

NORSTRA ENERGY, INC.

An Undiscovered Bakken Play

Rob Goldman
rob@goldmanresearch.com

June 3, 2012

Aaron Schweitzer
aaron@goldmanresearch.com

NORSTRA ENERGY INC. (OTC:QB – NORX - \$0.94)

Price Target: \$2.00

Rating: Speculative Buy

COMPANY SNAPSHOT

Norstra Energy Inc. is an oil and natural gas exploration company based in Texas and operating primarily in Montana. Norstra has interests in the southern Bakken-Alberta Fairway in the central part of western Montana. The Company is targeting a horizontal Bakken drilling program to bring the prospect from exploration to production. In early 2013, Norstra Energy entered into a Farm-Out agreement for an area of the Bakken in Northwest Montana known as the South Sun River Bakken Prospect. The area consists of over 10,000 acres of leased land in Lewis & Clark County, Montana. Total potential oil production could be as high as 10-15 million barrels of oil per square mile in the region.

KEY STATISTICS

Price as of 5/31/13	\$0.94
52 Wk High – Low	\$0.95 – 0.35
Est. Shares Outstanding	38.3M
Market Capitalization	\$36M
3 Mo Avg Vol	610,000
Exchange	OTC:QB

COMPANY INFORMATION

Norstra Energy, Inc.
2860 Exchange Blvd., Suite 400
Southlake Texas 76092
888.474.8077
www.norstraenergy.com
ir@norstraenergy.com

INVESTMENT HIGHLIGHTS

Given its property interests in the less-followed southern Bakken-Alberta Fairway in the central part of western Montana, we view Norstra Energy Inc. as a great undiscovered and potentially lucrative play on the Bakken formation.

The area consists of over 10,000 acres of leased land in Lewis & Clark County, Montana. Moreover, with the history of major oil companies such as Shell in the region in the 1980's, there is both abundant and favorable seismic data.

Based on the seismic data, total potential oil production could be as high as 10-15 million barrels of oil per square mile in the region. Via its less risky horizontal Bakken drilling program, management plans to begin drilling its first well in 3Q/4Q 2013 and a second well in 2014.

Our preliminary estimates call for 51,000 barrels of oil production in 2013, 243,000 in 2014, and 317,000 barrels via multiple wells in 2015. If prices hold steady and management meets its timetable, we believe that NORX could earn as much as \$5.6M in 2014.

At current levels, NORX is trading at a very inexpensive valuation. For example, most small exploration and production (E&P) firms historically trade around 15x forward 12-month earnings. The current FY14E EPS multiple is around 5x our FY14E preliminary net income of \$5.6M. Even at our price target of \$2.00, the stock would trade at a reasonable 14x P/E multiple on our preliminary 2014 net income estimate, which is double the current share price. Thus we rate these shares Speculative Buy.

NORSTRA ENERGY, INC. (OTC:QB NORX)

INDUSTRY OVERVIEW

Bakken Formation

The Bakken Formation is a 100 foot thick, 200,000 square mile wide area of the Earth’s subsurface located under Montana, North Dakota, South Dakota, Saskatchewan, and Manitoba (see map below). It is comprised of three layers, with different compositions of natural resources.

