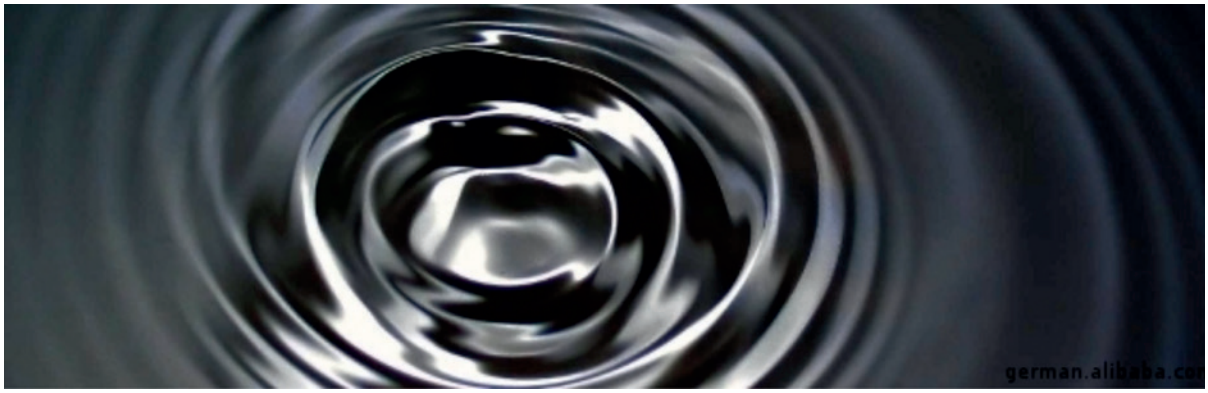
Research-Studie

Small Cap Research

Northwest Oil & Gas



Exchange:
GXG Markets UK - OTC/London/Denmark

Research Study

Research Study: Northwest Oil & Gas Inc.

Initial pricing: 15.12.2013 – price euro 0.28

Exchange: GXG Markets London/Denmark
Branch: Oil – exploration/development
Rating: Buy
Risk: Average

Current market price: Euro 0.28
12-month target: Euro 0.40
24-month target: Euro 0.80

Company information:

Country: USA
Branch: Oil – exploration/development

Office: Delaware
Director: Mr. Nicolas Fares Habre (Chairman)
Telephone: +1 302 674 4305
Fax: +1 302 674 0910
Web: www.nwoil.org
E-Mail: ir@nwoil.org

ISIN-Number: US6677131012
Ticker: NWO
Settlement: Clearstream
Trading start: 01.11.2013
Stock number: 50 mill.
Nominal value: 0.20 US dollar/share
Market value: Euro 14.00 mill.

Analyst: Andreas Schmidt

Highlights

- Oil project shortly with initial production
- Broad stockholder basis
- Very lean cost structure after restructuring
- New stockholder structure and institutional stockholders
- Promising portfolio in oil & gas projects
- International network
- Innovative refinery technology as „Add-on“

Inhalt

1 Historical development/background

Northwest Oil & Gas Trading Company Inc. (NWOil) was established in 2007 to become active in the field of oil and gas exploration. One focus was on acquiring oil and gas properties which had already been in production in the past, and on reactivating these properties with new technology. In the last few years, by way of example, the land and mineral oil rights to the Dean Creek Oil Property have been acquired, whereby NWOil is in complete possession. According to an independent audit (not NI 43-101 compliant), this property has 1.6 million BOE (Barrels Oil Equivalent) proved reserves and 3.1 million BOE probable reserves.

Furthermore, a prospective gas property has been acquired, the Scareum Mountain Gas Field with estimated gas reserves of 8.4 BCF (Billion Cubic Feet).

After restructuring the company in 2012/2013, a powerful strategic partner joined the company. The management team was also reinforced and the business strategy put on a broader basis. Recently, stock trading was resumed at the GXG Exchange, so that the company is again capital-market-viable and has the possibility, if necessary, to raise further financial means via the exchange.

2 The concept of Northwest Oil & Gas

The company's new structure enables continuation of the operative activity with clearly reduced fixed costs. Focus is centred on starting up production in various projects and on generating cash flow.

