

**Nostra Terra Oil & Gas Company Plc** ('Nostra Terra' or the 'Company') is a fast growing oil and gas exploration and production company working in established onshore oil rich areas in the United States ("US").

Having already made a number of key investments this year, the Company has just announced:

- strong 30 day production (64 boepd) figures from Verde; and
- an accelerated development programme on the Bale Creek prospect.

With fully funded drilling commitments on its existing portfolio and access to a pre-arranged facility of up to £10m, the Company is expected to show strong growth revenues and reserve assets from 2012.

## Investment Argument

### 1. *New oil from old fields*

Nostra Terra has shown conclusively that, by using advanced exploration and production technologies, it is possible to identify and produce profitable oil and gas from mature oil fields in the US.

### 2. *HPI legacy resolved*

In May 2011, Nostra Terra assumed full ownership and operations of the producing Bloom assets. As part of the agreement with HPI, the Company and assigned its interest in other HPI-operated assets and received a \$1.3m secured loan note and warrants.

### 3. *Deeper pockets*

The Company is debt-free. Having raised £2 million over the summer, its existing drilling commitments are fully funded. Further acquisitions and exploration activities can be funded either through the reinvestment of revenues or through the funding facility or a combination of the two in order to minimise the Company's cost of capital.

### 4. *Rapid, sustainable growth*

Revenues are now starting to flow through from the Bloom, Nesbitt, Vintage Hills and Verde prospects. We expect revenues to build further in 2012 as production from three Bale Creek wells comes on stream. The compounding effect of multiple new wells, spread across several prospects will be significant.

On rising production revenues, the Company is expected to show a small profit after tax in the twelve months ending 31 December 2012. Proven production will add to reported aggregate reserves, further enhancing the value of the Company.

### 5. *Pipeline of prospects*

Through the acquisition of smaller working interests (Austin Chalk, Vintage Hills and Nesbitt) and geological research, the Company has demonstrated a substantial knowledge-base of potentially profitable oil reserves in target areas in the USA. It has already used this knowledge to build a portfolio of larger working interests (Verde and Bale Creek) and has established a strong pipeline of exciting prospects.

## Valuation

The target share price is 0.8p against a current price of 0.46p. The valuation is based on established and expected reserve interests in its existing assets. It does not take account of upside from any future acquisitions. We do, however, anticipate the pace of further acquisitions of quality prospects to accelerate over the next 12 months.

## Nostra Terra

Ticker NTOG.L

Exchange AIM - LSE

Current Price\* (GBP) 0.46p

Target Price (GBP) 0.8p

\* Price as on 10 November 2011

## Nostra Terra 5 year share price



Source: Fidessa

Market cap (GBP m) 10.12

52 Week- (High) (GBP) 1.45

52 Week (Low) (GBP) 0.28

5 year high (GBP) 2.77

5 year low (GBP) 0.10

## Financials

(£ Million)	2009	2010	2011E	2012E
Revenue	0.033	0.137	0.345	1.400
PAT	-3.841	-0.591	-0.260	0.150

## Contact details

### Sales Desk

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## Company Overview

Over the past two years, Nostra Terra has completely transformed itself into an acquisitive oil and gas producer and operator in established hydrocarbon provinces in the US. Its stated strategy is to build a diverse portfolio of assets in established oil and gas plays where the Company can generate strong, sustainable revenue flows and reserve values through the application of advanced technology.

The Company has a capable management team and a sizeable war chest to deliver its strategy. It already has six prospects in Kansas, Texas, Colorado and Oklahoma with a strong pipeline of further prospects.

