

Investment Summary Report

FOOTHILLS EXPLORATION INC.



Company Sponsored Research
Investment Summary Report
12/15/2021

Foothills Exploration, Inc. (FTXP)

Wind River Basin Asset Offers Oil Extraction Potential

Investment Highlights

- Foothills Exploration Inc (FTXP) holds **strategically located core oil and gas assets in the US Rocky Mountain regions**. The principal asset of Foothills Exploration is the Wind River Basin of Wyoming, which covers approximately 18,500 acres of land - According to a third-party engineering study, the land has an after-risk **potential of producing 21 million barrels of oil and 37.6 billion cubic feet of gas**. The company also has access to over 7,500 acres of land in the Unita Basin, where FTXP is exploring new drill programs.

- Foothills Exploration is involved in the acquisition and development of high-quality oil and gas assets by actively seeking to grow its footprint in the Rocky Mountain regions. The company retains a third-party engineering firm to determine the probable resources and merits of prospective acquisitions. The company has **entered into a participation agreement with an Illinois Basin Operator through its direct subsidiary Anaconda Energy LLC to identify inactive wells which can be returned to production by incurring minimal costs**.

- Foothills Exploration wants to build a stable portfolio of assets by **catering to present-day energy needs through its high-impact oil and gas exploration projects and betting on future needs by foraying into sustainable and emission-free hydrogen and helium exploration**. This blend of strategies could help the company in staying relevant to today's business needs and also by being an early mover in the hydrogen space it can potentially capitalize on this growth opportunity earlier than its counterparts.

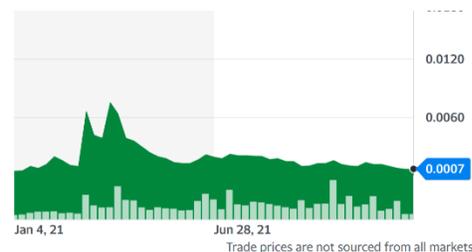
- New Energy Ventures LLC is a subsidiary formed by Foothills Exploration Inc. which focuses on sustainable energy goals through power generation and oil field clean tech applications**. Additionally, it also has other areas of interest in natural hydrogen & helium exploration, carbon capture, and hydrogen production. The company intends to acquire existing gas stations and then rebrand them into retail hydrogen refueling stations and also add EV rapid charging stations.

- We have valued FTXP using NPV methodology incorporating the company's primary asset with prospective resources of ~27.4 million BOE. **Based on our assumptions we have valued the company at ~\$76.20 million or ~\$0.008 per share, contingent on successful execution by the company**. We view FTXP as mainly suitable for institutional and high-risk-tolerant retail investors, given the high risk-reward scenario provided by a unique oil and gas E&P play.

Oil and Gas E&P

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Price- Volume History



Key Statistics

Closing Price (As of 12/14/2021)	\$0.0007
52 Week Range	\$0.0003-\$0.0155
Average Volume (10 days)	99.99M
Shares Outstanding (m)	9090.60m
Market Capitalization (m)	\$6.36m
Valuation Per Share	\$0.008
Enterprise Value/Revenue	56.20x

Revenue (in \$ millions)

Dec. FY	2019A	2020A	2021E
FY	1.67M	0.467	0.477

EPS (\$)

Dec. FY	2019A	2020A	2021E
FY	(0.56)	0.01	(0.00)

Company Description

Foothills Exploration Inc. (OTC: FTXP) is an independent upstream oil and gas company involved in the exploration and development of reservoirs and drill oil & gas wells by engaging in the acquisition of oil and natural gas assets. The company has a tightly defined geographic focus: the U.S. Rocky Mountain region, which helps it leverage basin-specific knowledge and technical and operational expertise.

Company Overview

Foothills Exploration Inc. (OTC: FTXP) is an independent upstream oil and gas company involved in the exploration and development of reservoirs and drill oil & gas wells by engaging in the acquisition of oil and natural gas assets. The company has a tightly defined geographic focus: the U.S. Rocky Mountain region, which helps it leverage basin-specific knowledge and technical and operational expertise.

FTXP owns strategically located oil and gas assets in the US Rocky Mountain region

The company currently has two active projects: the **Wind River Basin projects** and the **Uinta Basin projects**. It owns roughly around 18,500 acres in the Wind River Basins of Wyoming and 7,500 acres in the Uinta Basin, Utah. The company is involved in acquiring and developing high-quality oil and gas assets by actively seeking to grow its footprint in the Rocky Mountain region. It leverages its expertise and deep working knowledge in evaluating the merits of prospective acquisitions.

Foothills Exploration’s Strategy Overview

The company’s current strategic objectives include building a stable portfolio of assets through two core initiatives that fulfill the world’s present-day energy needs and address the needs of future generations. The company has adopted a two-pronged corporate strategy to address today’s energy needs by generating high-impact oil & gas exploration projects with attractive valuations and favorable geological risk/reward profiles. Additionally, through its subsidiary ‘New Energy Ventures’ division, the company intends to contribute towards a low carbon future by addressing tomorrow’s energy needs through investing in hydrogen and geothermal projects.

FTXP has adopted a unique strategy to foray into both conventional and clean energy

The exploration and acquisition of the oil and gas reserves division will represent its main source of revenue. The companies under the oil & gas segment hold these reserves for generating future cash flows and subsequent potential monetization. The reserve replacement strategies adopted by these oil & gas companies in terms of risky exploration and acquisition are closely watched by the participants of the financial markets, which many attribute to affecting their share price return. As per research published by Taylor & Francis Online, a study considering North American and global oil & gas companies found that the stock returns are associated with the changes in oil & gas reserves.

Under the leadership of U.S. President Joe Biden, several energy executives believe that investment in hydrogen will accelerate fast due to a \$2 trillion¹ proposed package towards fighting climate change. As per a McKinsey & Company study report, the hydrogen economy could be the next big thing and a game-changer in the renewable space with the potential to generate \$140 billion in annual revenue by 2030. It could meet around 14% of the total American energy demand by 2050. The commercial usage of hydrogen is at a nascent stage, and California could reinforce the growth and adoption of hydrogen-focused projects by spending approximately \$230 million by the end of 2023. This will act as a catalyst and will give Foothills Exploration a lucrative opportunity to monetize its strategy, with the New Energy Ventures division focusing on hydrogen and helium exploration.

FTXP is actively planning to enter underexplored Hydrogen play

¹ Penn, Ivan, and Clifford Krauss. “California Is Trying to Jump-Start the Hydrogen Economy.” *The New York Times*, The New York Times, 11 Nov. 2020, <https://www.nytimes.com/2020/11/11/business/hydrogen-fuel-california.html>.

