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FREE GUIDE · 2025–2026 EDITION

The Accredited Investor's Guide to Energy Wealth

Oil & Gas Investing Fundamentals

A plain-English educational guide for accredited investors seeking clarity in energy investing — ownership structures, cash flow mechanics, tax advantages, risk frameworks, and the 2025–2026 market outlook.

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CHAPTER 1

Accredited Investor Basics

— Access vs. Readiness

Before diving into oil and gas investing, it's important to understand who these opportunities are designed for — and why. Most private energy investments are offered under Regulation D, which allows companies to raise capital privately. To participate, you typically must qualify as an accredited investor.

What Is an Accredited Investor?

You generally qualify if you meet one of the following:

- Income of \$200,000+ annually (\$300,000 with spouse)
- Net worth exceeding \$1 million (excluding primary residence)

These thresholds exist because private investments carry more risk, are less liquid, and require independent evaluation.

Why This Matters in Energy Investing

Oil and gas investments are long-term (often 3–10+ years), illiquid, and structurally complex. This means investors need:

- Financial stability
- Patience
- A clear understanding of what they own

THE MOST COMMON MISCONCEPTION

"If I'm accredited, I'm ready to invest." In reality: Accreditation = Access. Education = Readiness.

What "Investor Readiness" Actually Means

A prepared investor can:

- Understand ownership structures (WI, RI, ORRI, MI)
- Follow how money flows from production to payout
- Recognize basic red flags
- Ask informed questions before investing

KEY TAKEAWAY

Accreditation gives you the ability to invest. Understanding gives you the ability to invest well.

CHAPTER 2

How Energy Ownership Works — The 4 Structures Explained

One of the most important — and misunderstood — aspects of oil and gas investing is ownership structure. When you invest, you're not just "buying into a deal." You're choosing how you participate in the economics of a well.

Why Ownership Structure Matters

Your structure determines: how you get paid, what costs you are responsible for, what tax benefits you receive, and your level of risk. Two investors in the same deal can have very different outcomes based on structure alone.

1. Working Interest (WI)

You own a percentage of the well, pay your share of costs, and receive your share of revenue. **Pros:** highest return potential, strong tax advantages (IDCs, depreciation). **Cons:** exposed to costs, higher risk.

2. Royalty Interest (RI)

You receive a percentage of revenue and do NOT pay operating costs. **Pros:** passive income, lower risk. **Cons:** lower upside, no upfront tax deductions.

3. Mineral Interest (MI)

You own the minerals underground and lease them to operators, receiving royalties over time. A long-term, passive ownership interest.

4. Overriding Royalty Interest (ORRI)

Carved out of a working interest with no operating costs. Often tied to a specific project or lease term.

ENERGY OWNERSHIP COMPARISON

Type	Ongoing Costs	Income	Tax Benefits	Risk
Working Interest	Yes	High	High	High
Royalty Interest	No	Moderate	Moderate	Lower
Mineral Interest	No	Moderate	Moderate	Lower
ORRI	No	Moderate	Moderate	Lower

KEY INSIGHT

Ownership structure determines your experience as an investor. Two investors in the same deal can have very different outcomes based on structure alone.

CHAPTER 3

Cash Flow Mechanics — From Wellhead to Wallet

This is where everything comes together. Understanding cash flow is what allows you to move from guessing to evaluating.

Step-by-Step: How Money Flows

1 Production

A well produces oil (barrels/day) or gas (MCF/day). Example: 120 barrels/day.

2 Revenue

Oil price = \$70. Daily revenue: $120 \times \$70 = \$8,400$. Monthly: ~\$252,000.

3 Royalties (Paid First)

Typical royalty = 20%. $\$252,000 \times 20\% = \$50,400$ paid to royalty owners. Remaining: \$201,600.

4 Net Revenue Interest (NRI) — Your True Share

Formula: $NRI = Working\ Interest \times (1 - Royalty\ Rate)$. Example: $10\% WI \times 80\% = 8\% NRI$. Your Revenue: $8\% \times \$201,600 = \$16,128/month$.