Over the past eighteen months, key milestones included:

- In June 2010, Alden McCall, an experienced oil and gas executive and Certified Petroleum Geologist, joined the Board as COO.
- As part of its settlement with HPI, the Company acquired 100% ownership and the operations of the Bloom prospect where the leases are currently producing 20 barrels of oil equivalent per day ("boepd").
- In June 2010, the Company acquired a 2% interest in the Austin Chalk re-entry well in Texas. Although a small transaction, it clearly demonstrated that Nostra Terra could identify and purchase undervalued assets by achieving a 35 day payback and a 195% profit on its sale in early 2011.
- In early 2011, the Company acquired two further small working interests in Vintage Hills (1%) and Nesbitt (3%), both of which are in production.
- These were quickly followed by the acquisitions of a 16.25% interest in Verde and a 30% interest in Bale Creek in June 2011.
- Initial production at Verde is highly encouraging with 30 day production figures averaging 64 boepd, crucially with 100% of production being oil.
- A number of key steps of in Phase 1 of the Bale Creek development plan have been completed ahead of schedule with the first of three Phase 1 wells planned to spud in December 2011.

## At a glance - Nostra Terra's existing prospects and production

Prospect	Bloom	Vintage Hills	Nesbitt	Verde	Bale Creek
<b>State</b>	Kansas	Texas	Texas	Colorado	Oklahoma
<b>Operator Status</b>	Operator	Non Operator	Non Operator	Non Operator	Non Operator
<b>Nostra Terra's Working Interest</b>	100%	1%	3%	16.25%	30%
<b>Potential Wells</b>	Under review	4	3	3	Phase 1 - 3 Phase II - 4
<b>No. of Wells Producing</b>	3	1	1	1	0
<b>Current Production</b>	20 boepd (100% oil)	59 boepd (35% oil)	26 boepd (100% oil)	64 boepd (100% oil)	75 boepd (expected)

## Nostra Terra's Prospects – Key Developments and Technical Information

### ***Bloom***

Bloom is located in Rice County, Kansas. NTOG holds 400 acres and targets the Arbuckle, Lansing- Kansas city and other formations in the Central Kansas Uplift.

NTOG holds a 100% working interest in the Bloom prospect with proven reserves of 2,260,800 barrels of crude oil and 1,096 million cubic feet of gas. Production is currently running at 20 boepd from three wells, which is lower than indicated by the reserve report. However, Nostra Terra has stated that there is scope to improve the productivity and profitability of the Bloom prospect.

### ***Vintage Hills – Horizontal Well***

10 January 2011	1% working interest acquired
18 January 2011	Drilling commences on the first horizontal well (Agnello #1)
9 February 2011	Drilling reaches a vertical depth of 10,400 feet
4 April 2011	Agnello #1 brought into continuous production but, subsequently, subject to intermittent plugging in the lateral section
18 August 2011	Workover completed and well put back into production
19 September 2011	Initial 30 day production figures of 59 boepd gross with 35% of production being oil

Vintage Hills is a horizontal development in Brazos County, Texas within the established Giddings Field. There are four separate oil-bearing Austin Chalk reservoirs, allowing for further potential rework.

The prospect is operated by New Century Exploration Inc. The cash consideration for Nostra Terra's budgeted participation is \$38,267 with an estimated additional \$5,853 completion costs.

### ***Nesbitt – Horizontal Well***

17 January 2011	3% working interest acquired
23 March 2011	Drilling commences on the first horizontal well
26 April 2011	Drilling completed reaching a vertical depth of 7,000 feet with a horizontal section of 3,000 feet
25 August 2011	Well put into production
28 September 2011	Initial 30 day production figures of 26 boepd with 100% production being oil

Nesbitt is a horizontal development into the Middle Pettet "Crane Zone" located in the producing Woodlawn Field in Harrison County, Texas. The first of three potential horizontal wells has been drilled by the operator, New Century Exploration Inc.

The cash consideration for Nostra Terra's budgeted participation was \$52,291 with an estimated additional \$14,145 completion costs.

### ***Verde – Vertical Well***

20 June 2011	16.25% working interest acquired
1 August 2011	Initial well spudded
15 August 2011	Drilling completes ahead of schedule to a vertical depth of 5,300 feet
27 October 2011	Initial 30 day production figures of 64 boepd with 100% of production being oil

Verde is located in 635 acres in south eastern Colorado. The prospect has a multi-productive oil prone formation where recent 3-D seismic supports additional drilling up from past production.