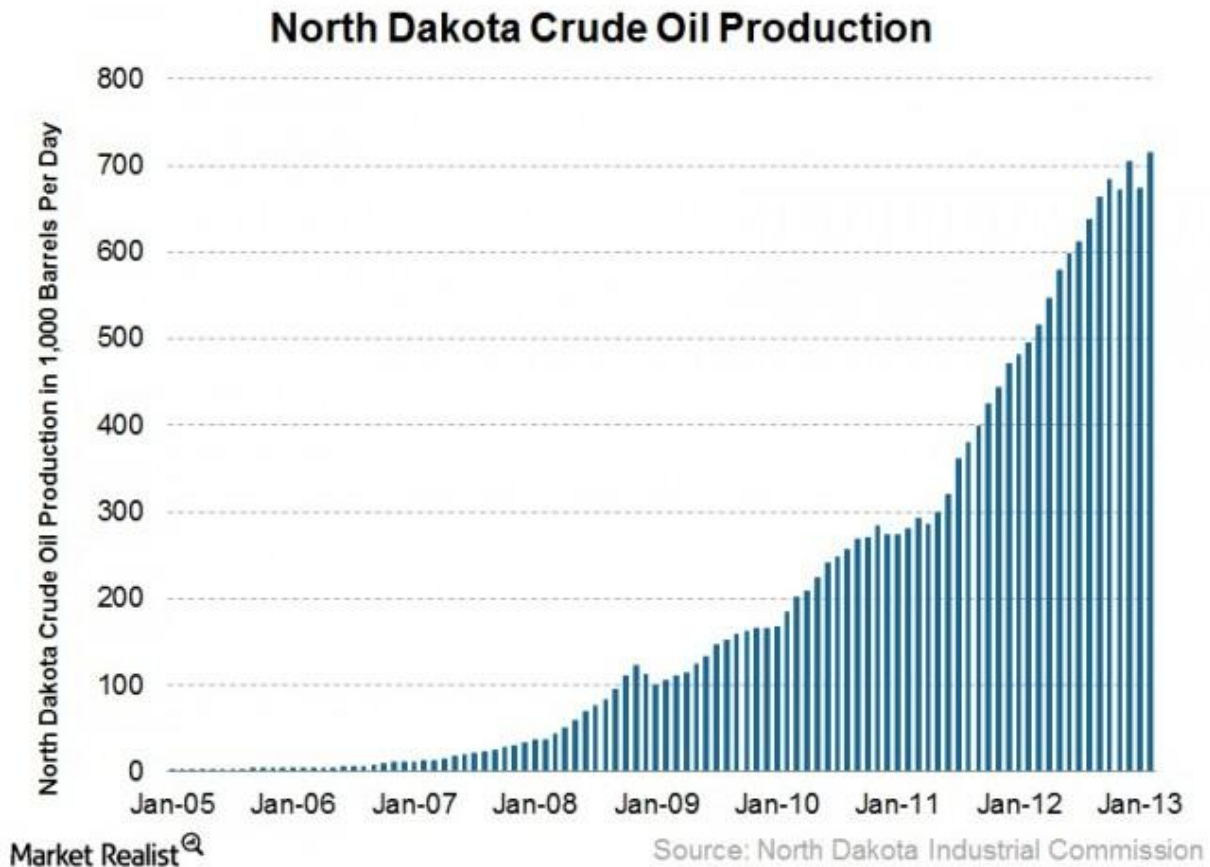


Image I. The Bakken Formation
Source: www.NorstraEnergy.com

The formation is named after Henry Bakken, the former owner of part of the land where the formation was discovered. In 1951 oil was discovered in the region, however due to difficulties recovering the oil it has not been a focus for exploration until recently. Bakken oil is light sweet crude with an API gravity of 32 to 40 degrees. Current estimates of total oil in the region are approximately 24 billion barrels, however only part of that is recoverable using currently available drilling techniques.

Oil production in the Bakken has grown rapidly over the past several years, contributing tremendously to US production growth. In 2005, less than 3,000 barrels of day came out of the region. By 2012, the region produced nearly 550,000 barrels per day. In March of 2012, North Dakota was the second most productive state in the US, surpassing Alaska. The chart below shows oil production in North Dakota alone, with rates increasing as rapidly as 6% per month. Many market participants expect this strong growth to continue as companies make investments in developing previously undrilled land in the region.

NORSTRA ENERGY, INC. (OTC:QB NORX)



Hydraulic Fracturing

Hydraulic Fracturing, also known as fracking (and other variations in spelling) is a technique used in deep well drilling for oil and natural gas. Fracking involves introducing water or some other fluid into a rock layer of the Earth's subsurface. The fluid is pumped into the rock layer at high pressure, creating a network of fractures, or fissures, in the rock. Oil and natural gas can then flow more freely into a well for extraction.

NORSTRA ENERGY, INC. (OTC:QB NORX)