Currently the Scareum Mountain Gas Field is not being further actively developed due to the low gas prices. Here, we will be biding our time until gas prices reach a cost-effective level.

Parallel to project development, other strategic fields to generate revenue are in preparation. Included here, above all else, is the licence agreement for distribute the unique advanced „smart cracking" technology. This is an innovative process to apply an improved refinery technology and to build small, more efficient and more cost-favourable refineries. This technology makes for essentially more energy-efficient processing of crude oil to make higher-grade petroproducts. Further these refineries can be built very rapidly within a matter of a few months. Northwest Oil wants to market this technology worldwide in the next few years.

3 Competitors/Similar business models

There are hundreds – if not thousands – of companies in the world engaged in the field of oil/gas exploration and/or production. The market is dominated by multinational concerns such as Exxon, BP, Lukoil or Gazprom. These concerns frequently invest several billions to develop an oil field. The offshore segment, i.e. production of oil on the high seas from platforms, makes a big contribution to global oil production. Major oil reservoirs are frequently explored at depths down to 25 km and more, whereby one single drilled well may cost as much as three-digit millions. For preliminary geological examinations, enormous sums of money are often spent to avoid possible dry holes. In the last few years, oil companies have also begun to produce so-called oil sands as a source for oil production – this happening particularly at times of exploding oil price quotations. In the last few years, however, a new method has also been developed to be able to develop existing resources cost-effectively: Fracking. In USA especially, distinct production growth has been attained and is thus making the USA less dependent on oil deliveries from abroad. An important contribution to energy supplies is also being made by gas production made up of "shale gas", in the meantime covering a third of US gas supplies. Shale gas has, to an enormous extent, contributed to the prices for natural gas imploding from about US dollar 14 per cubic foot down to below two dollars from 2006 to 2012.

Alongside these new methods, there are furthermore any number of, notably smaller oil exploration companies, including NWOil, that concentrate on producing oil from Mother Earth in traditional ways. Basically, this is also the easiest way. Admittedly, the existing reservoirs are getting smaller and above all else rare. Good properties can be made to produce with - for the oil industry comparatively - low investments of a few million dollars and do not require money to be invested to the tune of three-digit millions.

3.1 Development of the oil price

Basic differentiation should be made with oil prices between the WTI (Western Texas Intermediate – USA) and the Brent crude oil price (Europe). Moreover, there are even more oil indices. For example, an oil index for Canadian heavy fuel oil is posted at the Canadian exchange in Calgary that clearly lies below the price of WTI oil.

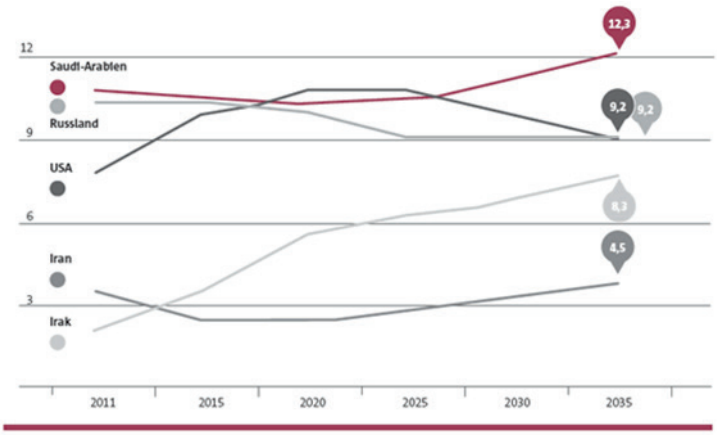
The price of oil of roughly the same quality (which is to say WTI opposed to Brent) may clearly vary, making a difference of as much as 20 %. Naturally, this has to do with the transport costs and thus with the fact that the USA has definitely been expanding production of crude. The fracking boom in USA enables the oil offer in USA to obviously rise greater than anticipated. According to the last Oil Report of the US Ministry for Energy dated 27th November, stock levels are on the up by 3.0 million barrels to 391.4 million barrels. It can also be assumed in the next few years that the offer can be increased with prices on the up. Moreover, oil recovery and production from shale sand can be raised at any time. Another aspect for the demand for petroleum is also the gas price. Due to the fact that natural gas is a good deal more difficult to transport, two completely different markets have developed in USA and Europe. The gas price In Europe persists at a really high level. In USA, on the other hand, there has been a price collapse in the last six years, the price for natural gas imploding from 14 US dollar/cubic foot down to nigh on two dollars, only being able to be somewhat stabilised around the four dollar mark again in the last twelve months. One of the reasons behind

