 | 390,861 |
| Misc Expenses | 20,972 | 22,155 | 22,155 |
| General Liability Insurance | 60,914 | 60,914 | 60,914 |
| Umbrella Insurance | 42,515 | 42,515 | 42,515 |
| Land Lease | <u>48,000</u> | <u>48,000</u> | <u>48,000</u> |
| Total Corporate Expenses | 519,203 | 551,228 | 564,445 |
| EBITDA | 4,458,526 | 5,702,520 | 5,549,703 |
| Interest | 838,958 | 671,250 | 285,000 |
| Depreciation | 752,083 | 950,000 | 950,000 |
| Pre-tax Income (Loss) | 2,867,484 | 4,081,270 | 4,314,703 |
| Taxes @ 36% Marginal Individual Pass Thru Rate | 1,032,294 | 1,469,257 | 1,553,293 |
| Net Income (Loss) | 1,835,190 | 2,612,013 | 2,761,410 |
| <i>Net Income Margin</i> | <i>21%</i> | <i>24%</i> | <i>25%</i> |

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LEGAL MATTERS

- This Overview does not represent or imply accurate legal considerations.

TAX INFORMATION

- This Overview does not represent or imply accurate tax implications.

ADDITIONAL INFORMATION

Upon Request

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