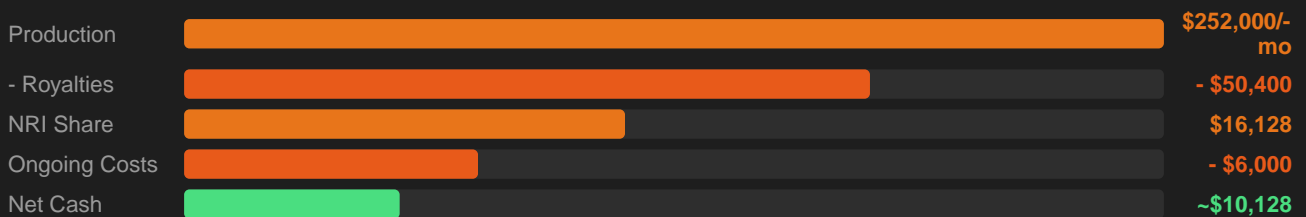
5 Expenses

Costs include operations, transport, and maintenance. Example: \$60,000 total cost. Your 10% share = \$6,000.

6 Net Cash Flow

Revenue: \$16,128 minus Costs: \$6,000 = Net: ~\$10,128/month

CASH FLOW WATERFALL



Understanding Payout

Payout = When You Recover Your Investment

Example: \$100,000 investment at ~\$10,000/month = estimated payout in ~10 months

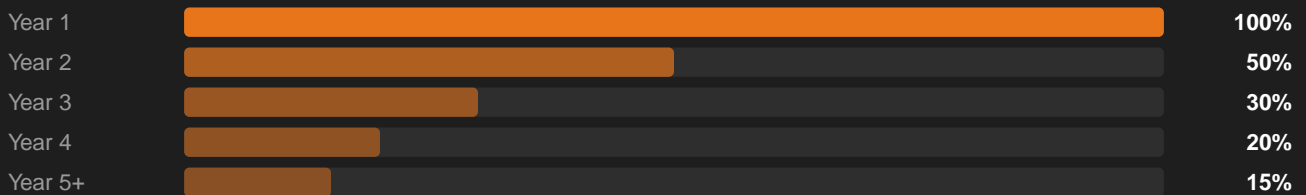
REAL-WORLD NOTE

Actual payout timing is affected by production decline rates and oil price fluctuations — always model conservatively.

Decline Curves — A Critical Concept

Wells don't produce evenly. Production is front-loaded with a rapid decline in Year 1, followed by a slower long-term decline. Early cash flow is strongest — returns are front-loaded.

PRODUCTION DECLINE CURVE (RELATIVE TO YEAR 1)



Price Sensitivity

Oil price has a direct impact on your cash flow. Understanding how returns shift at different price levels is essential before investing.

PRICE SENSITIVITY — HOW OIL PRICE AFFECTS RETURNS



KEY TAKEAWAY

Cash flow depends on structure, production, and price — not just projections. Early payout comes from peak production in Year 1. Always model decline curves and price scenarios conservatively.

CHAPTER 4

Tax Strategy 101 — Understanding the Real Advantage

Oil and gas investing is one of the few asset classes with built-in tax incentives. But these only work if you understand them properly.

Why These Tax Benefits Exist

The U.S. government incentivizes domestic energy production, private capital investment, and economic stability. These are policy-driven incentives — not loopholes.

The 3 Core Tax Advantages

1. Intangible Drilling Costs (IDCs)

These include labor, drilling services, and site prep. Key benefit: 60–80% of your investment is 100% deductible in Year 1.

- Example: \$100,000 investment with \$75,000 IDCs deducted immediately
- Tax savings at 35% bracket: ~\$26,000
- Your effective cost: ~\$74,000

2. Tangible Costs (Depreciation)

Includes equipment and infrastructure. Treatment: depreciated over ~5–7 years, providing ongoing deductions throughout the life of the investment.

3. Depletion Allowance

Applies once production begins: 15% deduction on income each year.

- Example: \$50,000 income = \$7,500 annual deduction — recurring, for the life of the well

Active vs. Passive Income (Important)

Working Interest investments may allow you to offset active income — including W-2 wages and business income. This is rare in investing and one of the most valuable structural advantages of oil and gas.