the drastic fall in gas prices was the production of gigantic quantities of shale gas that clearly raised the offer, thus negatively affecting the prices. In the last few years, this has also had repercussions on consumption, for natural gas was frequently preferred to oil as source of energy, which, in turn, meant a corresponding reduction in the demand for oil on the US market.

The International Energy Agency (IEA) predicted that the USA will be the biggest oil producer in the world by 2020 and will probably outstrip Russia as the biggest gas producer as early as in 2015. However, Saudi-Arabia will outperform the USA in oil production by the middle of 2020 again. Given as the reason behind gas and oil production increasing in USA is deposits being developed that up till now were said to be difficult to access and could only be exploited with new, modern extraction technology. Not to be forgotten is extraction of shale gas with fracking that is extremely disputed from ecological viewpoints.

Die größten Energieproduzenten

Ölproduktion in Millionen Barrel pro Tag (ab 2015 Prognose)



Rising oil consumption

Since the Asian thirst for energy will, above all, continue to cause the demand for oil to rocket in the coming 20 years, the IEA is expecting an oil price of 215 dollars per barrel for 2035. The driver of the soaring oil consumption is road traffic. Even today, half of global oil consumption falls to the traffic sector. These figures will continue to rise due to the fact that, on the one hand, the number of cars will double to 1.7 billion by 2035, and, on the other hand, it is assumed that there will be an increase in lorry or truck traffic at the same time. According to the IEA report, global energy consumption will, all in all, grow by a third by 2035. Notwithstanding the prolonged expansion of renewable forms of energy, the IEA assumes that fossil fuels will remain dominant in the energy mix.

Source: ariva.de

In the price development of WTI oil, it can be taken for granted that the price of oil will develop moderately in the coming five to ten years. However, oil prices will tend to rise, yet – due to the above-described developments, this will presumably not lead to any excessive price hiking as was the case in 2008, when the mark of 150 US dollars per barrel was approached and the oil price almost tripled within a mere 18 months. A realistic price of 120 to 140 dollars seems conceivable by 2018 for WTI oil, but no new historical all-time highs are anticipated.

4 Receipts model of the business segments and organisation

4.1 Dean Creek Oil Field (Alabama)

This oil field is located in Alabama, one of the oil-rich regions in the USA. NWOil maintains total possession in this property. According to an independent report (not NI 43-101 compliant), this property has 1.6 million BOE (Barrels Oil Equivalent) proved reserves and 3.1 million BOE probable reserves. The property had already been producing in the past, however, the production well was drilled at a relatively unfavourable site. In the last few years, NWOil has located considerably more promising sites through modern seismological methods.

The objective is to secure the land- and mineralrights and next year to drill two production wells and to thus generate cash flow. The costs per well including infrastructure for one oil-well are estimated at approx. three million US dollars. The crude oil produced will be intermediarily stored in tanks in situ and can then be brought by road tank transporter to the nearest refinery. What is more, existing crude oil is of high quality and contains relatively low proportions of heavy oil and sulphur. This means it is easy to process. The expected output per well is at around 200-300 barrels a day, or some 6,000 barrels a month. To be calculated from this are cash receipts of approx. 500,000 US dollars per month or approx. six million US dollars a year. The pro-rata costs per oil barrel produced are broken down into State and Federal Taxes. This corresponds to charges and taxes to the state and local authorities, dues and allotments for land owners and geologists as well as operating costs, operations, etc. They come to some 55 % in sum.

