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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Viking Energy Group, Inc.

Rating: Speculative Buy

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VKIN $0.18 — (OTC)

August 20, 2019

	2016 A	2017 A	2018 A	*2019 E*	*2020 E*
Total Revenue (in millions)	$0.4	$2.0	$8.0	***$35.8***	***$35.9***
Earnings (loss) per share	($0.12)	($0.15)*	($0.18)	***($0.12)****	***($0.12)***

52-Week range	$0.42 – $0.15	Fiscal year ends:	December
Shares outstanding a/o 05/06/19	91.2 million	Revenue/shares (ttm)	$0.18
Approximate float	84.9 million	Price/Sales (ttm)	1.0X
Market Capitalization	$16.4 million	Price/Sales (2020) E	0.5X
Book value/share	$0.10	Price/Earnings (ttm)	NMF
Price/Book	1.8X	Price/Earnings (2020) E	NMF

** Excludes approximately a one-time $0.43 per share bargain purchase gain ** Excludes approximately $5.3 million or ($0.06) per share due to loss in fair value of derivatives*

Viking Energy Group, Inc., headquartered in Houston, Texas, is an onshore independent oil and gas exploration and production company. It is focused on the acquisition and development of oil and natural gas properties primarily in the Gulf Region of the US. The company's producing assets are in TX, LA, MS, and KS.

Key Investment Considerations:

Maintaining our Speculative Buy rating and 12-month price target of $0.50 per share.

Viking Energy Group has substantial growth potential as a US conventional onshore oil and gas exploration and production company. VKIN is building its oil and gas production assets primarily through acquisitions. Acquisitions in 2016, 2017, and 2018 increased VKIN's production of barrels of oil equivalents per day to nearly 2,600 in 2Q19 from virtually zero prior to 2016. At the end of 2018, acquisitions have more than quadrupled the value of the company's net reserves to nearly $290 million from $70 million in 2017.

The US Energy Information Administration (EIA) expects domestic oil production to reach new highs with average daily production reaching 13.2 million barrels of oil in 2020, up from an estimated of 12.3 million barrels in 2019. EIA expects US production increases should be supported by new production in TX and NM.

At June 30, 2019, the company had restricted cash of nearly $4.7 million, which is approximately $2.7 million above the minimum required by its lenders. The excess can be used (upon lender approval) to enhance the current assets of its Ichor Energy subsidiary and/or reduce outstanding debt. Productive use of the company's excess cash should enhance shareholder value.

For 2019, we project net oil and gas revenue reaching $35.8 million (unchanged), up from $8 million in 2018 due to production from the December 2018 acquisition of onshore oil and gas producing assets in TX and LA. We project a net loss of $20.2 million or ($0.12)[**] per share and adjusted EBITDA of $20 million or $0.22 per share. The net loss is due primarily to VKIN paying interest on over $100 million of outstanding debt.

For 2020, we project net oil and gas revenue of $35.9 million (unchanged) and a net loss of $10.9 million or ($0.12) per share. We anticipate a net production gain of approximately 150 barrels per day, which should be offset by an approximate 7% year-over-year projected (in the futures market – as of August 16, 2019) decrease in the average price of oil per barrel. We project adjusted EBITDA of nearly $20.2 million or $0.21 per share.

Please view our Disclosures pages 16 - 18

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Appreciation Potential

We are maintaining coverage of Viking Energy Group, Inc. with a Speculative Buy rating and 12-month price target of $0.50 per share based on our 2020 net oil and gas revenue forecast, discounted by execution and potential dilution risk. Our 2020 forecast reflects an approximate 7% decrease in forecasted oil prices in the futures market (source: CME Commodity exchange as of August 16, 2019), which should be more than offset by average daily production increasing by at least 150 barrels of oil equivalents per day plus derivative hedges (that should protect a majority of the company's planned production from lower commodity prices).