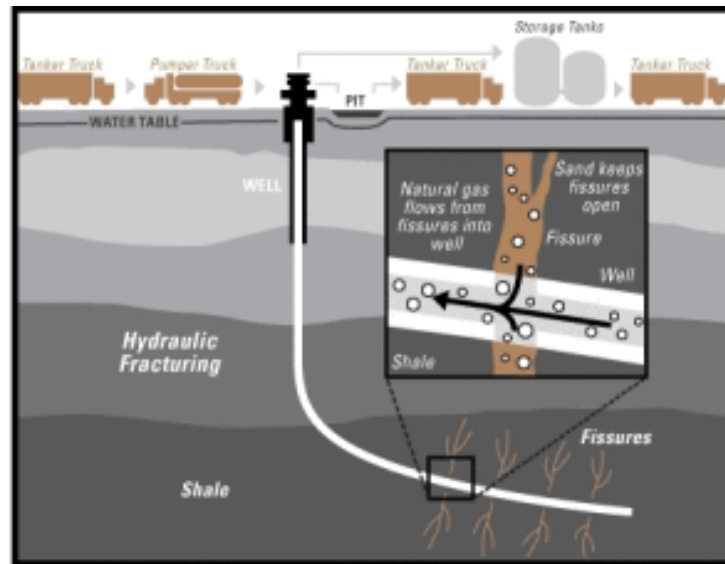


Image II. Fracking Process
Source: Ofpeaceandpolitics.wordpress.com

The fluid used in fracking is typically a solution of water and chemical additives that aid in the creation of the fractures in some way. Hydraulic fracturing was first used in the 1940's to access reserves of oil and gas previously available. The majority of new wells drilled today utilize fracking technology.

Horizontal Drilling

In the last 10 to 15 years, technology has been improved in drilling horizontally within the resource-rich middle layer of the Bakken. Horizontal drilling increases the productivity of each well relative to vertical drilling because a larger area can be accessed.

COMPANY OVERVIEW

Norstra Energy Inc. is an oil and natural gas exploration company based in Texas and operating primarily in Montana. Norstra has interests in the southern Bakken-Alberta Fairway in the central part of western Montana. The company is targeting a horizontal Bakken drilling program to bring the prospect from exploration to production.

NORSTRA ENERGY, INC. (OTC:QB NORX)

Bakken Property

On March 18, 2013, Norstra Energy entered into a Farm-Out agreement for an area of the Bakken in Northwest Montana known as the South Sun River Bakken Prospect. The area consists of over 10,000 acres of leased land in Lewis & Clark County, Montana.

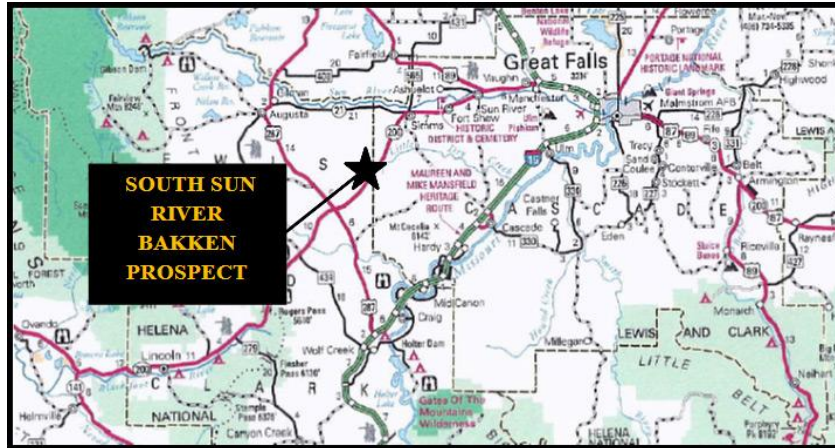


Image II. The South Run River Bakken Prospect Site
 Source: www.NorstraEnergy.com

Total potential oil production in the region could be as high as 10-15 million barrels of oil per square mile.

Drilling and Production Plans

Norstra plans to build one well during 2H13 2013 and two wells in 2014. Company projections indicate initial production for each well could result in 500-2,000 barrels (boe) per day, but that will decline over time, within the first year. Based on our preliminary estimates, and the Company's planned build-out schedule, total production is forecast to be 243,000 barrels in 2014 and 317,000 barrels in 2015.

Year:	2013	2014	2015
		Well 1: 2H2013	
		Well 2: 1H2014	
		Well 3: 2H2014	
Total Production (bbl):	51,000	243,000	317,000

Table II. NORX Production Forecast 2013 - 2015



NORSTRA ENERGY, INC. (OTC:QB NORX)

The initial build-out of the first well will be financed through a proposed convertible bond. Norstra will be able to finance future wells with production revenues if the initial well is successful, on-time, and produces oil at a rate which is within the range of estimates. In this scenario, no additional financing will be required. If there are delays or issues with production, particularly in the first few wells, additional financing may be required. The company plans to consider additional land acquisitions which would likely require additional financing. In the meantime, our projections suggest the Company should reach cash flow positive status sometime in 2014.