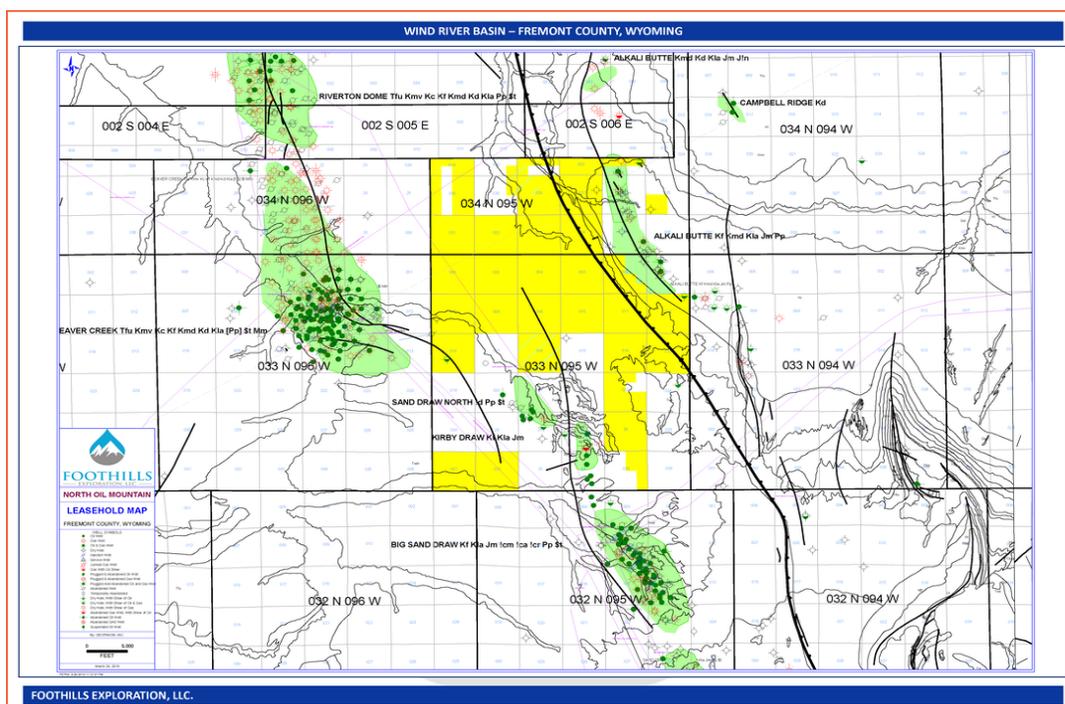
Management Overview

Foothills Exploration is headed by a team of seasoned professionals with extensive experience in the oil and gas industry with deep domain knowledge.

<p>Kevin J. Sylla - Executive Chairman (FTXP) & CEO (FPI)</p>	<p>Mr. Sylla has extensive experience of more than ten years in the oil & gas industry with deep domain knowledge and expertise in the areas of business development, M&A, and management of oil & gas field operations. He played a key advisory role in the successful combination and integration of Tiger Energy Assets into FTXP. He has also participated extensively in the financing, acquiring, and developing numerous domestic oil and gas properties.</p>
<p>B.P. Allaire - CEO, Interim CFO, and Director (FTXP)</p>	<p>Mr. Allaire has over 25 years of global working experience across various functional areas, including finance, sales, marketing, strategy, operations, business development, M&A, and operations management across a wide variety of industries. He has provided numerous services in the fields of business development, financial management, and strategic advisory to various clients and partnerships present in the mid-continent and Gulf-coast regions of the U.S. operating in the exploration and development of the oil and gas industry.</p>
<p>Christopher Jarvis - Executive VP of Finance & Director</p>	<p>Mr. Jarvis has a rich experience of more than 20 years in the capital markets and investment areas covering various asset classes which includes equity, commodity, and fixed-income markets. He is a CFA charter holder and an acclaimed Certified Market Technician (CMT) with experience in executing energy risk management hedges for large conglomerates.</p>
<p>Alex Hemb - Director</p>	<p>Mr. Hemb serves as the director of FTXP and FPI. In addition to the U.S., he has worked internationally as a petroleum engineer both onshore and offshore in countries like Norway, Canada, Belize, Germany, and Scotland. He is responsible for developing a technology that separates oil and water and commercializing this into a successful company providing oil/water separation services to the oil & gas industry. He has a proven management track record exhibited from his crucial role in the successful turnaround of the Norwegian division of CETCO.</p>
<p>Tara Roberts - VP of Business Development</p>	<p>Ms. Roberts currently serves as the Vice President of Business Development at FTXP Foothills Exploration Inc. Previously, she was designated as a revenue accountant, and business development specialist across a variety of disciplines within the U.S. oil and gas industry. She has also worked as a business development specialist at Echo Energy and is also responsible for establishing Eldorado Energy Inc.</p>

Investment Thesis - Strategically located assets

1. Wind River Basin Project – Encouraging Early-Stage Phase 1 Survey Results



Wind river basin project is the core asset of FTXP, with an approx. land ownership of 18,500 acres

Exhibit 1: Wind River Basin Project. Source: [Company](#)

The company owns leasehold properties in Fremont County, Wyoming, which covers approximately 16,000 acres of land across the region. This acreage position of the company is located in a large undrilled area which is along the eastern flank of a deeper sub-basin in the Wind River Basin proper. It provides the company with considerable upside in the exploration and development of oil and gas projects. As per the company’s latest press release, it has also acquired an additional 2,500² acres in the Wind River Prospect, bringing the total project area up to approximately 18,500 acres. The company plans to initiate Phase 2 study after receiving promising results from Phase 1 of its geochemical survey of the Beaver Creek East project to determine the crude oil concentration and the composition of the leaking hydrocarbon source.

The company has hired Geopinion Inc. based out of Utah to help them support geological information from their third-party engineering firm but more importantly to apply for a federal exploration unit in the upcoming months. The planned Federal Unit obligation wells are in the process of “Notice of Staking” (“NOS”) and “Application Permit to Drill” (“APD”) on wells that will test the cretaceous reservoir analogs to the adjacent “Beaver Creek”, “Riverton Dome”, and “Sand Draw” fields and also specifically analog targets in the Frontier Formation sands being aggressively developed by horizontal drilling activity in the Powder River Basin Wyoming.

The Wind River project has the potential to produce from several formations. Hence, the initial drilling program is focused on the Frontier zone. The company is directing its efforts towards this

² Foothills Petroleum, Inc, 16 Nov. 2021, <https://ir.foothillspetro.com/press-releases/detail/63/foothills-exploration-inc-s-provides-wind-river-basin>.

project as it is not only a multi-stack pay that the company’s third-party engineering firm Chapman in Canada has predicted about 21 million barrels of prospective resources potentially in the field. The company also believes that its exploration area has tremendous potential for the frontier and will look for more prospects in the region by exploring in the coming months.

Analog Frontier Fields:

- Powder River Basin- Spearhead Ranch has produced to date 9,698,788 barrels of oil and 60,454,165 MCF gas
- Wind River Basin- Riverton Dome has produced to date:
 - 4,646,398 barrels oil
 - 221,897,629 MCF gas

Wind river basin has a successful track record of producing large quantities of oil and gas

As the acreage is undrilled, the company plans to appoint Geochemical Insight LLC, a third-party engineering firm to analyze the geological and geophysical risk/reward of the land to assess the value of possible and contingent reserves. This land has a deep structural deposit called the Beaver Creek field that has produced approximately 73.3 million barrels of oil and 934,781,606 MCF of gas. The company’s latest press release mentions that Phase 1 results of the geochemical survey on this area of acreage were promising and within the next 7-10 days they will commence Phase 2 for further analysis of 95 of the 194 soil samples collected. The **Big Sand Draw** field, up dip to the south, has produced some 62 million barrels of oil and 256,678,537 MCF of gas from multi-pay horizons generally in the Frontier, Muddy, Lakota, Morrison, Phsoporia, Tensleep, and Madison formations.