TAX BENEFIT TIMELINE

YEAR 1

IDCs

60–80% of investment
100% deductible immediately

~\$26K savings on \$100K

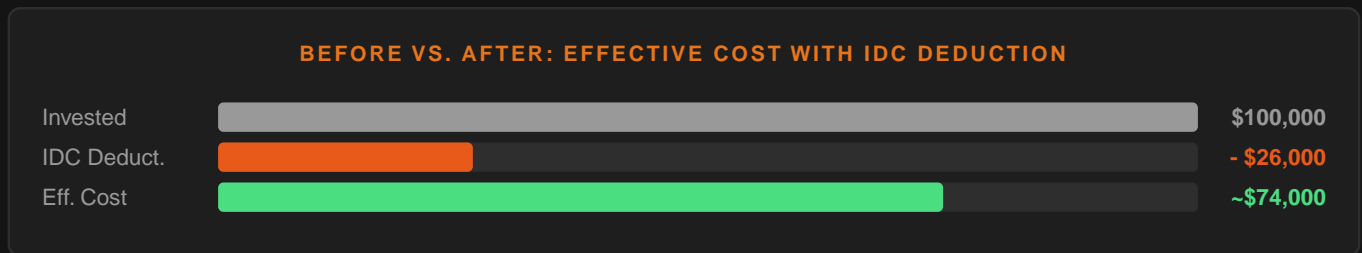
YEARS 2+

Depletion

15% income deduction annually
Tangible depreciation 5–7 yrs

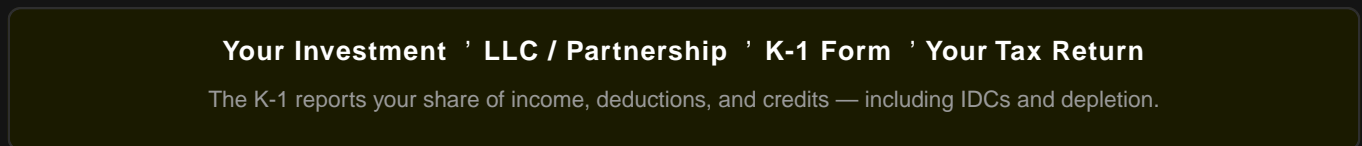
Ongoing tax efficiency

Before vs. After: Effective Cost



Entity Structure (Simplified)

Most oil and gas deals use LLCs or partnerships. The tax flow works as follows:



Putting It All Together — Example Lifecycle

- **YEAR 1**
Large deduction from IDCs. Effective cost reduced to ~\$74,000. If in 35% bracket, you save ~\$26,000 immediately.
- **YEARS 2–7**
Income begins. Tangible cost depreciation continues. Depletion allowance (15%) applies to all income received.
- **ONGOING**
Continued tax efficiency through depletion. Income reported on K-1 with ongoing deductions reducing taxable income.

IMPORTANT
Not all investors qualify the same way. Structure matters — always confirm your specific tax strategy with a qualified CPA experienced in oil and gas taxation before investing.

KEY TAKEAWAY
Oil & gas doesn't just generate income — it improves how that income is taxed. Working Interest investors can offset active income (W-2, business income), which is rare in any other asset class.

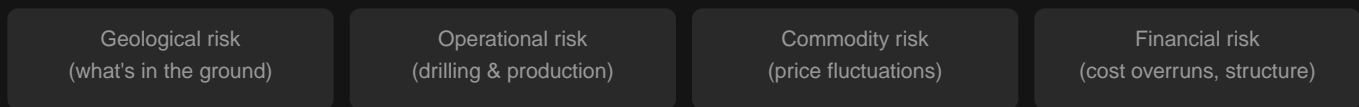
CHAPTER 5

Risk & Due Diligence — How Smart Investors Evaluate Energy Deals

"How do I know if this is a good deal — or just a good story?" This is where due diligence becomes critical. Oil and gas investing is not inherently "good" or "bad" — it is highly dependent on execution, structure, and assumptions. Two deals can look similar on the surface and produce completely different outcomes.

