
EnerJex extracting additional upside through EOR in Kansas

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Tucked away in the middle of the US, far away from the well-known, "sexy" producing areas, is one of the top 10 producing regions in the country: Kansas. Overland Park, Kan.-based EnerJex (EJXR-OTC: BB) is a publicly traded venture that started up in the fall of 2005 to tap into the rich reserves.

In 2006, 15 companies accounted for 30% of the 35 million barrels of oil produced in the state. The remaining barrels came from roughly 2,300 different operators and 23,000 producers who are primarily farmers and ranchers.

While secondary recovery or waterflood is pretty common in Kansas, roughly 40%-50% of oil produced in the state is secondary recovery, small producers don't have the capital to waterflood large tracts. Results typically aren't seen for 6-18 months, making the efforts uneconomical for the numerous small farmers and ranchers holding land rights.

Contacting those farmers and ranchers for smaller tracts is not something the big oil companies would choose to do. For this reason, larger-scale enhanced oil recovery (EOR) projects have been "off the radar" in eastern Kansas since the ARCO days 40-50 years ago.

EnerJex saw the potential and began "rolling up" those leases into one aggregate operation. "We are publicly traded and have access to capital. We can take advantage of economies of scale," said Steve Cochennet, CEO of EnerJex.



Mark Haas, Haas Petroleum, reviews drilling plans with EnerJex CEO Steve Cochennet and EnerJex project manager Brad Kramer.

EnerJex – in conjunction with its operating partner, Haas Petroleum – has both the financial capability and the operational know-how to do EOR. The company has invested \$4 million in its Black Oaks project since April and plans an additional investment of \$5 to \$10 million in the coming year.

While the company was created from a "reverse merger" and is publicly traded on the bulletin board, EnerJex management plans to raise additional capital in the spring with a goal to begin trading on either the NASDAQ or AMEX in 2008.

The company is quickly becoming an important player in the industry. It has invested \$11 million in seven months and drilled 90 wells since April with only two dry holes. For the most part, the company operates in known producing fields. "[We] just move over one location and keep drilling. It's one of the lowest risk strategies you can find in this industry," boasts Cochennet.

The potential is huge. "We have a field that, for over 60 years, has produced over 3 million barrels of oil. It has the potential in the next five to 10 years to produce another 1.5 million barrels. And this is just from one 2,000 acre field," he continued.

In April 2007, the company raised \$9 million with C.K. Cooper from a senior secured debt private placement with West Coast Opportunity Fund LLC, DKR Soundshore Oasis Holding Fund Ltd., Enable Growth Partners LP, Enable Opportunity Partners LP, Glacier Partners LP, and Frey Living Trust for drilling and development in 2007. The think-tank is currently exploring multiple acquisition opportunities for 2008 in addition to the 400 drillables with current leases.



Swabbing another well near Virgil, Kan.

Cochennet and the rest of the company are assessing alternatives for capital as well as the best cost structures. "Whether it be equity and/or debt, we will be looking to raise capital for drilling in '08," he said. One of his personal goals is to list on the AMEX or NASDAQ this year. "It's just a matter of going through the process," he said.

The money raised in 2007 has been used efficiently and effectively. EnerJex has been working in conjunction with Haas Petroleum and its two rigs. The company owns Eureka-based Skyy Drilling. In the last months of 2007, EnerJex had four rigs running simultaneously.

"We do large blocks at a time which attracts drillers because they can stay in one area and drill 15-20 wells in one area and don't have to move around a lot," Cochennet said. "They don't have to drive 50 miles and set up again," he continued.

Since the company's inception in 2005, most of the service work has been done by a handful of employees. If the company continues to grow at the current rate, finding and training qualified field personnel will become a priority. For high school students not interested in attending college, Cochennet wants to start a vocational training program in 2008. He is currently working with the state and the education system to get high school kids interested in the industry.

Another facet to the company is its burgeoning coal bed methane operation. Due in part to escalating prices for natural gas, coalbed methane production has been quietly growing in Kansas. EnerJex is working to produce coal bed methane in Allen County, Kan. in what it calls the "Gas City project."

Cochennet added, "EJK has also drilled ten wells at the Gas City project near Iola, Kansas under EnerJex's agreement with Euramerica Energy Inc. Three of these conventional wells have only been perforated and produced 2.3 million cubic feet in gross sales from December 21 through 31, 2007 without stimulation. The down hole pressure on these three wells is such that we will not stimulate these wells until the pressure has been materially reduced. The remaining seven wells are in various stages of testing and completion."

As far as expansion plans, Cochennet says he doesn't see it in the immediate future. "I can spend over \$100 million within 100 miles of Kansas City," he said. With the large deal flow the company is currently experiencing, there's no point in expanding to Montana, North Dakota, or other surrounding areas.

"There are more places to drill than we have capital at the moment," he explained. Right now, Cochennet says, the company is focused on getting the EnerJex story out and raising capital.

Cochennet concluded, "On a financial front, the dramatic increase in production since April 2007 has put EnerJex in a position where we now have sufficient cash flow to not only meet our internal cash requirements but the flexibility to continue drilling with internally generated funds in order to offset the current projected decline curve of our existing wells. With the progress we made in 2007 and having accumulated in excess of 400 additional drillable locations on existing leases, we are very excited about our prospects for 2008."

For more information visit the EnerJex website at www.enerjexresources.com.

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