EXECUTIVE MANAGEMENT

Glen Landry, President and CEO

Glen Landry received his Bachelor of Science in Geology from the University of Montana in 1974. After finishing his degree he was employed as a consulting geologist for a number of mineral as well as oil and gas exploration companies, including Johns-Manville, Westinghouse, Peter Kiewitt, Chevron and Marathon throughout Montana, Wyoming and Alaska. During the 1980s he was President of Western Reserves, a Billings, Montana company engaged in exploration and production of oil and gas. The company was involved in a number of successful joint ventures as well as property acquisition of over 150 wells from Texaco. During this time he was also engaged by Occidental to undertake exploration work on claims in northwest Montana. After resigning from Western Reserves, Mr. Landry was again active as a consulting geologist for companies such as Apache and EnCana. Since 1997, Mr. Landry has been an independent exploration geologist and has been undertaking exploration and development work of a large number of oil and gas concessions throughout Montana. His focus has been on underdeveloped Alberta Fairway Bakken properties as well as heavy oil reserves in northwest Montana.

Dallas Kerkenezov, CFO

Dallas Kerkenezov significant experience in oil and gas operations, cost structures and project management and planning. Currently Mr. Kerkenezov owns his own construction company that primarily develops infrastructure and platform construction for the oil industry. Mr. Kerkenezov has also worked in the Yukon helping run staking and drilling crews for various mineral exploration companies.

RISK FACTORS

Norstra Energy is an exploration company with no current revenues or cash flows. Prior to generating any revenue, the company must successfully drill new wells in a previously untested area of the Bakken. In the broader Bakken area, the presence of oil is well established. However, there is risk to the presence of oil in the proposed drilling area. Additionally, there is risk in the execution of the drilling and fracking process even once the presence of oil has been established.

According to our projections, Norstra should be able to finance subsequent drilling through revenues from the initial well. However, if the first well is unsuccessful, additional financing will be required. In that case, should Norstra fail to receive sufficient financing in a timely manner, the company will not be able to bring new productive wells online as rapidly as originally projected. This will impact both the amount of time needed to



NORSTRA ENERGY, INC. (OTC:QB NORX)

achieve positive cash flow as well as overall valuation. Even if Norstra is able to successfully develop some wells, failures in one or more of the first few wells could significantly delay profitability and increase financing needs.

Fracking has become quite controversial due to the potential for environmental impacts. Opponents are concerned about the potential for fracking water, which typically contains chemicals, to contaminate drinking water. Some of these chemicals may be radioactive and/or known human carcinogens. These risks were highlighted in a film entitled "Gasland" released in 2010. In addition, there is concern that the fracking may increase the occurrence of earthquakes. For these reasons, there is debate over legislatively restricting fracking practices. A law passed in 2005 called the Bush / Cheney Energy Bill exempted drilling companies from disclosing the chemical composition of fracking water. This is seen as a loophole in the Safe Water Drinking Act of 1974. There is significant lobbying to close this loophole, and to enact steps to restrict fracking activities such as those proposed by Norstra. Any government regulations restricting fracking activities could impact Norstra's financial situation.

In our view, all of these risks are consistent with firms of Norstra's size and standing and we believe that the Company's positioning, strategy, and favorable seismic data will enable it to succeed utilizing its less risky horizontal drilling strategy versus the deep wells drilled by several major oil companies in the region in the 1980's.

VALUATION AND CONCLUSION

In our view, NORX offers investors the opportunity to invest in what we would consider a relatively undiscovered and potentially lucrative Bakken play, given its site in Montana. Moreover, favorable and abundant seismic data, utilization of horizontal drilling, and a conservative approach could enable NORX to produce nearly 250,000 barrels of oil in 2014 with two producing wells beginning in 2014. As a result, meaningful upside potential exists if management can meet its timetable and our preliminary forecasts of \$5.6M in net income. Our price target of \$2.00 reflects a reasonable 14x P/E on our preliminary 2014 net income estimates, and represents a double from current levels. Therefore, we rate these shares Speculative Buy.