According to a petroleum assessment conducted by the U.S. Geological Survey (“USGS”) in 2018, it was found that there were an estimated 528 million barrels of oil, 2 trillion cubic feet of gas, and 40 million barrels of natural gas liquids of obscure resources in the Niobrara Interval of the Wind River Basin province in Wyoming. The table mentioned below describes the outcomes of the study conducted by the third-party engineering firm for the risk assessment of the company’s Wind River Basin acreage:

Prospective Resources and Economic Summary

Description	Oil Gross (MSTB)	Gas Gross (MMCF)	NGL Gross (Mbbls)	Non-Disc. CF (\$M)	PV-10 (\$M)
Before Risk	54,560	106,862	562	\$2,689,074	\$993,500
After Risk	20,981	37,686	198	\$1,026,035	\$371,587

Based on \$72/barrel oil price and \$3.91 Henry Hub natural gas price in 2021

\$M means thousands of dollars

MSTB means thousands of barrels

Mbbls means thousand of barrels

MMCF means millions of cubic feet

NGL means natural gas liquids

Exhibit 2: Prospective Resources and Economic Summary. Source: [Company](#)

The assessment conducted by the third-party engineering firm indicated that assuming an oil price of \$72/barrel, the asset could produce a non-discounted cash flow of ~\$1.03 billion. The PV-10 value for the same is \$371.5 million. PV10 is a calculation of the present value of estimated future oil and gas revenues, net of forecasted direct expenses, and discounted at an annual rate of 10%. The resulting figure is used in the energy industry to estimate the value of a corporation's proven oil and gas reserves. FTXP's current market cap is ~\$9 million, and a potential PV-10 value of \$372 million suggests that FTXP is potentially an undervalued company.

Other Assets Under Development

1. Illinois Basin Transaction - Targets Inactive Wells with Turnaround Potential

Foothills Exploration Inc. has signed a letter of intent through its direct subsidiary **Anaconda Energy LLC**, to enter into a participation agreement and joint operating agreement with **Benchmark Properties Ltd.**, an Illinois basin operator. The company's Illinois Basin strategy involves identifying inactive wells which can be successfully turned around to restart production by incurring minimal costs. The Illinois Basin operations of the company provide a lucrative opportunity to monetize its O&G assets as the commercial production of oil dates back to as early as 1905. The basin is strategically located and is quite resourceful due to the availability of 32,100 oil and gas production wells, 10,500 Class II injection wells, and 1,750 gas storage wells in Illinois.

Under this agreement, the company will pay 50% of the rework and recompletion cost to the Illinois O&G operator in exchange for 50% working interest in the **Sears-Houser #4 well** with the objective of producing from the Aux Vases Sand (2,719-2,730) formation. The company is also in talks for an agreement of drilling and completing a vertical test well, the **Houser-Sears #1-B**, to an approximate depth of 3,500 feet targeting the McClosky Dolomite. A key element to note under the Illinois Basin transaction is that the properties in the basin have a potential capacity of producing 25 barrels of oil per day (BOPD) with 9 inactive wells also found in the region. These wells can be returned to production with minimal Capex involved, which is about to begin in November and is expected to potentially double the production.

FTXP acquires inactive wells in Illinois basin through JVs at attractive valuations – expects turnaround

2. New Energy Venture – Foraying into sustainable and emission-free energy

New Energy Ventures LLC is a subsidiary formed by Foothills Exploration Inc. which focuses on the company's strategic objectives of sustainable energy with a core area of focus in power generation and oil field clean-tech applications and other areas of interest in natural hydrogen & helium exploration, carbon capture, and hydrogen production.

The company intends to collaborate and build synergies with new-age budding entrepreneurs and early-stage startups with innovative business models that help them to develop and commercialize new technologies for a sustainable and energy-efficient low-carbon future. The company in collaboration with Perspectum Drone Inspection Services Ltd. ("PDIS") is working towards the development of enterprise-focused drone technology for the detection of natural hydrogen and helium. The company expects to deliver its first fully functional drone by December 2021 and targets areas of interest in North and South America under its hydrogen exploration program.

Foothills Exploration has mentioned in its latest corporate presentation about acquiring existing gas stations and then rebranding them into retail hydrogen refueling stations and also adding EV rapid charging stations. For the acquisition purpose, the company has targeted gas station locations where sustainably conscious and aware citizens reside coupled with high penetrated EV areas and along key transportation corridors. The key objectives for the company post-acquisition are to optimize its operations for generating higher revenue, add multiple revenue streams by building fleet business for gas/diesel sales, and foray into fleet servicing capabilities for hydrogen and EV fleets.

This will help the company in fulfilling the global demand of optimizing production and minimizing greenhouse gas emissions. Helium is the second most abundant element on earth after hydrogen but finding it is incredibly challenging. However, helium has numerous applications which are critical to various fields of industries and technology, and as such, it remains a high-value, non-renewable commodity.

Many industry stakeholders are shifting their focus from solar and wind to working on hydrogen production and storage projects to reduce carbon emissions. Hydrogen is inexhaustible and its only byproduct is oxygen which is pollution-free - making it a sustainable choice. Many countries have committed significant investments in **Green Hydrogen**; however, cost is still a limiting factor. Although, due to the increased usage of renewable sources, the production of Green Hydrogen is becoming more cost-competitive and affordable. The growth of renewable power has gained momentum due to the rise in penetration of renewable energy - the development of this market is further supported by favorable political initiatives and regulatory frameworks.

Hydrogen production and storage will be a preferred choice for industry stakeholders

As mentioned earlier, FTXP has entered a drone joint venture for the detection of natural hydrogen and helium which has the potential to deliver cost-efficient and reliable low-emission carbon-free power to the sustainable economy. However, the company believes that exploration of natural (or “white”) hydrogen is an emerging concept globally that can prove to be a potential and viable alternative production method as compared to “grey hydrogen” and “green hydrogen”. The production costs are also estimated to be 1/8th the current cost of producing green hydrogen, around \$0.75/kg.

Global Energy Market

The **Global Energy Market** fulfills many basic needs, such as electricity for lights, heating, and the fuel that is used in automobiles. Generally, the companies in the Energy Industry are involved in primary energy production, generation of electricity, refining, transmission, retail distribution, and many other activities which are related to their supply chain. The energy infrastructure and output throughout the world are pervasive and as the emerging and developing economies move towards urbanization and high quality of life, this will only lead towards an increase in demand for energy.

The largest companies as per revenue generated under the energy sector are the oil and gas giants. However, due to the current pandemic situation, the immediate global oil demand is expected to remain low where the oil used for road transport and aviation will stay much below the pre-covid levels. The world economy is on a rebound with most of the countries fighting against the pandemic through massive vaccination campaigns, government initiatives in the form of liquidity,

fiscal stimulus, and supporting economic growth in every way possible. This creates optimism and the demand outlook for the energy industry is also increasing as personal consumption and commercial activities are returning to pre covid levels.

