

**NORDIC OIL**  
**REPORT ON CERTAIN**  
**OIL AND GAS ASSETS**  
**HOSPAH FIELD AREA**  
**NEW MEXICO, USA**  
**AS OF MAY 31, 2012**



**RALPH E. DAVIS ASSOCIATES, INC.**  
**HOUSTON, TEXAS**

# TABLE OF CONTENTS

**NORDIC OIL  
HOSPAH FIELD AREA  
NEW MEXICO, USA**

**TABLE OF CONTENTS**

**ENGINEERING LETTER**

**ECONOMIC SUMMARY ANALYSIS:**

**APPENDIX**

# ENGINEERING LETTER



June 25, 2012

Nordic Oil  
Neuer Wall, 71  
20354 Hamburg  
Germany

Ref: Report on Certain Oil and Gas Assets  
Hospah Field Area, New Mexico, U.S.A.  
Nordic Oil

Dear Sirs:

At your request, the firm of Ralph E. Davis Associates, Inc. (Davis) of Houston, Texas has prepared an estimate of the reserves and future net revenue associated with specific leaseholds in which Nordic Oil ("Nordic") owns interests. The interests evaluated are applicable to specific oil and gas properties located in the United States, and in which, Nordic is not be the operator. This report presents our assessment of the Proved Developed and Undeveloped Reserves, as well as Probable and Possible Reserves, future production and income attributable to the subject interests as of the effective date of this report, May 31, 2012.

The reserves associated with these estimates have been classified in accordance with the definitions of proved, probable and possible reserves within the Petroleum Resources Management System (PRMS) document as co-sponsored by the Society of Petroleum Engineers (SPE), the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers. These definitions are included as a portion of this letter.

The estimated future net revenue and discounted present value associated with these reserves as of May 31, 2012 utilizing a pricing scenario provided by Nordic or its representative. The price scenario reflects a futures price in effect as of the time of preparation of this report. The present value presented herein is for your information and should not be construed as an estimate of the fair market value of the properties.

The results of our study related to our estimate of the reserves attributable to Nordic and remaining to be produced as of May 31, 2012 are as follows:

**Estimated Proved Reserves  
 Net to Nordic Oil  
 Futures Price Scenario  
 As of May 31, 2012**

| Reserve Category                                     | Estimated Net Reserves |                |                   | Estimated Future Net Income |                        |
|------------------------------------------------------|------------------------|----------------|-------------------|-----------------------------|------------------------|
|                                                      | Oil/Cond.<br>MBbls     | NGL'S<br>MBbls | Sales Gas<br>MMCF | Undiscounted<br>\$1000.     | Disc. @ 10%<br>\$1000. |
| Proved Developed:<br>Producing and Non-<br>Producing | 1202.8                 | 0.0            | 0.0               | \$ 56,018.2                 | \$ 28,128.9            |
| Proved Undeveloped                                   | 41.1                   | 691.1          | 0.0               | \$ 27,741.0                 | \$ 17,089.1            |
| <b>1P: Proved Reserves</b>                           | <b>1,244.0</b>         | <b>691.1</b>   | <b>0.0</b>        | <b>\$ 83,759.1</b>          | <b>\$ 45,218.0</b>     |
| Probable Reserves                                    | 34.2                   | 575.5          | 0.0               | \$35,409.8                  | \$21,583.2             |
| <b>2P: Proved+Probable</b>                           | <b>1,278.2</b>         | <b>1,266.6</b> | <b>0.0</b>        | <b>\$119,169.0</b>          | <b>\$66,801.2</b>      |
| Possible Reserves                                    | 6,105.6                | 0.0            | 0.0               | \$329,876.6                 | \$222,285.5            |
| <b>3P: Proved+Probable<br/>+Possible</b>             | <b>7,383.8</b>         | <b>1,266.6</b> | <b>0.0</b>        | <b>\$449,045.6</b>          | <b>\$289,086.7</b>     |

*Note: Any errors in addition are due to rounding*

Liquid volumes are expressed in thousands of barrels (MBbls) of stock tank oil. Gas volumes applicable to Nordic's interest ownership position in the properties have been estimated, but as detailed later in this report, are not classified as reserves in that there is neither an existing market for the sale of gas, or definitive plans to provide a sales market at this time. Condensate volumes associated with the production of specific gas volumes, as well as Natural Gas Liquids (NGL'S) that may be obtained from processing produced gas volumes, are included as reserve volumes.

A summary presentation by reserve category at the scheduled price scenario is included behind the economic summary analysis tab.