The Reality of Risk in Oil & Gas

Risk isn't something to avoid — it's something to understand and manage. Oil and gas investing involves four real risk categories:



The 4 Core Areas of Due Diligence

- Operator Quality — The most important factor
- Asset & Basin Quality — Where the value comes from
- Deal Structure & Economics — How the numbers work
- Assumptions & Projections — The hidden variables

1. Operator Quality — The Most Important Factor

A strong operator can improve an average asset; a weak operator can ruin a great one. Evaluate: track record (wells drilled, success rate), experience in the specific basin, financial stability, and transparency in communication.

OPERATOR SCORECARD (EXAMPLE)		
Track Record	● ● ● ● ●	5/5
Basin Expertise	● ● ● ● ●	4/5
Transparency	● ● ● ● ●	5/5
Financial Stability	● ● ● ● ●	4/5
Communication	● ● ● ● ●	5/5

Ask: How many wells have they drilled here? Actual results vs projections? Do they provide consistent reporting?

2. Asset & Basin Quality

Proven basins (Permian, Bakken, Eagle Ford) have decades of production data. Evaluate total recoverable reserves, break-even oil price, well density, and geological consistency.

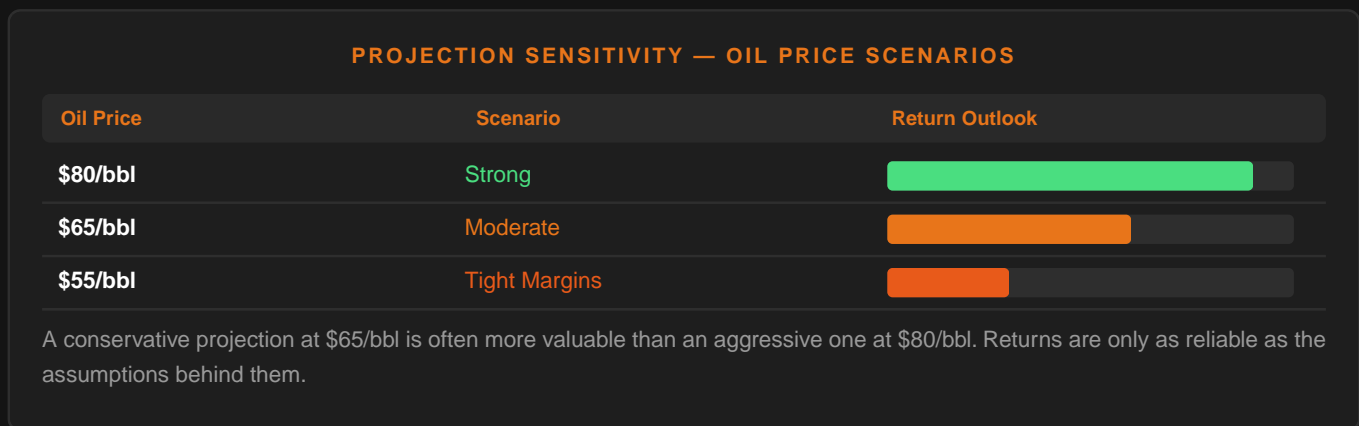
3. Deal Structure & Economics

Review: Working Interest %, NRI, operator's promoted interest, payout structure, and carried interests. Understand who gets paid first and how costs are allocated among partners.

- What is the Working Interest and NRI?
- What costs are included — and excluded?
- What is the projected payout timeline?

4. Assumptions & Projections — The Hidden Variables

Most deals include projections. The key is understanding what assumptions those projections depend on. Key variables: oil & gas prices, production rates, decline curves, and operating costs.



A Simple Due Diligence Framework

Before investing, make sure you can clearly answer these three questions:

- Do I trust the operator?
 - Is the basin proven?
 - Do the numbers make sense at conservative assumptions?
- If any answer is unclear — pause and dig deeper.**

- RED FLAGS TO WATCH**
- Vague or missing track record*
 - Overly aggressive projections*
 - Unrealistically fast payout timeline*
 - Missing cost details*
 - High returns with no risk explanation*
 - Lack of detailed documentation*

Key Takeaways

- Operator quality is the most important factor
- Basin and geology drive production potential
- Deal structure determines your economics
- Assumptions determine whether projections hold up
- The goal is not to find perfect deals — it's to become the kind of investor who can evaluate them

CHAPTER 6

Energy Market Outlook — Understanding the Next 10 Years

Once you understand structure, cash flow, and risk, the next step is context. Oil and gas investing doesn't happen in a vacuum — it operates within a global energy system that moves in cycles.