Many countries are facing the third wave and even the fourth wave of Covid-19 with increasing coronavirus mutations (Omicron variant being the latest). Although there are countries that have opened their borders for trade and travel; however, few countries have prolonged the restrictions on movement which continues to subdue global energy demand even in 2021. The stimulus packages and the vaccination rollout provide a cushion for the economies to bounce back from the 2020 contraction in GDP, and the **Global Economic Output**³ is expected to rebound by 6% in 2022, which pushes the global GDP even higher than 2019 levels.

Emerging Economies are the driving force behind the jump in Global Energy Demand as it is expected to rise by 4.6% in 2021 which offsets the 2020 contraction and pushes demand 0.5% above 2019 levels. Much of this increase in the projected global energy demand is from the developing nations and the emerging economies, where the demand is set to increase 3.4% above 2019 levels. However, advanced economies are expected to show subdued growth which is still below pre covid levels.

Oil & Gas Industry Outlook

The world’s 50% population must have received at least a single dose of vaccine, with the corporations slowly transitioning from remote working mode to hybrid mode and economists expecting the global GDP to recover fully by the end of 2022. These are signs of returning to normalcy and bouncing back from the catastrophic effects faced by businesses and corporations globally in 2020 due to the pandemic. This has led to opening international borders for trade and travel thus increasing the oil demand for mobility which has reached 95% of its pre-COVID-19 levels and has recovered to \$80/bbl after turning negative in April 2020.

As per Deloitte’s report⁴ on Oil & Gas Industry Outlook, the O&G companies are majorly focusing on practicing capital discipline where the CAPEX in the global upstream segment is projected to increase by only 4% in 2021. The companies are even focusing on debt reduction which will improve their financial health and many American energy companies are joining their European counterparts in transitioning towards a sustainable economy by transforming their conventional business models into innovative ones. The report further suggests that the players in the O&G industry need to change the fundamental way of doing business as they can’t just rely on riding oil price cycles and need to adhere to the ever-increasing ESG norms. This further leads to streamlining and optimizing their resource portfolios by identifying smart energy goals and transitioning towards a sustainable future.

Fuel retailing is also changing the shape of the oil & gas market, where the electrification of transportation has led to a transition from traditional fuels (diesel and gasoline) to other low-

FTXP to benefit from omni-channel (gasoline, hydrogen, and electric) fuel retailing

³ *Global Energy Review 2021*. <https://iea.blob.core.windows.net/assets/d0031107-401d-4a2f-a48b-9eed19457335/GlobalEnergyReview2021.pdf>.

⁴ “2022 Oil and Gas Industry Outlook.” *Deloitte United States*, 23 Nov. 2021, <https://www2.deloitte.com/us/en/pages/energy-and-resources/articles/oil-and-gas-industry-outlook.html>.

emission fuels such as hydrogen, and renewable fuels. For instance, renewable diesel production is expected to increase ninefold between 2020 and 2024 in the U.S. owing to favorable government policies and strong consumer demand. Additionally, the shift in consumer preference from brand and price to convenience and user experience will bring further changes in fueling preferences. Foothills Exploration enjoys the benefits of catering to today’s energy needs by focusing on exploration and development of O&G reserves, and keeping changing demographics in mind, the company is also planning to enter the hydrogen and EV fuel retailing space.

Oil Prices and Future Outlook

Crude oil prices are affected by various factors such as seasonal demand and supply, weather conditions, political, and economic stability as well. There are two benchmarks majorly used to analyze the oil prices namely: **WTI (West Texas Intermediate)** that tracks U.S. oil prices and **North Sea Brent** which tracks global oil prices. As per the U.S. Energy Information Administration’s (EIA) short-term energy outlook⁵, the Brent crude oil prices averaged around \$84/barrel in October 2021 which is up by \$9/barrel as compared to September’s average. For the rest of the year 2021, the prices are projected to average around \$82/barrel and \$71.91/barrel in 2022 as per the EIA’s predictions. Similarly, as per EIA’s forecast, WTI prices averaged around \$81/barrel in October and are forecasted to reach \$69.02/barrel in 2021 and \$68.28/barrel in 2022. Further, the EIA’s study also reveals that according to their estimates, global oil and liquid fuels demand was 98.9 million b/d in October 2021 which is although up by 4.5 million b/d as compared to October 2020 but still 1.9 million b/d lower than October 2019.

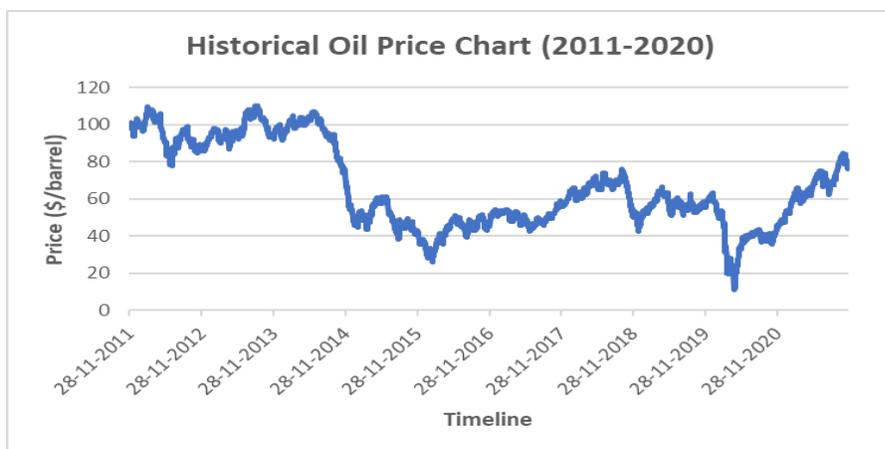


Exhibit 3: Historical Oil Price Chart. Data Source: [Macrotrends](#)

The Coronavirus (Covid-19) pandemic has paralyzed the world economy and the oil markets are recovering from the historic collapse in demand faced in 2020. The countries around the world-imposed restrictions on trade and travel with international boundaries being shut down for the welfare and protection of their citizens. This resulted in a dramatic decrease in demand for mobility which created a problem for oil companies in terms of unsold inventory and oversupply of oil in the markets. The table mentioned below clearly depicts how the supply of oil was more than demand back in 2020 which led to a stacking up of unsold inventory that brought the oil

⁵ Amadeo, Kimberly. "What's Affecting Oil Prices in 2021?" *The Balance*, The Balance, 10 Nov. 2021, <https://www.thebalance.com/oil-price-forecast-3306219>.

futures in negative territory for the very first time. It depicts a grim situation for the players in the oil market as virtually there was no demand for oil due to the global lockdown that dragged the WTI May futures contract of crude oil to -\$37.63/barrel.

It is being worked off now as post-pandemic recovery seems to be in line and demand is picking up. However, even after post-pandemic recovery the demand outlook for oil might not return to “normal” as trends in jobs have changed from physical to online work-from-home models with corporate and leisure travels being cut down. Additionally, governments across the world are focusing their approach on the transition from a conventional fossil fuel-based economy to a sustainable economy with a low carbon future hence reducing the dependence on oil.