The prospect is operated by Plainsmen Partners LLC with three targets:

- Lower Morrow/Keyes, positioned to recover 'attic oil'
- Marmaton, an exploration target
- Mississippian, an exploration target

The initial well was drilled into the Mississippian formation.

The cash consideration for Nostra Terra's budgeted participation was \$183,900 for drilling and completion costs.

### ***Bale Creek – Horizontal Prospect***

27 June 2011	30% working interest acquired
8 November 2011	Progress update on Phase I

Bale Creek is a stacked multi-pay, oil prone, prospect situated in a proven prolific oil system with up to 8 reservoirs in Oklahoma. The system contains shallow oil with associated liquids-rich natural gas. There is extensive regional structural mapping of the area.

The interest covers all the existing leases and any new wells in the prospect. The total estimated cost of pre-drilling activities is \$672,700 of which Nostra Terra's estimated proportion is \$201,810. The prospect is operated by Pathfinder Exploration Company LLC ("Pathfinder").

The two phase development plan involves:

1. Phase I
  - a. Acquire and interpret proprietary 2-D and 3-D seismic to pinpoint drilling locations and steer horizontal drill paths. The 2-D seismic has been shot and interpreted. The reflections of the key zones and markers are clear and easily distinguished indicating that the 3-D interpretation will be highly reliable as a predictor of geologic structure. The 3-D seismic grid has been laid out and will be shot soon. The final interpretation from the 3-D seismic is expected by the end of November 2011. This will enable the final selection of the drill sites.
  - b. Acquire approval for the spacing and pooling. US regulations require operations to go through an approval process at state level, prior to moving in a drilling rig. As just announced, the spacing and pooling hearings for all three horizontal wells on Phase 1 have been completed and approved. This means that the three wells can now be drilling in quicker succession than originally planned
  - c. Pilot hole drilling and logging to identify the most promising of potential productive zones.
  - d. Drilling three horizontal wells and the construction of production and transmission facilities. The first well is now planned to spud in December 2011.
2. Phase II
  - a. Drilling up to four more horizontal wells.
  - b. Establishing further production and reserves.

Nostra Terra's interest in Phase I on the Bale creek prospect is fully funded. We expect all three wells in Phase I to move into production during 2012.

## **Funding**

### ***Cash & SEDA***

Nostra Terra has no debt. As at 30 June 2011, the Company reported a net cash position of £110,000. However, towards the end of June 2011, the Company raised £2m gross through a placing of 333,333,333 shares at 0.6p per share. The funds were received after the interim period on 1 July 2011. The new cash is sufficient to fully fund the drilling commitments of the Company's prospects in Bloom, Vintage Hills, Nesbitt, Verde, Bale Creek and further acquisitions.

In September, Nostra Terra further increased its financial flexibility by entering into a Standby Equity Distribution Agreement ("SEDA") with YA Global Master SPV Ltd. ("YA Global"). Under the agreement, YA Global has committed to subscribe, if requested by the Company, for up to £5 million of ordinary shares over a period of three years. The shares will be priced at 96% of the lower of the daily volume weighted average prices during the 10-day pricing period following a draw down request, or at a price agreed in writing between the two parties prior to the commencement of the pricing period. Nostra Terra also has the right to set a minimum acceptable price for each draw down, and to increase the commitment amount to £10 million at any time during the three-year term of the SEDA.

The SEDA facility offers Nostra Terra the flexibility to acquire further leases, prospects and to develop its growing resource portfolio.

### ***Loan Note and Warrants***

As part of the final agreement with Hewitt Petroleum Inc. ("HPI"), in May 2011 HPI issued a US\$1.3m loan note to Nostra Terra. The note accrues interest at 10% per annum and matures on 31 December 2011. An early settlement discount of 3% per 30-day period prior to the maturity date is available to the HPI entities. The note is secured on HPI's assets. In the expectation that Richfield Oil & Gas (HPI's successor) will become a publically traded company on either the Toronto Stock Exchange or the TSX Venture Exchange prior to the expiration of the HIP note, Nostra Terra has the right, but not the obligation, to convert the principal amount outstanding under the note into shares in Richfield at \$0.25 per share. We believe it is unlikely that this 3% discount will be exercised and that the earliest date for an IPO by Richfield would be Q1 2012. Consequently, we do not expect Nostra Terra to convert its note in Richfield's shares. We have valued the note at full value though, due to the fact that it is secured.