Estimated Value of Year End Net Reserves in thousands

	End of Year in Thousands	
	2017*	2018*
Mid-Con Kansas Assets	$ 11,852	$ 24,091
Petrodome - 2017 Acquisiton	$ 58,909	$ 84,075
Ichor - 2018 Acquisition	$ -	$ 180,681
Estimated total net reserves	$ 70,761	$ 288,847

Source: Company's April 2019 Presentation

* Prepared by Netherland, Sewll & Associates; Yearer Engineering, and Dwayne McCune

** Prepared by Yearer Engineering, and Dwayne McCune

Our rating should be supported by the company's 2017 and 2018 acquisition of oil and gas producing and reserve assets primarily in the Gulf region (Texas, Louisiana, and Mississippi) of the US. The chart above shows that year-end reserves in Kansas and the 2017 acquisition of assets in TX, LA, and MS have seen increases in net reserves due in part to the company's acquisition strategy of acquiring undervalued assets. The December 2018 acquisition of assets (in TX and LA) into the company's Ichor subsidiary has more than quadrupled net reserves (net reserves equals proved developed producing reserves plus proved developed non-producing reserves and proved undeveloped producing reserve assets).

Our 12-month price target of $0.50 per share implies shares could more than double over the next twelve months. We selected 11 Oil and gas exploration companies that conduct business in at least one of the states (TX, LA, MS, KS) that Viking Energy Group operates producing assets. According to Thomson Reuters, the average trailing and 2020 price-to-sales multiples from those 11 companies are 2.4X and 1.7X, respectively (prior was 2.7X and 2X, respectively), compared to VKIN's multiples of 0.7X and 0.4X, respectively (prior was 1X and 0.5X, respectively). Viking Energy Group's relatively low 2020 sales multiple is likely due to the lack of recognition of its oil and gas production and net reserves for future production. As recognition of the company's ability to produce consistent oil and gas revenue improves, we anticipate investors according shares approaching that of the 11 companies in the Oil and Gas Exploration sector. We applied a multiple of 1.6X (prior was 1.8X) to our 2020 sales per share forecast of $0.39 (prior was $0.38 – the increase due to a lower forecasted average share count), discounted for execution and potential dilution risk, to obtain a year ahead price target of approximately $0.50 per share.

A higher valuation of Viking Energy Group could occur as its produces consistent quarterly oil and gas revenue, operating income, and adjusted EBITDA in order to service its relatively high level of debt (debt to equity ratio of nearly 10X at June 30, 2019 versus 0.5X for the Oil and Gas sector). We project the company generating operating income and adjusted EBITDA of $22 million and approximately $40.2 million, respectively in 2019 and 2020 combined. We estimate at June 30, 2019, if all potential shares were converted/exercised into common, the company's share count could exceed 183 million, up from over 91.2 million at July 31, 2019.

We believe Viking Energy Group, Inc., is most suitable for high-risk tolerant investors seeking exposure to an emerging onshore US conventional oil and gas exploration company with assets in TX, LA, MS, and KS. Investors should be aware that oil and gas commodities are subject to unforeseen events that could cause prices to increase or decrease over time.

Overview

Viking Energy Group, Inc., headquartered in Houston, Texas, is an independent oil and gas exploration/production company focused on the acquisition and development of oil and natural gas properties in North America. VKIN and its subsidiaries own oil and gas leases in Texas, Louisiana, Mississippi, and Kansas.

<u>*Equity History*</u>

In May 1989, the Company was originally incorporated in Florida. The company underwent several name changes, until it merged with SinoCubate, Inc., which was incorporated in Nevada in September 2008. In June 2012, the

company changed its name to Viking Investments Group, Inc. In March 2017, the company changed its name to Viking Energy Group, Inc.

Operational History
VKIN has been built through the acquisition, exploration, development and production of oil and natural gas properties. The acquisition of production assets has been accomplished through 100% ownership of a production asset or collaborative partnerships with other companies. In 2016, the company organized wholly owned subsidiaries, Mid-Con Petroleum, Mid-Con Drilling, and Mid-Con Development in order to purchase, hold, and develop oil and gas interests in the central US (primarily in Kansas). Initially, the company acquired oil and gas interests in Kansas and in December 2017, Petrodome Energy was acquired and is based in Houston, Texas. Petrodome has interests in oil and gas leases in Texas, Louisiana and Mississippi. In 2018, VKIN organized four entities to facilitate the acquisition and ownership of oil and gas leases in Texas and Louisiana (Ichor Energy Holdings, Ichor Energy, Ichor Energy (TX), and Ichor Energy (LA). In December 2018, the company acquired production assets located in Louisiana and Texas. The company's onshore oil and gas production assets and its management and financial infrastructure should provide for future growth opportunities.