Minus the regular maintenance and transport costs, earnings of approx. three million US dollars per year and per well can be expected. This means that the entire investments would be redeemed within the first year. The possible production period is estimated at some 15 years. Should, as planned, two wells be operated, a marginal return of the property of approx. six million US dollars per year can be expected.

4.2 Alisha 1 oil and gas field

An option was recently acquired and paid for on the so-called Alisha 1 oil and gas field. Like Dean Creek, the Alisha oil field is very promising. The amount invested to procure the complete land and mineral oil rights comes to the tune of some 1.2-1.5 million US dollars, which in consideration of the enormous potential is very favourable indeed.

By reason of the lower drilling depth of about 2,000 metres, the costs for one production well with one million US dollars are unequivocally lower compared to the three million US dollars for the Dean Creek oil field. Up to 20 production wells are planned over the entire field.

Monthly production of some 4,500 barrels is anticipated per well. After a few months, it is expected that the monthly production quota will decline somewhat.

As with the Dean Creek Oil Field, some 55 % costs are anticipated for the Alisha Project. At the end of the day, the company is expecting earnings of approx. two million US dollars per active well.

The investments of the complete land acquisition and the initial production well would therefore be redeemed after one year. For the development of further production wells, additional costs of one million dollars would be incurred, with calculated income after costs of approx. two million dollars p. a. per well.

Under these conditions, the property could provide up to 24 million US dollars p. a. in returns.

4.3 Smart cold-cracking technology & small refinery

The close collaboration between Northwest Oil & Gas Trading Company Inc. and the SRE Group (www.smartrefineries.com) has been further consolidated. For example, within the framework of a joint venture, SRE is holding a stake in NWOil by acquiring shares from the authorised capital in 2012. Brought into NWOil were the exclusive rights for various countries, which means that NWOil can market SRE`s smart-refinery and cold-cracking technology in these countries exclusively.

The SRE Group thus became a major stockholder of NWOil and would like to significantly accompany NWOil as an institutional and strategic investor and partner in future.

SRE technology is to facilitate NWOil a unique presence within the framework of a consortium with very extensive, world-wide potential, particularly in the fields of refinery construction, refinery optimisation and oil recovery from industrial oil tank installations.

Unfortunately, this potential cannot be currently estimated or evaluated. Due to the fact that major projects are involved with investment volumes coming to three-digit million, if not even billion euro -amounts, overproportional returns might be generated with successful realisation. For this reason, we assess this as a possible „Add-on“, which might cause positive surprises.

5 Risks

Company risks:

As in every enterprise, risks do exist with regard to realisation of the business model. It cannot be guaranteed that the business model will be realised to fall in line with planning. In particular, it is not certain as to what extent the proceeds from the share sale of the planned projects will be adequate to generate a marginal return for the company. Econom-ic fluctuations and a negative development on the markets might likewise influence busi-ness negatively.

Financing risks:

Since the company will need further financial capital, operating the business sectors is on-ly possible, if the company is provided with new financial capital. Should the company be unable to obtain new financial capital, realisation of the business model will not be possi-ble. Further financing will also depend on the company's share price and on the situation on the financial markets. Should there be unforeseeable turbulences, this would possibly aggravate further intake of financial capital to a considerable degree.

Risks with regard to share/stockholding

Through a strong concentration of holdings in existing share/stockholders, it can be assumed that they will have a decisive influence on almost all important company resolutions even subsequent to replacement of shares within the scope of this offer. Procurement of any necessary further capital resources, but other provisions as well might also lead to company shares of the shareholders being diluted.

Risks due to the non-applicability of important protection provisions for investors

Since Northwest Oil & Gas Inc. is not traded on a regulated stock exchange, and trading on the GXG Exchange does not conform to quotation on an organised market in terms of § 2 Clause 5 Securities Trading Act (WpHG), important protection provisions for investors for organised markets do not, as a rule, pertain. Such provisions as the ad-hoc disclosure obligation in accordance with § 15 WpHG, the provisions to Directors' Dealings in accordance with § 15 a WpHG, compulsory registration on attainment of participating interests on a certain level (threshold levels) in accordance with § 21 WpHG, the mandatory offer for change of control in accordance with § 35 Securities Acquisition and Takeover Act (WpÜG), as well as the obligation to provide financial reports in accordance with §§ 37v et sequ. WpHG do not pertain. For a potential buyer, it is therefore difficult to gain an overall picture of the emitter's situation. Investors should, therefore, be well aware of the increased risk of an investment in Northwest Oil & Gas, not quoted on a regulated exchange segment.