World oil demand and supply (mb/d)

	2019	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21	3Q21	4Q21	2021	2022	2023	2024	2025	2026
DEMAND																
Total OECD	47.7	45.4	37.6	42.3	43.1	42.1	43.3	43.8	45.4	46.5	44.7	45.8	46.2	46.2	46.0	45.8
Total Non-OECD	52.0	48.3	45.3	50.4	51.7	48.9	50.7	51.1	52.3	52.7	51.7	53.7	55.0	56.1	57.2	58.3
Total Demand¹	99.7	93.8	82.9	92.7	94.7	91.0	93.9	94.9	97.7	99.2	96.5	99.4	101.2	102.3	103.2	104.1
SUPPLY																
Total OECD	28.5	29.9	26.9	27.1	27.8	27.9	27.8	28.1	28.3	28.7	28.2	29.0	29.6	29.9	29.9	29.7
Total Non-OECD	32.0	32.3	30.0	29.7	29.9	30.5	30.3	30.8	30.8	30.7	30.6	31.5	32.0	32.0	32.1	32.1
Processing Gains ²	2.4	2.3	2.0	2.1	2.1	2.1	2.1	2.2	2.3	2.3	2.2	2.4	2.4	2.4	2.5	2.5
Global Biofuels	2.8	2.2	2.5	3.1	2.6	2.6	2.3	2.9	3.2	2.9	2.8	3.0	3.1	3.2	3.3	3.3
Total Non-OPEC³	65.6	66.7	61.3	61.9	62.4	63.1	62.5	63.9	64.5	64.6	63.9	66.0	67.1	67.5	67.7	67.6
OPEC																
Crude	29.5	28.2	25.6	24.1	24.9	25.7										
OPEC NGLs	5.4	5.4	5.2	5.1	5.2	5.2	5.2	5.3	5.3	5.3	5.3	5.5	5.5	5.6	5.6	5.7
Total OPEC³	34.9	33.6	30.8	29.2	30.0	30.9										
Total Supply	100.5	100.2	92.1	91.1	92.4	93.9										

Exhibit 4: World Oil Demand & Supply. Source: [IEA Oil 2021 Report](#)

Understanding the Hydrogen and EV charging industry

Besides the exploration and production of oil and gas, Foothills Exploration, Inc. plans to invest in and acquire existing gas stations at attractive valuations and add hydrogen and EV charging stations to become a full-service (gas, hydrogen, and electric) branded energy refuel company. It also plans to combine franchised dining establishments on all its refueling stations to capture users’ time and generate additional immediate revenue. In the next few sections, we’ll look at the global Hydrogen and EV charging industry.

Global Hydrogen Industry

According to the International Energy Agency (IEA) hydrogen report⁶, almost 115 million tonnes of hydrogen are produced every year. Out of this, 70 Mt of hydrogen is used in pure form, mainly for oil refining and ammonia production. The remaining 45 Mt of hydrogen is used in the industry without prior separation from other gases.

The below pie chart shows the industrial sectors consuming the most hydrogen.

⁶ IEA. “Hydrogen – Analysis.” IEA, 1 Nov. 2021, <https://www.iea.org/reports/hydrogen>.

Hydrogen Consumption by Industry

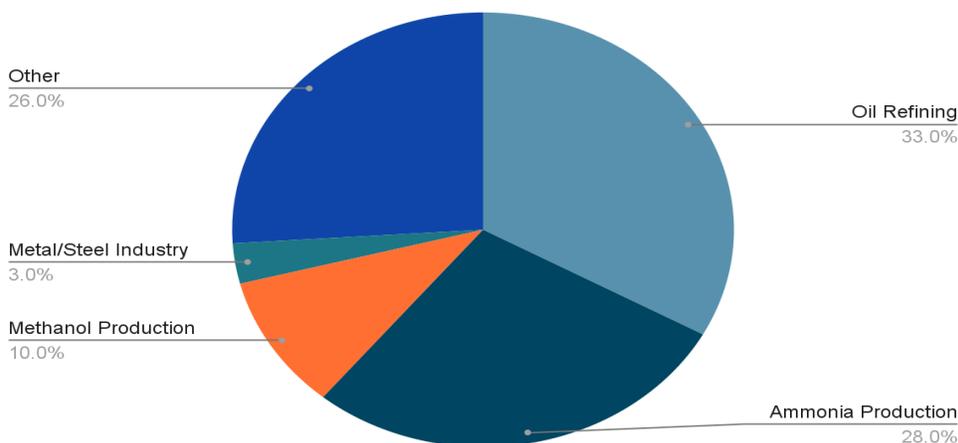


Exhibit 5: Hydrogen Consumption by Industry. Data Source: IEA

According to the IEA report referred to above, industrial demand for hydrogen will rise in coming years with the following perspectives:

- o Refineries: +7%, to 41 million tonnes of H₂/year in 2030
- o Chemicals industry +30%, from 44 Mt/year today to 57 Mt/year by 2030
- o Steel/metal: double the quantity required by 2030

This growth will require solid, stable, sustainable solutions that can respond to the industry needs and the requirements of the energy transition.

Hydrogen in Mobility

The transportation sector depends almost entirely on fossil fuels. It is responsible for over 20% of global carbon emissions. The IEA foresees that if we go by the current trend, Carbon Emissions will rise by approximately 35% by 2050. The Paris agreement aims to limit the global temperature to 2 degrees C by 2050 and reduce said emissions by 40% by 2050. In this context, hydrogen is one of the important alternative fuels to significantly reduce carbon emissions. Just like electric vehicles, hydrogen-powered vehicles – which only emit a small quantity of water vapor – contribute to de-carbonizing the transport sector. Hydrogen station networks are therefore expanding rapidly around the world, especially in Germany, the USA, the UK, Japan, South Korea, and France.

Hydrogen Fueling Infrastructure

Hydrogen fueling infrastructure is a large industry in the making and is currently at a very nascent stage. According to Fortune Business Insights⁷, the global hydrogen fueling station market size was a meager \$0.37 billion in 2020 but is expected to reach \$2.67 billion in 2028, exhibiting a CAGR of a whopping ~31%.

⁷ “Hydrogen Fueling Station Market Size.” *Hydrogen Fueling Station Market Size & Industry Outlook [2028]*, <https://www.fortunebusinessinsights.com/hydrogen-fueling-station-market-103934>.

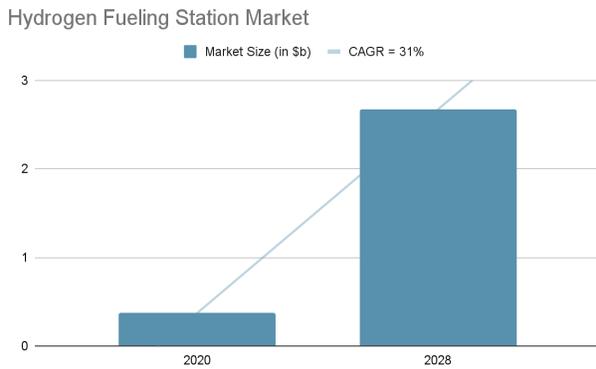


Exhibit 6: Global Hydrogen Fueling Station Market. Data Source: Fortune Business Insights

By the end of 2020, there were only 584 hydrogen fueling stations across the world, compared to more than 500,000 gasoline stations across the world. The worldwide gasoline stations are on a constant decline, and these are being replaced by EV charging/Hydrogen fueling stations. Thus, it is clear that the hydrogen fueling infrastructure will witness growth in the following decade. Hydrogen is widely utilized by vehicles called Fuel cell electric vehicles (FCEVs). These vehicles only produce heat and water vapor as a byproduct and thus are a direct green alternative to conventional fossil fuel-powered vehicles. Hydrogen can also be utilized to power not only light vehicles, but a number of mid-to-heavy vehicles such as aircraft, trains, and maritime vessels.