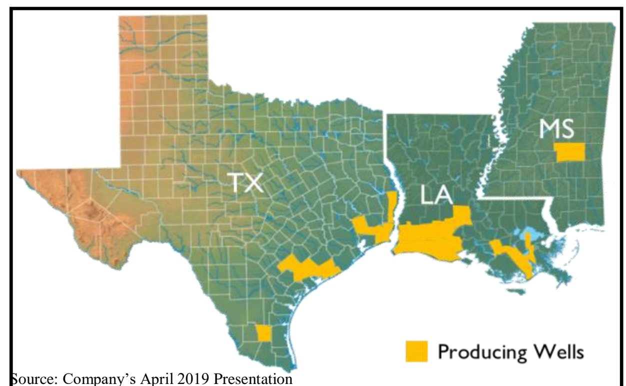
Oil & Gas Production Portfolio

Ichor subsidiary
In December 2018, the company acquired the oil & gas production assets that it operated by its Ichor subsidiary with the belief that it will be a foundational asset that should support future operational growth beyond 2020.

The company has a majority working interest (a percentage of ownership) in the oil and gas fields in those locations. Ichor operates 58 conventional producing oil and gas wells, as well as 31 salt-water disposal wells. Important statics include the wells having an average well total measured depth of approximately 10,500 feet and a net production of at least 2,300 BOEPD (Barrels of Oil Equivalent Per Day).

The company acquired the assets at below-market production and reserve metrics, which should enable the asset to provide increased production and cash flow through at least 2020 compared to 2018. Another benefit of this acquisition is that VKIN should be able to realize cost synergies with its other Gulf Coast production assets, thus increasing margins for all its assets in the region.

Total Gulf Coast production
The production assets in the region (pictured on the right – includes Ichor production) has net production in excess of 2,400 BOEPD based on 65 conventional producing oil and gas wells in 18 counties in Texas, Louisiana, and Mississippi. The average well has a measured depth of approximately 11,000 feet. VKIN's assets in this region total over 9,300 net acres. The company anticipates benefits such as historically strong customer demand for oil and gas that resulted in realizing a price above the benchmark WTI (Texas light sweet crude - a grade of crude oil used as a benchmark in oil pricing) and wells that have multiple pay zones through the use of 3D seismic surveys.



Source: Company's April 2019 Presentation

Mid-Continent Assets – Kansas
At December 31, 2018, the oil and gas producing assets consisted of interests in approximately 377 producing wells and 135 injection wells (a device that places fluid deep underground).

The company began its operations through the purchase of producing oil and gas assets in Kansas. VKIN started in Kansas due to some unique advantages that included the need for capital from small independent operators so they could maximize their production. The company has been able to add modern technology and techniques, as well as best practices to increase the cash flow and margins of the producing assets it acquired since 2016.

By successfully using modern techniques and technology, the company made certain producing assets more attractive by deepening and perforating approximately fifteen wells and improving water disposal capacity. Those enhancements enable the company's subsidiary to sell to an independent third party all its interests in oil and gas assets in Ellis and Rooks Counties, Kansas for $4.1 million. The assets sold in those counties consisted of working interests in approximately 41 oil leases. Approximately $3.8 million of the sale proceeds were applied to the reserve-based loan that was provided by CrossFirst Bank in December 2017, reducing the principal balance to $7.6 million. After the sale of producing assets in May 2019, the company had working interests in the following counties in Kansas - Miami, Franklin, Anderson, Woodson, Allen, Riley, Geary, and Wabaunsee.

Growth Strategy

Acquisitions

The company aims to grow its operations by acquiring undervalued onshore oil and gas properties with ongoing production and untapped reserves that have realistic appreciation potential in the Gulf Region primarily in Texas, Louisiana, and Mississippi. The basin and location within a basin are important before the company moves forward in the acquisition process. According to the US Energy Information Administration (EIA), there are approximately 10 oil and gas producing basins in the lower 48 states in the US with each basin having numerous locations. Based on the company's producing locations (at June 30, 2019), producing assets that are likely to be acquired should be located onshore in Texas, Louisiana, and Mississippi. Acquiring producing assets in this region should provide enhanced efficiencies that drive operating leveraging, increase production levels, and increase reserves of oil and gas.