NORSTRA ENERGY, INC. (OTC:QB NORX)

Income Statement							
Dollars in Thousands							
Fiscal Year:							
			2013	2014	2015	2016	2017
Revenue			\$ 2,874	\$ 13,636	\$ 17,763	\$ 21,602	\$ 25,172
Operating Expenses							
Production			\$ 5	\$ 32	\$ 54	\$ 76	\$ 97
Exploration: Dry Hole Expense			\$ 1,800	\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600
Depreciation, Amortization, and Depletion			\$ 136	\$ 736	\$ 1,197	\$ 1,745	\$ 2,370
General & Administrative			\$ 4	\$ 22	\$ 36	\$ 50	\$ 65
Total Operating Expenses			\$ 1,945	\$ 4,390	\$ 4,887	\$ 5,471	\$ 6,132
Income / (Loss) from Operations			\$ 929	\$ 9,246	\$ 12,877	\$ 16,131	\$ 19,040
Other Expenses							
Interest Expense			\$ (574)	\$ (600)	\$ (630)	\$ (665)	\$ (704)
Net Income / (Loss) Before Income Taxes			\$ 355	\$ 8,646	\$ 12,247	\$ 15,467	\$ 18,335
Provision for Income Taxes			\$ (124)	\$ (3,026)	\$ (4,286)	\$ (5,413)	\$ (6,417)
Net Income / (Loss)			\$ 231	\$ 5,620	\$ 7,960	\$ 10,053	\$ 11,918

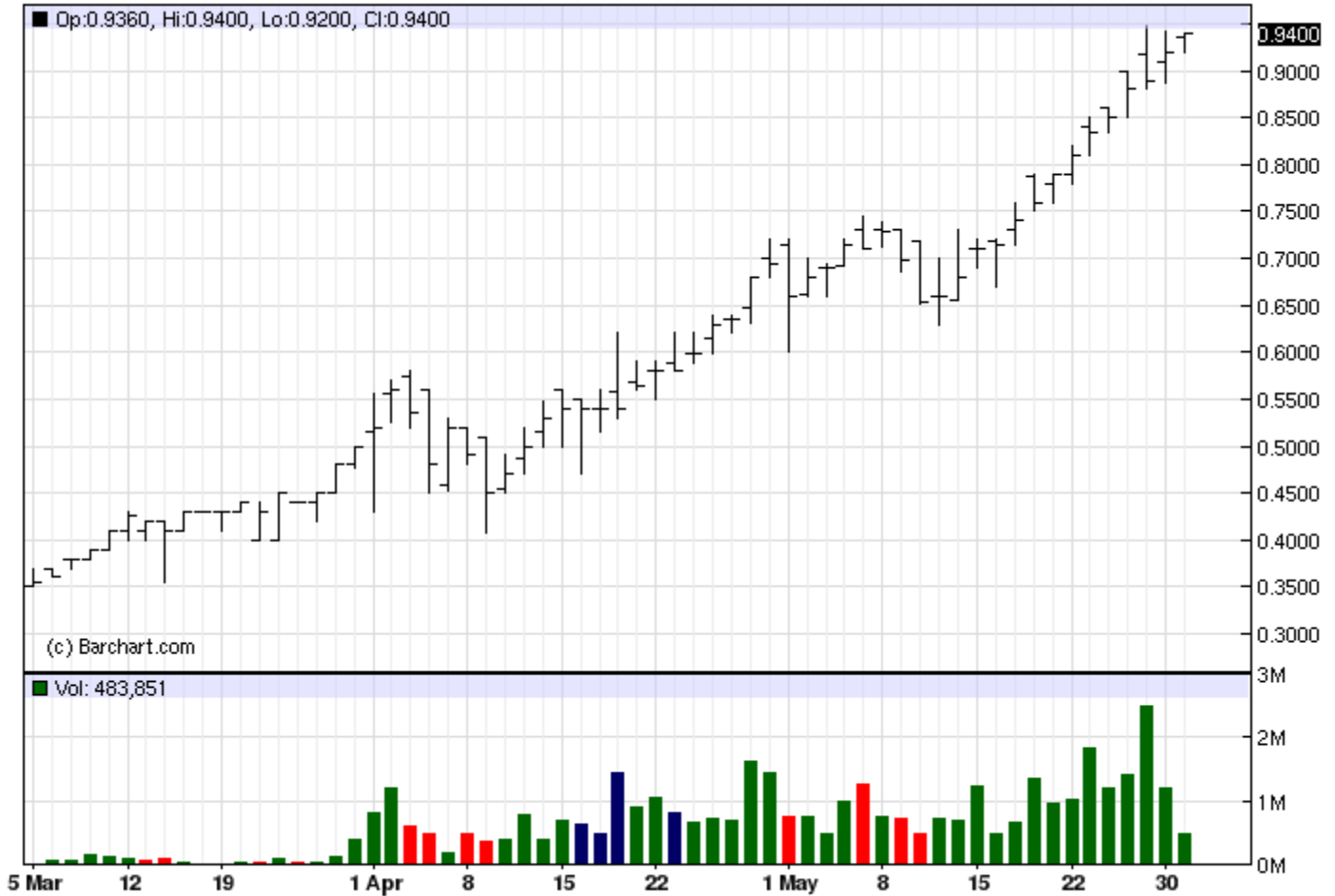
Table III. Preliminary Projected Income Statement