6 The Conclusion line

After the restructuring NWOil is again an interesting alternative for investing in the resources field. Contrary to exploration companies, searching for a strike must not be carried out for years on end. NWOil was able to secure their projects on very favourable conditions some years ago, when oil prices took a dive due to the global financial crisis. The company's property is very promising indeed. If the company manages to raise the necessary financial capital, which we are assuming at the moment, production wells can be drilled immediately. The upshot from this will be, a direct cash flow with the first well drilled and producing that will even cover the company's total costs and facilitate further production wells. Assuming an average scenario, we will be able to expect an annual contribution to profit of approx. ten million US dollars - in the best-case-scenario even of clearly over 20 million. Remaining below the line for the company will probably be a profit of some eight million or 17 million US dollars. This would mean a profit of approx. 16 cents (30 cents) per share. Market capitalisation currently lies at some 14 million euro (16 mill. US dollars). Based on the potential and the relatively low costs of getting production started, we consider this assessment in the present stadium justifiable in any event. An immediate unequivocally higher rating would entail financing for the first production well being conclusively secured. Based on an assessment with a P/E ratio of five for 2015, there exists real potential up to a rate of about 0.80 cents.

At present we consider the following target prices possible:

ISIN-Number:	US6677131012
Ticker:	NWO
Exchange:	GXG Markets
Current market price:	Euro 0.28
12-month target:	Euro 0.40
24-month target:	Euro 0.80

Disclaimer

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Pointer to risks:

Company risks: As in every enterprise, risks do exist with regard to realisation of the business model. It cannot be guaranteed that the business model will be realised to fall in line with planning. In particular, it is not certain as to what extent the proceeds from the share sale of the planned projects will be adequate to generate a marginal return for the company. Economic fluctuations and a negative development on the markets might likewise influence business negatively.

Financing risks: Since the company will need further financial capital, operating the business sectors is only possible, if the company is provided with new financial capital. Should the company be unable to obtain new financial capital, realisation of the business model will not be possible. Further financing will also depend on the company's share price and on the situation on the financial markets. Should there be unforeseeable turbulences, this would possibly aggravate further intake of financial capital to a considerable degree.

Investment risks: Investments should only be transacted with money that is freely available and not needed to secure a living. It is not assured that a sale of shares through the stock exchange will be possible at any time. It may possibly take some years before corre-sponding sales revenue can be achieved. Moreover, what cannot be exempted is total loss of the investment.

Sources: To assess the companies, the SEC and/or Sadar Filings and/or the particular business reports concerned are taken into due consideration. What is more, direct contact to the company being analysed is generally established. A variety of criteria are of relevance in the assessment of future prospects. With raw material figures, what is of significant importance is, in particular, the existence of re-serves or resources tested pursuant to NI 43-101 (in accordance with the Canadian directive), as well as the possible economic profita-bility, and the available infrastructure of the particular properties concerned.

Assessment methods: In technological enterprises or other companies, we examine the market environment and development of the market in the coming years. What is especially scrutinised is whether the company concerned has a chance in the respective environ-ment to establish itself permanently on the market. As a basis for a market forecast, the pointers of the expected turnover or sales per share as well as the expected profit/share are referred to. A possible target price is determined from the pointers expected in conjunc-tion with a peer-group comparison. No liability will be taken, however, for the correctness of the contents. Liability for financial losses which may possibly result from taking recourse to the comments for the own investment decision shall therefore be categorically ex-cluded.

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Small-Cap-Research / GCM GmbH | Kurfürstendamm 125a | 10711 Berlin
Tel.: +49 (0)30-89540234 | Fax: +49 (0)30-89540235
www.small-cap-news.de
Geschäftsführer: Stefan Ossenkop (so@small-cap-news.de)