The typical profile of an already producing oil and gas asset is that it must have a well depth of 500 feet to 10,000 feet with multiple pay zones (the reservoir that is producing oil or gas within a particular wellbore) and potential for cost effective enhanced recovery solutions in order to maximize production. The company's management team will work to employ the latest techniques to maximize the production of oil and gas on all of its existing producing assets.

In an 8K filing on August 16, 2019, VKIN announced it entered into a letter of intent to acquire oil and gas assets consisting of 71 wells in Texas and 52 in Louisiana that produce approximately 1,085 barrels of oil and 16,800 mcf of gas daily. Conditions to complete the acquisition include completion of due diligence, reaching a definitive agreement before September 16, 2019, and raising sufficient capital to complete the acquisition by October 31, 2019.

Implement low-risk drilling programs

The implementation of low-risk drilling programs should enable the company to reduce overall production costs. In 1H19, VKIN was able to reduce the average production costs per barrel by approximately 9%. The successful implementation of a low-risk drilling program should be driven by its management team, which has over 100 years of combined region-specific expertise in extracting oil and gas from wells of various depths and complexity.

Building reserves

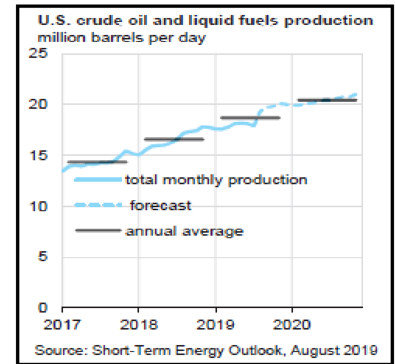
At December 31, 2018, acquisitions helped to more then triple the company's proven reserves (includes developed, developed non-producing, and undeveloped) to over 16.5 million barrels of oil equivalent (includes natural gas production) from 5.3 million in 2017.

Oil and Gas Market

Domestic

IBISWorld noted that in 2015 and 2016, the US Oil and Gas Extraction industry was challenged by a decline in oil and natural gas prices. However, IBISWorld projects that domestic production of oil and gas should increase through 2023 driving industry revenue to $469.4 billion, up from an estimated $280.4 billion in 2018 for annualized growth 10.9%. IBISWorld anticipates natural gas accounting for nearly 39% of total industry revenue. Supporting underlying industry growth is an increase in the number of operators to over 100,000 from approximately 83,300 in 2018. Industry growth reflects commodity prices that are likely to remain higher then they were in 2015 and 2016 due in part to global economic growth, as well as improvements in oil and gas drilling technology.

The US Energy Information Administration (EIA) expects domestic oil production to reach new highs with average daily production reaching 13.2 million barrels of oil in 2020, up from an estimated of 12.3 million barrels in 2019 (see chart on the right). The EIA expects US production increases will be supported by new production in TX and NM.



Over time, industry participants will deplete their reserves, making it necessary to improve production efficiency and minimize waste. It is standard practice within the industry to replenish reserves through acquisitions or new exploration. The EIA estimated that the number of US producing oil wells increased from 735,000 in 2000 to a high in excess of 1 million in 2014, but declined to 991,000 wells in 2017 (the latest data available from EIA).

In 2018, the states of TX and LA reported that there were approximately 187,000 and 16,000 oil producing wells. Those two states are where Viking Energy Group operates most of its producing assets (approximately 65 wells including MS). The significant number of wells in TX and LA provide the company a significant opportunity to acquire additional oil and gas producing properties, not only to continue building its net reserves, but also to increase net daily production to grow revenue, operating income, and adjusted EBITDA.

Prices

In March 2019, IBISWorld projected global crude oil prices to increase annually by 3% to 2025 from 2017 (see chart on the right). However, futures prices can be volatile. As of August 16, 2019, data gathered from the CME commodity exchange for oil and gas suggest that WTI (West Texas Intermediate) Crude Oil prices are likely to decrease in 2020 by 7% to $52.13 a barrel (from an estimated $56 a barrel in 2019) with natural gas down approximately 4% to $2.42 per million Btu in 2020 from an estimated $2.53 million Btu in 2019. The company has in place derivative hedges that should protect a majority of its planned production from lower commodity prices.