The Big Picture

Energy demand continues to grow globally. Even with the rise of renewables:

- Oil and gas remain essential
- Industrial economies still depend on hydrocarbons
- Emerging markets continue to increase consumption

KEY INSIGHT

The energy transition is not replacement — it's expansion alongside existing demand.

The Energy Cycle (Simplified)

Energy markets move in predictable cycles. Understanding where you are in the cycle is more important than trying to predict exact prices.

ENERGY CYCLE TIMELINE

2020–2022
Contraction
Low prices, companies cut spending

2023–2024
Recovery
Demand rises, supply tightens, prices begin rising

2025–2026
Stabilization
Current phase — late recovery, early stabilization

2027+
Expansion
Capital returns, production increases, new projects

Current positioning (2025–2026): Late recovery — early stabilization

KEY INSIGHT

The best opportunities often appear before full expansion begins. Timing matters — but preparation matters more.

Oil Price Reality

No one can predict oil prices with certainty. Many forecasts suggest potential downside testing in the \$50–\$60 range, with longer-term equilibrium higher due to supply constraints.

- Lower prices create entry opportunities for disciplined investors
- Efficient operators remain profitable even at lower price points
- Higher-cost producers exit, improving the competitive landscape

HG ENERGY INSIGHT

Strong investments are built on conservative price assumptions — not peak pricing. Model at \$60–\$65 oil, and let higher prices be upside.

Natural Gas — The Growth Driver

Natural gas is becoming increasingly important due to LNG export growth, global demand from Europe and Asia, and the environmental transition from coal to gas.

- U.S. LNG export capacity expanding significantly (2020 to 2026 to 2030)
- Long-term global contracts increasing
- Stable demand outlook through the decade

KEY INSIGHT

Natural gas is one of the most important long-term drivers of U.S. energy growth.

U.S. Production — Efficiency Over Expansion

U.S. shale has evolved significantly. Instead of rapid expansion, operators now focus on capital discipline, cost efficiency, and higher productivity per well.

- More predictable returns
- Lower break-even costs
- Better capital allocation for investors

The Next 10 Years — Investor Perspective

Over the next decade, expect: continued global demand growth, cyclical price fluctuations, increased efficiency in production, and a strong role for natural gas. This creates a market environment that favors educated investors, disciplined capital, and long-term positioning.

WHAT THE NEXT DECADE FAVORS

Educated Investors

Who understand structure & cycle

Disciplined Capital

Conservative assumptions, proven basins

Long-Term Positioning

Prepared before opportunity appears

Chapter 6 — Key Takeaways

- Energy markets move in cycles — know where you are
- Oil prices fluctuate, but global demand remains structurally strong
- Natural gas is a major long-term growth driver
- U.S. production is becoming more capital-efficient
- The next decade favors informed, disciplined investors

CHAPTER 7

Investor Readiness — From Learning to Confident Action

At this point, you've covered the fundamentals: how energy ownership works, how cash flow is generated, how tax advantages apply, how to evaluate risk and deals, and how the market cycle shapes opportunity. Now the question becomes: what do you do with this knowledge? Information alone doesn't create results. Preparation does.