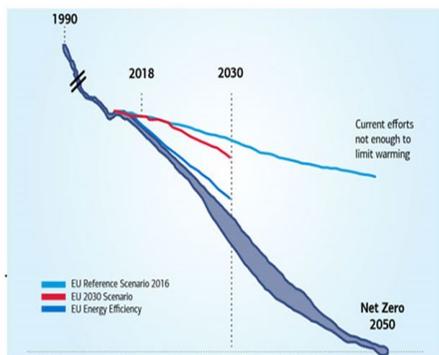
Hydrogen fuelling market is largely underpenetrated. FTXP could benefit as an early mover

Another growth driver for the hydrogen fueling infrastructure is that regulatory bodies around the world have been emphasizing the use of emission-free vehicles and are continuously funding and incentivizing schemes for large-scale adoption of non-polluting vehicles. Foothills Exploration, by being an early adopter and investor in the huge and untapped hydrogen fueling market, could potentially unlock value for shareholders.

Green Hydrogen market is poised for a huge growth

Hydrogen - The universe's most abundant element is among the hotter topics in the halls of industry and government around the world. Experts expect that we will soon see green hydrogen become a multi-trillion-dollar commodity sector. It is believed to transform the energy sector and play a critical role in fighting climate change.

Green Hydrogen Can Help the World Hit an Ambitious 'Net Zero 2050' Carbon Emission Target



FTXP has potential to benefit from the rapidly growing green hydrogen market

Exhibit 7: Role of Green Hydrogen to achieve “Net Zero 2050”. Source: BofA Global

BofA Global Research's head of thematic investing, Haim Israel, says, "We think we are reaching an inflection point where green hydrogen could supply our energy needs, fuel our cars, heat our homes, and be used in industries that have no economically viable alternatives to fossil fuels. Together with renewable electricity, green hydrogen gives us a shot at attaining a zero-carbon emission global economy by 2050."⁸

As of 2019, the global green hydrogen market size is valued at only USD 786.9 million. The question arises why it is such a small market despite hydrogen being the most abundantly available element. The key reason green hydrogen hasn't scaled is cost. Currently, Green Hydrogen costs between EUR 3-7/ Kg to produce, while only EUR 1/ Kg to produce its Fossil counterpart. Despite the fact that green hydrogen is costly to produce as of now, it is expected that the cost of producing green hydrogen will go as down as \$1-2 by 2050. The main factors that will contribute to the cost reduction will be

1. Cost of Electrolyzes going down – The cost to create electrolyzes has dropped 50% in the last 5 years. It is expected that it will fall at least by another 50-70% by 2030.
2. Falling Renewables prices – Approximately two thirds of the cost of producing green hydrogen comes from electricity. Falling renewable prices are a key to bringing down hydrogen costs.
3. Technology Advancement – Continuous advancement in technology and an increase in production efficiency will further reduce the cost of producing green hydrogen.

EV Charging Market

It's not a mystery that the world is currently enticed by the EV wave. Besides the pure-play EV companies like Tesla, Rivian, Lucid Motors, and Nio, all the conventional commercial vehicles companies have also started to mass-produce electric vehicles. The below graph by EV-Volumes shows the monthly global sales of Electric Vehicles for the last 3 years.

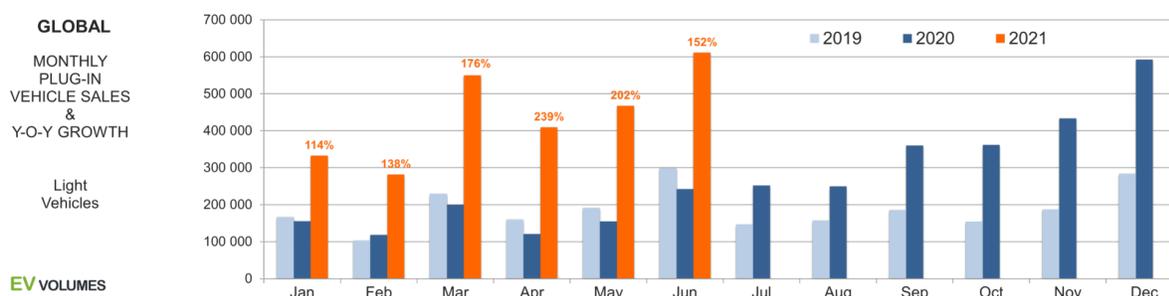


Exhibit 8: Global Electric Vehicle Sales. Source: EV-Volumes

⁸ "Green Hydrogen: A Clean, Renewable Energy Source & Benefit to the Economy." *Bank of America*, https://about.bankofamerica.com/en/making-an-impact/green-hydrogen?s_src=GZERO_Newsletter_8_12_Green_Hydrogen.

It can be clearly seen that the sales of Electric Vehicles have been rapidly growing for the last three years (except the first half of 2020, where auto sales were highly affected due to covid-induced lockdowns). According to a report by Allied Market Research, the EV market is expected to grow at a CAGR of 22.6% in the next 6 years.

Such rapid growth in the adoption of electric vehicles will require a large EV charging station infrastructure. While the current EV charging infrastructure is growing at a rapid pace, there's still a long way to go for the charging infrastructure to absorb all the demand that the EV sector will produce. According to a report by Allied Market Research, the Electric Vehicle Charger Market was valued at \$3.8 billion in 2019 and is expected to reach more than \$25.4 billion by 2027, exhibiting a CAGR of ~27%. Foothills Exploration plans to take exposure to this high-growth market by installing 4-5 EV charging stations on each of its acquired stations (along with the gasoline and hydrogen stations). Foothills Exploration's strategy of investing in an all-fuel (gasoline, hydrogen, and electric) charging infrastructure could potentially prove to be a high cash-growth strategy given very strong industry tailwinds, if they can execute effectively.

Competitive Landscape

FTXP is engaged in the acquisition and exploration of oil and natural gas properties. Its main operation is oil and gas exploration and production. This business is extremely competitive, and industry participants range from large conglomerates like Chevron, Conoco, and Exxon to smaller players like FTXP.

- FTXP's primary business is in the U.S., confined to a few natural assets where all industry participants operate
- It faces competition in the acquisition and development of oil and gas assets not only from independent operators but also from oil majors
- Moreover, the industry is highly capital intensive; companies, therefore, compete to obtain capital from investors via debt and equity financing
- FTXP also faces competition from industry participants in hiring experienced personnel. It is competitive to hire highly experienced oil and gas professionals.
- Lastly, access to technology and services at lower costs is key for this industry, another area in which FTXP competes with industry participants.