Viking Energy Group believes it may have a strategic advantage based on the selling price of its crude oil in to the market since approximately 94% of its total production resides on the Texas Louisiana border (Gulf Coast region). Given the location of the company's assets, prices obtained could reflect the spot price for Light Louisiana Sweet Crude, which historically has a premium (5% - 8%) compared to prices seen for West Texas Intermediate Crude.

Projections

Basis of Forecast

The company's primary source of net revenue is the production of oil and gas from its assets in Texas, Louisiana, Mississippi, and Kansas. In 2019 and 2020, we project the company could produce at least 2,600 barrels and nearly 2,700 barrels of oil equivalent per day (includes conversion of gas production into a barrels of oil), respectively, compared to nearly 400 barrels of oil equivalent per day in 2018.

While our forecast to 2020 does not include the potential for acquisitions, it does reflect an approximate 7% year-over-year (projected in the futures market – as of August 16, 2019) decrease in the average price of oil per barrel, the sale and purchase of oil and gas assets in 1H19, as well as a net gain in production in 2020.

In order to provide a measure of expenses related to operating leases, we project lease-operating costs (excluding the potential for future acquisitions) of approximately $10.9 million in 2019 and $10.3 million in 2020. For our forecast period, we project operating expenses increasing to $14.3 million in 2020, up from $14.1 million in 2019. The company's operating expenses were $11.3 million in 2018.

Investors should be aware that the company enters into commodity derivative instruments containing swaps and collars, which they believe are effective in mitigating commodity price risk associated with a portion of its future

monthly natural gas and crude oil production and related cash flows. We intend not to forecast the change in fair value of derivatives, only to record them on the income statement as the company reports them each quarter.

Operations – 2019
We project net oil and gas revenue of $35.8 million (unchanged), up from $8 million in 2018 due primarily to acquired oil and gas assets. Revenue in excess of lease operating costs (or gross profit) should approximate $24.9 million compared to $4.1 million. The significant increase in revenue in excess of lease operating costs reflects revenue growth and gross margin of 69.5% compared to 51.9% in 2018.

We project VKIN producing operating income of $10.8 million compared to a loss of $7.2 million as operating expense should increase 24.9% to $14.1 million. The increase in operating expenses reflects depreciation, depletion & amortization reaching nearly $8.9 million, up from $1.6 million in 2018 due primarily to oil and gas producing assets acquired in December 2017 and 2018, respectively. Accretion of asset retirement obligations should increase to $308,000 from $86,000 in 2018. The increase in operating expenses should be partly offset by a reduction in G&A expenses to $4.8 million from $7.3 million due primarily to significant professional fees associated with evaluation of acquisition prospects at the end of 2017 and 2018. We also anticipate stock based compensation of $92,000 compared to $2.3 million in 2018 as VKIN should be able to shift away from issuing shares for services.

In 2019, non-operating expense should consist of interest expense of $21.9 million (approximately $10 million is non-cash) and negative change in fair value of derivatives of $5.3 million. In 2018, the company reported interest expense of $7.9 million and negative change in fair value of derivatives of $1.6 million. The significant increase in interest expense should reflect a significantly higher average debt balance due primarily to the borrowing necessary to acquire oil and gas producing assets in Texas and Louisiana during December 2018.

We project a net loss of $16.4 million or ($0.18) per share compared to a loss of $15.1 million or ($0.18) per share. Excluding the significant negative change in the fair value of derivatives, we expect the EPS loss of ($0.12) per share. We previously projected a net loss of $20.2 million or ($0.22) per share.

At December 31, 2018, the company had net operating loss carryforwards of approximately $11.8 million which begin to expire starting in 2027.

Finances – 2019
We project cash earnings of $7.3 million and increase in working capital of $158,000. The increase in working capital is due primarily to an increase in receivables, offset in party by increases in accruals and payables. Cash from operations of $7.1 million and proceeds from the sale of assets is unlikely to cover capital expenditures including the purchase of assets and the repayment of debt. Total cash (including restricted cash) should decrease by $434,000 to $3.6 million at December 31, 2019.

Operations – 2020
We project net oil and gas revenue virtually flat at $35.9 million (unchanged) compared to our 2019 forecast. Our 2020 forecast reflects an approximately 7% decrease in forecasted oil prices in the futures market (source: CME Commodity exchange as of June 16, 2019), which should be more than offset by average daily production increasing by at least 150 barrels of oil equivalents per day plus derivative hedges (that should protect a majority of the company's planned production from lower commodity prices).