## DISCUSSION:

The scope of this study was to prepare an estimate of the proved, probable and possible reserves attributable to Nordic's ownership position in the subject properties. In addition, a study was made

of hydrocarbon volumes that could be classified as prospective or contingent resources at this time; however, that are no volumes identified in this report currently. Reserve estimates were prepared by Davis for the properties using acceptable evaluation principals. Reserves estimated for undrilled properties were based upon a geologic and engineering review of available data as detailed later in this report.

Individual intervals within each productive formation were evaluated as to the reserve potential of the interval based upon a volumetric analysis and comparison to historical production from analogous properties. The reserves were categorized as to the reserve volume and risk associated with the development activity and estimated accordingly. Structural configurations of the reservoirs were considered and the net pay count used in the determination of the volumetric estimate of hydrocarbons originally in place. The recovery potential of each formation and the method of development and production scheduled for each interval were taken into account in estimating the appropriate recoverable reserves.

The quantities presented herein are estimated reserves of oil and natural gas (including condensate and/or natural gas liquids) that geologic and engineering data demonstrate can be recovered from known reservoirs under current economic conditions with reasonable certainty. Proved, probable and/or possible undeveloped locations are scheduled to be developed such that the investment cost will be fully recovered prior to recovery of the estimated reserve volume.

This evaluation has been prepared in accordance with the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" as proclaimed by the Society of Petroleum Engineers, the SPE Standards.

Included and made a part of this engineering reserve report is an Appendix containing a geological and engineering study of the Hospah Field area. This study details the history of development of the subject properties, their analysis and the estimate of reserves associated with several development programs identified by the operator of the properties. Certain reserve and revenue presentations are included within the Appendix, and indicate additional financial analyzes of the project.

## **DATA SOURCE**

Basic well and field data used in the preparation of this report were furnished by Nordic, its representative, the operator or were obtained from commercial sources or from Davis' own database of information. Records as they pertain to factual matters such as acreage controlled the number and depths of wells, reservoir pressure and production history, the existence of contractual obligations to others and similar matters were accepted to be accurate as presented.

Additionally, the analyses of these properties used not only the basic data on the subject wells but also data from analogous properties as provided. Well logs, ownership interest, operating and development costs were furnished by the operator and reviewed by Davis. No physical inspection of the properties was made nor any well tests conducted.

Costs of operations were based upon current costs as reported by the operator. Current costs are reflective of the number of wells currently being produced, the volume of oil being produced and sold and the volume of water being produced, handled and disposed of through subsurface injection.

A fixed cost of operations of the field facilities per month was developed, as well as a cost per active producing well. The remaining monthly cost in effect became a variable dependent upon the volume of water to be produced and reinjected through the disposal system. Future costs are then anticipated to escalate as the number of active wells increase from just over fifty to over one hundred and forty, and the water production should increase from just over ten thousand barrels per day to just under thirty thousand barrels per day.

## **OWNERSHIP**

Ownership interests in the subject properties have been furnished by Nordic and accepted by Davis as accurate without independent verification.

## **RESERVE ESTIMATES**

The estimate of reserves included in this report is based primarily upon production history or analogy with wells in the area producing from the same or similar formations. In addition to individual well production history, geological and well test information, when available, were utilized in the evaluation. Several development projects are discussed in detail later in this evaluation. Increases in production rates are based upon historical rates of production on a per well basis. Increases in the number of active wells and/or the volume of oil anticipated to result from an injection or flood program, resulted in a maximum producing rate reflective of the particular activity. This maximum rate was then declined to an economic limit with the total anticipated production based upon the volumetric estimate of recoverable reserves.

Additional development potential was based upon geological interpretations and indications of individual structures. Well spacing was based upon historical activity in the same reservoirs in the same or nearby fields. In all cases, proved undeveloped locations and reserve estimates were limited to those areas or locations proven by production or a successful well test in the same reservoir. Probable well locations and subsequently probable reserve estimates were generally classified as such based upon both geologic and engineering consideration related to the certainty of the reservoir's potential and concerns related to the integrity of wellbores to be utilized in the development. Possible reserves were classified as such based upon similar considerations.

The accuracy of reserve estimates is dependent upon the quality of available data and upon the independent geological and engineering interpretation of that data. It should be noted that all reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends primarily on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of these data. These



reserves have been determined using methods and procedures widely accepted within the industry and are believed to be appropriate for the purposes of this report. In our opinion, we used all methods and procedures necessary under the circumstances to prepare this report.