As part of the settlement, Nostra Terra also acquired a warrant to subscribe for up to 6m shares in Richfield at an aggregate exercise price of US\$1.5m and a strike price of US\$0.25 per share. The warrant expires one year after the shares are admitted to trading on either exchange. The warrant is transferrable, subject to the provisions of the US Securities Act 1993 (as amended). Our model does not assume any value on this warrant.

## **Nostra Terra – Outlook**

We concur with management's view that Nostra Terra is now in a position to show strong revenue and asset growth.

The Company has maintained steady production and positive net cash flows in Bloom this year. Nostra Terra has stated that, going forward, there is scope to improve the productivity and profitability of the Bloom prospect. There may also be the potential to re-enter additional existing well bores as well as to drill new wells. However, we would expect that any further development of this project would be subject to a careful cost benefit analysis. Given the other opportunities that are presenting themselves, management may well choose to focus on investing in alternatives which offer stronger revenue and reserve growth potential. For the time being, we are assuming that Bloom maintains a base production at Bloom of 20 boepd.

Although small, the Nesbitt and Vintage Hills prospects are now both in production and can be expected to make a contribution to revenues and operating profits.

More importantly, the Company is delivering on its commitment to focus on larger deals that will have a greater impact on income generation and reserve valuations. With Verde now in

production, the prospects are now producing c.130 boepd in total. The Company's gross production from these interests is c. 30 boepd.

Bale Creek is the most exciting prospect with multiple potentially productive zones. The first of the three Phase I Bale Creek horizontal wells is expected to be spudded in December 2011 with two additional wells coming on stream in early 2012. Each well on this prospect could generate c.75 boepd. As the first well in Bale Creek moves into production and with only one Verde well, we expect the Company's gross production to rise to c.50 boepd.

While we anticipate relatively high initial decline rates in Bale Creek, we would expect the rate of decline to flatten fairly quickly. As additional wells are brought into production, we expect overall production figures to continue to rise. With three wells each in production in Bale Creek and Verde, we believe the Company's gross production figures (before royalties) could be in the region of c. 115 boepd. With proven production figures, the reserve valuations on the balance sheet will also increase.

The Company intends plowing revenues back into further drilling for the foreseeable future. It also has the flexibility to fund future acquisitions through the SEDA facility. On this basis, we expect that the net production, revenues from operations and reserve-based assets to continue to accelerate in the foreseeable future.

### Oil Price Outlook

The crucial variable for the Company's growth plans and one which is outside its control is the oil price. Industry forecasts vary widely.

Allison Nathan, Goldman Sachs senior commodities analyst, expects Brent Crude to reach \$130 within the next year. Speaking at a press briefing in Singapore, she said the growth in the developed economies is expected to be weak but the emerging economies are expected to make up for the weakness in demand for commodities with strong growth in China Brazil, Russia, India and South Africa expected. This will supplemented supply side support for oil prices, too, with the decline in the production of non-OPEC countries.

U.S. Energy Information Administration ("EIA") has revised its projected oil price paths downward from September's Outlook. EIA expects that the U.S. refiner average crude oil acquisition cost will average \$100 per barrel in 2011 and \$103 per barrel in 2012 compared with \$100 per barrel and \$107 per barrel for 2011 and 2012, respectively.