Revenue in excess of lease operating costs (or gross profit) should approximate $25.6 million, up from our 2019 forecast of $24.9 million.

We project the company producing operating income of $11.3 million compared operating income of $10.8 million in 2019, as operating expense increases 1.4% to $14.3 million. The increase in operating income is due primarily to gross margin improving to 71.2% compared to our 2019 forecast of 69.5%, offset in part by an increase in operating expenses. The increase in operating expenses reflects G&A expenses increasing $529,000 to $5.4 million in order to support and sustain production of the company's existing oil and gas assets. We project all other operating expenses

(stock based compensation, accretion, and depreciation, depletion & amortization) to be lower by a combined $334,000 compared to our 2019 forecast.

Non-operating expense should consist of interest expense of $22.2 million (approximately $10 million is non-cash) compared to $21.9 million due primarily to higher interest rates, offset in part by a lower average debt balance.

We project a net loss of $10.9 million or ($0.12) per share. We previously projected a loss of $10.8 million or ($0.11) per share.

Finances – 2020

We project cash earnings of $2.7 million and a decrease in working capital of $2.2 million. The decrease in working capital is due primarily to increases in payables and accruals. Cash from operations of $4.9 million is unlikely to cover capital expenses and repayment of debt, reducing total cash (including restricted cash) by $355,000 to $3.2 million at December 31, 2020.

2Q19 and 1H19 Results

1Q19

Oil and gas revenue increased to $8.7 million compared to $2.3 million in the year-ago period. Revenue growth stems from increased production from oil and gas assets acquired at the end of 2018, as well as new drilling and enhancements to existing wells. The company's total crude and gas production was 133,589 barrels and 596,952 MCF (a thousand cubic feet), respectively, compared to 36,986 barrels and 1,169 MCF in 2Q18.

Lease operating costs increased to nearly $2.9 million from $1 million in the year-ago period or 32.7% of revenue, an improvement from 44.6% in 2Q18. The increase in lease operating costs was due primarily to increased production reflecting the acquisition of assets in December 2018. Revenue in excess of lease operating costs (a gross profit measure) was $5.9 million, up from $1.3 million in 2Q19.

Operating expenses increased to $3.6 million from $2.7 million in the year ago period due primary the December 2018 acquisition of assets in Texas and Louisiana. G&A expenses increased $132,000 to $1.3 million and depreciation, depletion & amortization increased nearly five-fold to $2.2 million from $460,000 in the year-ago period. Accretion of asset retirement obligations increased $27,000 to $76,000, while stock based compensation decreased to $3,000 from $49,000 in the year-ago period.

Non-operating expense was $1 million compared to $3.2 million in 2Q18. Interest expense was $5.5 million, up from $2.5 million due primarily to a higher average debt balance stemming from debt used to acquire assets in December 2018. Change in fair value of derivatives was a gain of $4.5 million compared to a loss of $633,000, reflecting the change in commodity prices relative to the company's commodity hedge positions.

The company recorded no income tax benefit in 2Q19 compared to benefit of $605,000 in the year-ago period. The net income was $1.3 million or $0.01 on 91.2 million average shares outstanding compared to a loss of $4 million or ($0.05) per share on 81 million average shares outstanding. We estimate excluding the change in fair value of derivatives, 2Q19 would have had a loss of approximately $3.2 million or ($0.03) per share. We projected a loss of $2.4 million or ($0.03) per share on revenue of $9.2 million.

1H19

Oil and gas revenue increased more than four-fold to $18.1 million. The company's total crude and gas production was 277,974 barrels and 1,119,360 MCF (a thousand cubic feet), respectively, compared to 70,412 barrels and 42,785 MCF in 1H18.