Risk Factors

- FTXP is a micro-capitalization company and thus subject to inherent risks of that asset class including, limited liquidity, low sell-side coverage, no institutional ownership, and start-up type business risks.
- Oil and gas investments are very risky even for larger players, the company is subject to substantial risk including financial, operational, competitive, and risk of overall business failure.
- The company has a substantial amount of dilutive securities including options, convertible debt, convertible preferred stock, and warrants which could dilute investors and place downward pressure on shares.
- FTXP has limited cash and is not profitable, there is no assurance the company will be able to raise financing or do so on attractive terms and/or become profitable. Investors also have been limiting capital for shale investments recently.
- The company is subject to intense governmental environmental risk including restrictions on fracking.
- The company is highly subject to commodity pricing, specifically, prices of oil and natural gas. The company has not entered into derivative contracts or swap agreements for oil and gas.
- Reserve estimates are subject to considerable risks and various assumptions, there is no assurance they may prove as forecasted.
- The oil and natural gas industry contain numerous operating risks including the risk of fire, explosions, pipe failures, and environmental hazards. The company is not insured fully against all potential exposure because either insurance is unavailable, or the premium costs are prohibitively high.
- The company has used 2D & 3D seismic data and visualization techniques in making the decision to drill their initial two wells in the Paw Paw and Labokay prospects which did not yield commercial evidence of oil and gas. This leads to wastage of resources in terms of high predrilling expenditures and exploitation of properties.
- The company expects an increase in the cost of securing drilling rigs, equipment, oil field services, and other supplies at a time when prices and demand for crude oil, and natural gas is high. The inability to seek such supplies and equipment at a fair price could potentially affect the business operations and financial conditions of the company.

History & Key Milestones

The company was incorporated under the name “Key Link Assets Corp.” on May 13, 2010, which was involved initially in the acquisition of a portfolio of heavily discounted real estate properties in the Chicago metropolitan area. Later, the company shifted its focus towards catering to an untapped market by planning to acquire small and medium-sized grocery stores in non-urban areas that are not directly served by branded supermarket chains. The company entered into a Share Exchange Agreement on May 27, 2016, with the investors of FPI to fully acquire all the outstanding shares of the company and make it their subsidiary. However, before this agreement, the company did not have any active business operations due to limited assets and no revenue recognition where its existence was only on paper.

In the mid-year 2016, the company actively got engaged in oil & gas exploration and later launched its exploration division and a new office in Houston for building a portfolio of high-impact exploration projects in the Gulf Coast region. The company also entered into a participation agreement with Magna Operating LLC in relation to Labokay prospect which covers approximately 240 acres in Calcasieu Parish, Louisiana. At the end of the same year, the company acquired various oil and gas assets under the Uinta agreement which covers 30 proved undeveloped drilling locations and access to approximately 7,500 acres in the Uinta basin with proved and probable reserves with good infrastructure in place.

HISTORICAL TIMELINE

2010: Incorporated under the name “**Key Link Assets Corp.**” for the purpose of acquiring heavily discounted real estate properties in the Chicago metropolitan area.

2016: FPI acquired **14.1 million pre-split** (56.4 million post-split) shares of the company’s common stock .

2016: Underwent a **4:1** forward split of shares of the common stock.

2016: Entered into a **Share Exchange Agreement** with shareholders of FPI whereby they acquired all of the outstanding shares of the FPI. Prior to the Share Exchange, the Company had minimal assets and recognized no revenues from operations and were accordingly classified as a **Shell Company**.

2016: Filed an amendment indicating that they were no longer a shell company and actively engaged in oil and gas operations.

2016: FINRA approved the name change of the company from Key Link Assets Corp. to **Foothills Exploration Inc.** and a change of trading symbol from KYLK to **FTXP**.

2016: Launched **Exploration Division** and opened a new office in **Houston**

2016: Entered into a participation agreement with **Magna Operating LLC**. in relation to the Labokay prospect.

2016: Acquired various oil and gas assets (the “**Uinta Agreement**”).

2017: **Stagecoach 111-20H & Stagecoach 117-20H** horizontal wells commenced producing natural gas liquids, and residue gas in commercial quantities.

Exhibit 9: Historical Timeline and Key Milestones. Data Source: [Annual Report](#)

Compliance Update

FTXP has re-engaged its historical auditor, RBSM, LLP, to conduct audits of the Company and its subsidiaries' financial statements under U.S. GAAP and PCAOB Standards for the prior two years in preparation for becoming fully reporting in compliance with applicable U.S. Securities and Exchange Commission (“SEC”) rules and regulations.

This is an important step for the Company towards becoming a fully SEC reporting public company and ultimately possibly to resume trading on the OTCQB.

Valuation

FTXP’s primary asset includes the Beaver Creek Project situated in Wind River Basin, Wyoming where it controls over 18,500 acres including the recently acquired 2,500 acres. The after-risk prospective resources include over 27.4 million barrels of oil equivalent situated across different development zones in the basin. We have used NPV analysis to value the company using a discount rate of 12.5% to account for the high cost of the company’s debt and inherent risk and cyclicity associated with the early-stage E&P company. We expect the company to start oil and gas production from its primary asset by 2024 and the long-term average oil price for the forecast is assumed at \$55/barrel (bbl).

Probability of success	Resources (Boe)	Land Area (in acres)	Oil Price	Disc. Rate	Production year
50%	27.49	18,500	\$55	12.50%	2024
		Approaches (in \$ mm)	Value (USD)	Weight	Wtd. Value (USD)
Calculated Equity Value (\$mm)		DCF	\$83.79	90%	\$75.41
Enterprise Value	\$101.66	GPCM	\$7.92	10%	\$0.79
- Debt and Preferred Stock	\$18.00	GTM	-	0%	\$0.00
+ Cash	\$0.13	Wtd Avg. Equity Value (USD)			\$76.20
Net Debt	-\$17.87	No of Shares			9,090.60
Equity Value	\$83.79	Intrinsic Value Per Share			\$0.008

Exhibit 10: FTXP Valuation Snapshot. Source: Diamond Equity Research

Based on our analysis and underlying assumptions of WACC and commodity prices, we arrive at an equity value of ~\$76.20 million or \$0.008/share, contingent on successful execution by the company and successful asset production, with significant risk factors. While the company is thinly traded in OTC markets, we expect the company valuations to reflect the value of its primary asset and its move towards renewable and next-gen energy resources as the company begins with production.

Enterprise Value		Oil Prices					
	\$101.66	\$35.00	\$45.00	\$55.00	\$65.00	\$70.00	
W	8.00%	\$93.44	\$122.34	\$151.24	\$180.14	\$194.59	
A	10%	\$77.62	\$101.90	\$126.17	\$150.45	\$162.59	
C	12.50%	\$62.18	\$81.92	\$101.66	\$121.40	\$131.27	
C	14%	\$54.70	\$72.23	\$89.77	\$107.30	\$116.07	
C	18.00%	\$39.51	\$52.54	\$65.57	\$78.59	\$85.10	

Enterprise Value		Oil Prices					
	\$101.66	\$35.00	\$45.00	\$55.00	\$65.00	\$70.00	
B o e	24934543	\$55.75	\$73.66	\$91.56	\$109.47	\$118.42	
	26181270	\$52.77	\$69.82	\$86.87	\$103.93	\$112.45	
	27490333	\$52.77	\$69.82	\$86.87	\$103.93	\$112.45	
	28864850	\$55.75	\$73.66	\$91.56	\$109.47	\$118.42	
	30308093	\$62.18	\$81.92	\$101.66	\$121.40	\$131.27	