### Discounted Cash Flows (DCF) - Assumptions

- ▣ A selling price of crude oil at \$80 per barrel for the fields with a 6% oil price inflation
- ▣ A 25 year production model on existing prospects with production of:
  - Bloom – 20 boepd
  - Nesbitt – 26 boepd
  - Vintage Hills – 20 boepd
  - Verde – 64 boepd per well in 2012
  - Bale Creek – 75 boepd per well in 2012
- ▣ New wells in Bale Creek and Verde moving into production from 2013
- ▣ A varying annual decline rate for each prospect ranging from 5% to 50%
- ▣ A discount rate of 10% to calculate the present value of cash flows generated.
- ▣ An average royalty rate of 22%
- ▣ An average US 'Severance Tax' rate of 7% and an average UK Corporate Tax rate of 23%

## Target Price

Based on the above DCF, we arrive at a target price of 0.8p.

This represents a 73.9% increase on the current level of 0.46p.

Further acquisitions present additional upside potential for the target price.

## Investment Risks

The Company faces a range of financial risks which include liquidity risk, foreign currency risk, capital risk and credit risk. Also, there exist various non-financial risks – such as market, legal and environment risks – that may potentially affect its exploration and production activities.

**Foreign currency risk** – Although the Company reports its results in Pounds Sterling, a significant part of its exploration and development costs and the local operating costs are incurred in USD. Any change in the relative exchange rate between Pound Sterling and the USD could influence the Company's results.

**Oil price volatility** – A substantial or extended decline in the prices of crude oil and refined products could adversely affect the Company's revenues, cash flows, profitability and ability to finance its planned capital expenditure. However, the Company enjoys low production costs and a drop in oil prices may actually help the Company to acquire assets at lower values.

**Credit risk** – The Company's credit risk is primarily attributable to its trade receivables, as most of its other principal financial assets are in the form of cash and bank deposits.

**External forces** – The Company's projects may be severely affected by factors not within its control. These include labour unrest, civil disorder, war, subversive activities or sabotage, fires, floods, explosions or other catastrophes.

**Market risk** – The Company might face problems in conducting its operations in its chosen geographical areas due to sudden change in political situation, economic instability, inadequate infrastructure etc...

## Board of Directors

### ***Sir Adrian Blennerhassett, Non-executive Chairman***

Previous positions held by Sir Adrian (71) include General Manager for Claremount Oil & Gas Limited and Technical Director at Peninsula Petroleum Limited. More recently, he had 11 years' experience in corporate finance with Anglo European Amalgamations Limited and Chesham Amalgamations and Investments Limited. He studied geology at McGill University in Montreal, has an MSc in Geology from Imperial College, London, and an MBA from Cranfield School of Business Management.

### ***Matt Lofgran, Chief Executive Officer***

Matt Lofgran (36) has wide experience of business development in the energy, real estate and communications sectors. Prior to becoming CEO of Nostra Terra in July 2009, he was with Robson Energy, LLC, latterly as Vice President of International Business Development. In this capacity, he launched the oil and gas, field services and coal divisions, and was responsible for extending Robson Energy's activities into Mexico. Mr Lofgran holds a Bachelor of Business Management degree from the University of Phoenix and a Global MBA from Thunderbird School of Global Management.

***Alden McCall, Chief Operating Officer***

Alden Branine McCall (60) has 28 years' experience of project management, business development, capital acquisition and consulting in oil and gas exploration and new production technologies. Prior to joining Nostra Terra, he was Principal and General Manager of Dallas-based AMX Consulting Services, LLC, delivering technical and commercial expertise to both public and private companies engaged in conventional and unconventional petroleum exploration and production. Mr McCall is a Certified Petroleum Geologist and is a member of the American Association of Petroleum Geologists, the Society of Petroleum Engineers, the Oklahoma Geological Society, the Fort Worth Geological Society and the Houston Geological Society.

***Stephen Oakes, Non-executive Director***

Stephen Oakes (55) has over 35 years' experience in financial markets and is a Fellow of the Securities Institute. He is a former Chief Executive Officer, HSBC Investment Management. Since 2003, he has worked with a number of smaller AIM and Plus Markets-quoted companies, initially with Alfred Henry Corporate Finance Limited and then through Falcon Securities (UK) Limited.

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