## PRODUCING RATES

For the purpose of this report, estimated reserves are scheduled for recovery primarily on the basis of actual producing rates or appropriate well test information. They were prepared giving consideration to engineering and geological data such as reservoir pressure, anticipated producing mechanisms, the number and types of completions, as well as past performance of analogous reservoirs.

These and other future rates may be subject to regulation by various agencies, changes in market demand or other factors; consequently, reserves recovered and the actual rates of recovery may vary from the estimates included herein. Scheduled dates of future well completions may vary from that provided by the operator due to changes in market demand or the availability of materials and/or capital; however, the timing of the wells and their estimated rates of production appear reasonable and consistent with established performance to date.

## PRICING PROVISIONS

Prices utilized in the evaluation results presented in the letter portion of this report and summarized in the various tables included in this evaluation were furnished by Nordic's representative. Prices received for products sold, the anticipated yield from the measuring or the removal of liquids, the liquid yield from gas processed, etc., were accepted as presented or based upon calculated results of data provided.

Prices utilized in the evaluation results presented in the letter portion of this report and summarized behind the initial tab of Economic Summary Analysis are as follows:

### Crude Oil and Condensate:

The unit price used throughout this report for crude oil and condensate is based upon a forecast for future sales of liquids for the next several years as indicated. Prices for these liquid reserves scheduled for initial production at some future date were estimated using these same prices.

| BASE PRICE DECK |         |         |
|-----------------|---------|---------|
|                 | WT/OIL  | ENGL'S  |
| Year            | US\$BBL | US\$BBL |
| 2012            | 105.4   | 52.70   |
| 2013            | 102.2   | 51.10   |
| 2014            | 95.1    | 47.55   |
| 2015            | 89.2    | 44.60   |
| 2016*           | 90.0    | 45.00   |

\* Prices held Flat Thereafter

**Natural Gas Liquid (NGL)**

Natural Gas Liquids were priced at fifty-two percent (52.0%) of the existing oil and condensate price for all properties in the evaluation.

**Natural Gas (Sales)**

Natural gas is not scheduled to be sold from the Hospah area. Currently there is no available market for the sale of gas volumes, nor are there definitive plans for a sales market. Consequently, there are no reported gas reserves no anticipated revenues to be associated with the produced volumes estimated for the area.

**FUTURE NET INCOME**

Future net income is based upon gross income from future production, less direct operating expenses and taxes (production, severance, ad valorem or other). Estimated future capital for development and work over costs were also deducted from gross income at the time it will be expended. No allowance was made for depletion, depreciation, income taxes or administrative expense.

Direct lease operating expense includes direct cost of operations of each lease or an estimated value for future operations based upon analogous properties. Lease operating expense and/or capital costs for drilling and/or major work over expense were not escalated throughout the remaining producing life of the properties. Neither the cost to abandon properties nor the salvage value of equipment was considered in this report.

Future net income has been discounted for present worth at values ranging from 0 to 100 percent using continuous discounting. In this report the future net income is discounted at a primary rate of ten (10.0) percent.

**GENERAL**

Nordic Oil (or its representative) has provided access to its accounts, records, geological and engineering data, reports and other information as required for this investigation. The ownership interests, product classifications relating to prices and other factual data were accepted as furnished without verification.

No consideration was given in this report to potential environmental liabilities which may exist, nor were any costs included for potential liability to restore and clean up damages, if any, caused by past operating practices.

Neither Ralph E. Davis Associates, Inc. nor any of its employees have any interest in Nordic Oil or any other related company or the properties reported on herein. The employment and compensation to make this study are not contingent on our estimate of reserves. The technical persons responsible for preparing the estimates presented herein meet the requirements regarding qualifications,

independence, objectivity and confidentiality set forth in the SPE standards. The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please feel free to contact us if we can be of further service.

We appreciate the opportunity to be of service to you in the matter of this report and will be glad to address any questions or inquiries you may have.

Very truly yours,

**RALPH E. DAVIS ASSOCIATES, INC.**

The image shows a handwritten signature in cursive script, which appears to read "Allen C. Barron". To the right of the signature is a circular professional seal. The seal has a five-pointed star in the center. The text around the star reads "STATE OF TEXAS" at the top and "PROFESSIONAL ENGINEER" at the bottom. In the middle of the seal, it says "ALLEN C. BARRON" and "49284" below it, with the word "LICENSED" above the number.

---

Allen C. Barron, P.E.  
President

# ECONOMIC SUMMARY ANALYSIS

ECONOMIC  
SUMMARY ANALYSIS