NORSTRA ENERGY, INC. (OTC:QB NORX)

Recent Trading History For NORX

(Source: BarChart.com)

NORX - Norstra Energy - Daily OHLC Chart





NORSTRA ENERGY, INC. (OTC:QB NORX)

Senior Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

Disclaimer

This *Opportunity Research* report was prepared for informational purposes only. *Goldman Small Cap Research*, (a division of Two Triangle Consulting Group, LLC) produces research via two formats: *Goldman Select Research* and *Goldman Opportunity Research*. The *Select* product reflects the Firm's internally generated stock ideas while the *Opportunity* product reflects sponsored research reports. It is important to note that while we may track performance separately, we utilize the same coverage criteria in determining coverage of all stocks in both research formats. While stocks in the *Opportunity* format may have a higher risk profile, they typically offer greater upside as well. *Goldman Small Cap Research* has been compensated by a third party in the amount of \$3,000 for due diligence, editing, and production of this report. The Firm does not accept any equity compensation. All information contained in this report was provided by the Company. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence. Analysts are compensated on a per report basis and not on the basis of his/her recommendations.

The information used and statements of fact made have been obtained from sources considered reliable but we neither guarantee nor represent the completeness or accuracy. *Goldman Small Cap Research* did not make an independent investigation or inquiry as to the accuracy of any information provided by the Company, or other firms. *Goldman Small Cap Research* relied solely upon information provided by the Company through its filings, press releases, presentations, and through its own internal due diligence for accuracy and completeness. Such information and the opinions expressed are subject to change without notice. A *Goldman Small Cap Research* report or note is not intended as an offering, recommendation, or a solicitation of an offer to buy or sell the securities mentioned or discussed.

This report does not take into account the investment objectives, financial situation, or particular needs of any particular person. This report does not provide all information material to an investor's decision about whether or not to make any investment. Any discussion of risks in this presentation is not a disclosure of all risks or a complete discussion of the risks mentioned. Neither *Goldman Small Cap Research*, nor its parent, is registered as a securities broker-dealer or an investment adviser with FINRA, the U.S. Securities and Exchange Commission or with any state securities regulatory authority.

ALL INFORMATION IN THIS REPORT IS PROVIDED "AS IS" WITHOUT WARRANTIES, EXPRESSED OR IMPLIED, OR REPRESENTATIONS OF ANY KIND. TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, TWO TRIANGLE CONSULTING GROUP, LLC WILL NOT BE LIABLE FOR THE QUALITY, ACCURACY, COMPLETENESS, RELIABILITY OR TIMELINESS OF THIS INFORMATION, OR FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES THAT MAY ARISE OUT OF THE USE OF THIS INFORMATION BY YOU OR ANYONE ELSE (INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, LOSS OF OPPORTUNITIES, TRADING LOSSES, AND DAMAGES THAT MAY RESULT FROM ANY INACCURACY OR INCOMPLETENESS OF THIS INFORMATION). TO THE FULLEST EXTENT PERMITTED BY LAW, TWO TRIANGLE CONSULTING GROUP, LLC WILL NOT BE LIABLE TO YOU OR ANYONE ELSE UNDER ANY TORT, CONTRACT, NEGLIGENCE, STRICT



NORSTRA ENERGY, INC. (OTC:QB NORX)

LIABILITY, PRODUCTS LIABILITY, OR OTHER THEORY WITH RESPECT TO THIS PRESENTATION OF INFORMATION.

For more information, visit our Disclaimer: www.goldmanresearch.com