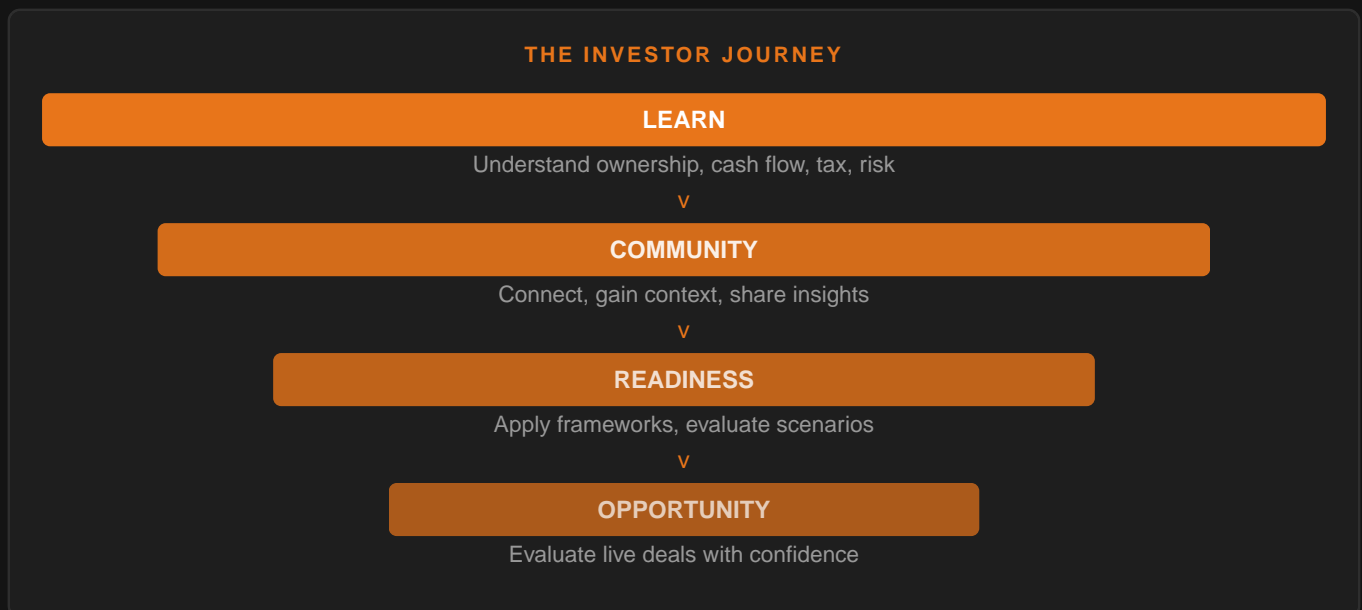
The Gap Most Investors Never Close

Many investors stay stuck in one of two places:

<p>PERPETUAL LEARNING MODE</p> <ul style="list-style-type: none"> - Reading articles endlessly - Watching webinars - Gathering information <p>But never taking the next step.</p>	<p>PREMATURE ACTION</p> <ul style="list-style-type: none"> - Investing too quickly - Relying on others' opinions - Skipping foundational understanding <p>Missed opportunities or poor outcomes.</p>
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What "Deal-Ready" Actually Means

A deal-ready investor doesn't know everything. They know enough to understand what they're being offered, evaluate structure and assumptions, ask the right questions, recognize red flags, and decide with clarity — not pressure.



The HG Energy Investor Path

- **STEP 1: Deepen Your Foundational Knowledge**

Focus on ownership structures, cash flow mechanics, tax fundamentals, and risk evaluation. Outcome: you can follow any conversation or document without getting lost in jargon.
- **STEP 2: Engage with a Community**

Surround yourself with like-minded investors, ongoing market discussions, and real-world insights. Learning alone only takes you so far — community accelerates readiness and provides context no course can replicate.

The HG Energy Investor Path (continued)

- **STEP 3: Build a Repeatable Framework**
Before investing, ensure you can evaluate operators, understand assumptions, and interpret projections. Practice analyzing real-world scenarios and deal documents (PPMs).
- **STEP 4: Prepare Before You Act**
Position yourself so that when opportunity appears, you're ready — not reacting. The best investors are not the fastest. They are the most prepared. Only after steps 1–3 should you consider reviewing live opportunities.

Your Action Plan

01

Share this guide with your financial advisor

02

Join the HG Energy investor community

03

Attend a monthly investor education session

FINAL TAKEAWAY

Education first. Readiness second. Opportunity third. Act with clarity and discipline — not pressure.

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Ready to Take the Next Step?

Join the HG Energy Investor Network — a private, education-first community where accredited investors learn how to analyze real deals, attend monthly investor sessions, ask questions directly to professionals, and connect with other serious investors.

JOIN THE COMMUNITY

Learn. Connect. Prepare.

www.hgenergypartners.com/community

"When you understand the structure, you control the outcome."

— HG Energy Partners

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