Equity Value		Oil Prices					
	\$0.009	\$35.00	\$45.00	\$55.00	\$65.00	\$70.00	
W	8.00%	\$0.008	\$0.011	\$0.015	\$0.018	\$0.019	
A	10%	\$0.007	\$0.009	\$0.012	\$0.015	\$0.016	
C	12.50%	\$0.005	\$0.007	\$0.009	\$0.011	\$0.012	
C	14%	\$0.004	\$0.006	\$0.008	\$0.010	\$0.011	
C	18.00%	\$0.002	\$0.004	\$0.005	\$0.007	\$0.007	

Equity Value		Oil Prices					
	\$0.009	\$35.00	\$45.00	\$55.00	\$65.00	\$70.00	
B o e	24934543	\$0.004	\$0.006	\$0.008	\$0.010	\$0.011	
	26181270	\$0.005	\$0.007	\$0.009	\$0.011	\$0.012	
	27490333	\$0.005	\$0.007	\$0.009	\$0.011	\$0.012	
	28864850	\$0.005	\$0.008	\$0.010	\$0.012	\$0.013	
	30308093	\$0.006	\$0.008	\$0.010	\$0.013	\$0.014	

Exhibit 11: Sensitivity Analysis Snapshot. Source: Diamond Equity Research

Financial position of the company

FTXP currently recognizes revenue from its Utah properties with a net revenue interest of 17.1% with the rest recognized by EOG Resources Inc. The production from the two wells was completed in 2018 with minimal revenue reported in the past 3-4 years. The company's management has also shifted its focus to Beaver Creek Project, and thus in line with the management's focus, our revenue model does not recognize revenue from the above-mentioned properties. As of September 30th, the total cash balance with \$1.24 million and a debt balance of ~\$18.0 million. Given the cash burn rate of \$3-3.5 million per year, we have assumed an equity raise of \$10.5 million sufficient to fund its operations for the next two years and before the production starts at its core property. Any future development will affect the company's source and use of funds.

Income Statement	FY2019 A	FY2020 A	FY2021 E	FY2022 E	FY2023 E	FY2024 E	FY2025 E	FY2026 E	FY2027 E	FY2028 E	FY2029 E	FY2030 E
Net sales	1,677,372.0	467,054.0	477,000.0	-	-	37,799,208.3	37,799,208.3	37,799,208.3	56,698,812.5	56,698,812.5	75,598,416.7	75,598,416.7
Oil	-	-	-	-	-	57,697,750.0	57,697,750.0	57,697,750.0	86,546,625.0	86,546,625.0	115,395,500.0	115,395,500.0
Conventional Natural Gas	-	-	-	-	-	17,356,166.7	17,356,166.7	17,356,166.7	26,034,250.0	26,034,250.0	34,712,333.3	34,712,333.3
NGI	-	-	-	-	-	544,500.0	544,500.0	544,500.0	816,750.0	816,750.0	1,089,000.0	1,089,000.0
Operating expenses												
Lease operating expenses	(1,144,315.0)	(326,915.0)	(304,000.0)	-	-	(11,339,762.5)	(11,339,762.5)	(11,339,762.5)	(17,009,643.8)	(17,009,643.8)	(22,679,525.0)	(16,631,651.7)
Transportation cost	-	-	-	-	-	(3,023,936.7)	(3,023,936.7)	(3,023,936.7)	(4,535,905.0)	(4,535,905.0)	(6,047,873.3)	(5,291,889.2)
Selling, general and administrative expense	(3,568,587.0)	(897,952.0)	(1,142,849.6)	(1,199,992.1)	(1,259,991.7)	(4,535,905.0)	(4,535,905.0)	(4,535,905.0)	(6,803,857.5)	(6,803,857.5)	(9,071,810.0)	(7,559,841.7)
EBITDA	(3,035,530.0)	(757,813.0)	(969,849.6)	(1,199,992.1)	(1,259,991.7)	18,899,604.2	18,899,604.2	18,899,604.2	28,349,406.3	28,349,406.3	37,799,208.3	46,115,634.2
Depreciation, depletion, amortization and accretion expense	(723,869.0)	(155,872.0)	(195,258.7)	(188,689.8)	(190,806.7)	(194,347.1)	(197,436.1)	(200,531.6)	(204,342.2)	(208,868.3)	(214,110.0)	(228,572.2)
Other income	18,905.0	-	-	-	-	-	-	-	-	-	-	-
EBIT	(3,740,494.0)	(913,685.0)	(1,165,108.3)	(1,388,681.8)	(1,450,798.3)	18,705,257.1	18,702,168.0	18,699,072.6	28,145,064.0	28,140,537.9	37,585,098.3	45,886,461.9
Financing expense	(11,295,966.0)	(1,180,124.0)	(6,019,310.0)	(2,078,900.2)	(2,078,900.2)	(2,078,900.2)	(2,078,900.2)	(2,078,900.2)	(2,078,900.2)	(2,078,900.2)	(2,078,900.2)	(2,078,900.2)
Profit before exceptional items, extraordinary items and tax	(15,036,460.0)	(2,093,809.0)	(7,184,418.3)	(3,467,582.0)	(3,529,698.5)	16,626,356.9	16,623,267.9	16,620,172.4	26,066,163.8	26,061,637.7	35,506,198.2	43,807,561.8
Change in fair value of derivative liabilities	(7,216,505.0)	8,125,338.0	(6,511,000.0)	-	-	-	-	-	-	-	-	-
Impairment loss	-	-	(78,000.0)	-	-	-	-	-	-	-	-	-
Gain on settlement of debt and contingent liabilities	1,944,652.0	737,714.0	6,987,000.0	-	-	-	-	-	-	-	-	-
Loss on sale of property	-	(914,031.0)	279,000.0	-	-	-	-	-	-	-	-	-
Profit before tax from continuing operations	(20,308,313.0)	5,855,212.0	(6,507,418.3)	(3,467,582.0)	(3,529,698.5)	13,134,822.0	13,132,381.6	13,129,936.2	20,592,269.4	20,588,693.8	28,049,896.6	34,607,973.8
Income tax (expense) benefit	-	-	-	-	-	(3,491,535.0)	(3,490,886.2)	(3,490,236.2)	(5,473,894.4)	(5,472,943.9)	(7,456,301.6)	(9,199,588.0)
Net earnings including noncontrolling interests	(20,308,313.0)	5,855,212.0	(6,507,418.3)	(3,467,582.0)	(3,529,698.5)	13,134,822.0	13,132,381.6	13,129,936.2	20,592,269.4	20,588,693.8	28,049,896.6	34,607,973.8
Share of profit / (loss) of associates (net)	-	-	-	-	-	-	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-	-	-	-	-	-	-
Net earnings attributable to Foothills Exploration Inc.	(20,308,313.0)	5,855,212.0	(6,507,418.3)	(3,467,582.0)	(3,529,698.5)	13,134,822.0	13,132,381.6	13,129,936.2	20,592,269.4	20,588,693.8	28,049,896.6	34,607,973.8
Adjusted Net Income	(15,036,460.0)	(2,093,809.0)	(7,184,418.3)	(3,467,582.0)	(3,529,698.5)	13,134,822.0	13,132,381.6	13,129,936.2	20,592,269.4	20,588,693.8	28,049,896.6	34,607,973.8

Exhibit 12: FTXP Proforma Income Statement. Source: Company, Diamond Equity Research

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