in $ thousands	6 Mos. 19	6 Mos. 18	% D
Revenue - Oil and gas sales	**$ 18,081**	**$ 4,481**	**303.5%**
Lease operating costs	5,457	2,044	**167.0%**
Revenue in excess of lease operating costs - gross profit	$ 12,624	$ 2,437	**418.1%**
Total Operating Expenses	7,090	4,292	**65.2%**
Operating Income (loss)	5,534	(1,855)	**NMF**
Total Other Income (Expense)	(16,173)	(4,530)	**NMF**
Pre-Tax Income	(10,639)	(6,385)	**66.6%**
Income Tax Expense (Benefit)	-	(877)	
Net Income (loss)	$(10,639)	$ (5,508)	
Earnings (loss) per share	($0.12)	($0.07)	
Avg Shares Outstanding	91,148	77,650	
Margins			
Gross margin - combinded	69.8%	54.4%	
Operating Margin	30.6%	(41.4%)	
Pre-Tax Margins	(58.8%)	(142.5%)	
Tax Rate	0.0%	13.7%	
Source: company reports			

Lease operating costs more than doubled to nearly $5.5 million or 30.2% of revenue, an improvement from 45.6% in the year-ago period. Revenue in excess of lease operating costs (a gross profit measure) was $12.6 million, up from $2.4 million in 1H18.

Operating expenses increased to $7.1 million from $4.3 million in the year ago period due primary a $3.6 million increase in depreciation, depletion & amortization to $4.6 million, offset in part by a $1.2 million decrease in stock-based compensation.

Non-operating expense was $16.2 million compared to $4.5 million due in part to interest expense (including amortization of debt discount) increasing to $10.9 million from $3.6 million in the year-ago period. Change in fair value of derivatives was a loss of $4.3 million compared to a loss of $988,000.

The company recorded no income tax benefit in 1H19 compared to benefit of $877,000 in the year-ago period. The net loss was $10.6 million or ($0.12) per share on 91.1 million average shares outstanding compared to a loss of $5.5 million or ($0.07) per share on 77.7 million average shares outstanding. We estimate excluding the change in fair value of derivatives, 1H19 loss would have approximated $5.4 million or ($0.06) per share.

Finances

1H19, cash earnings of $4 million and a $2.1 million increase in working capital resulted in cash from operations of $1.9 million. The increase in working capital was due primarily to an increase in receivables. Cash from operations and proceeds from a short-term advance and debt covered the purchase of oil and gas properties. Cash and restricted cash combined increased $1 million to $5 million at June 30, 2019.

Capital Structure

At June 30, 2019, the company had total outstanding debt (net of deferred unamortized discount - $5.9 million) of nearly $106 million, all of which is long-term except $40.2 million. The table on the right describes the company's borrowings and amounts. The company is highly leveraged with a debt to equity ratio of 10 versus 0.5 for the industry indicating that VKIN's leverage is much higher then other oil and gas companies.

On July 30, 2019, VKIN through its Mid-Con Petroleum and Mid-Con Drilling subsidiaries, borrowed nearly $3.4 million from Cornerstone Bank at a 6% interest rate with a maturity date of July 24, 2025. Terms are for interest only payments for the first year to August 24, 2020. The net proceeds were applied to reduce the amount owed under the company's reserve-based revolving loan facility with CrossFirst Bank to $6.7 million and CrossFirst Bank released its security interests in the company's Kansas assets.

Description of Outstanding Borrowings	in Millions
June through December of 2018, ~$9.5 million was borrowed from private lenders. The borrowings consist of a 10% secured promissory note with 50% of the principal convertible into VKIN's common stock at $0.20 per share, all principal and accrued interest payable on the maturity date of August 31, 2019. The balance is net of unamortized discount of $1.9 million at June 30, 2019.	$13.30
In June 2018, the company borrowed $12.4 million pursuant to a revolving line of credit facility with a maximum principal amount of $30 million from Crossfirst Bank, bearing interest at 1.5% above the prime rate. Principal is payable at $100,000 monthly through September 30, 2020 (maturity date). The balance is net of unamortized discount of $69,200 at June 30, 2019.	$10.00
On December 28, 2018, to facilitate an acquisition of oil and gas assets through the Ichor Energy subsidiary, a term loan was entered into with lenders represented by ABC Funding, as administrative agent. The agreement provides for borrowings of nearly $63.6 million, bearing interest at the greater of (i) a floating rate of interest equal to 10% plus LIBOR, and (ii) a fixed rate of interest equal to 12%, payable monthly on the last day of each calendar month, commencing January 31, 2019. Principal payments will be made quarterly at 1.25% of the initial loan amount, commencing after June 30, 2019. Cash generated from these operations is restricted to lease operating expenses, the payment of debt service on the term loan, approximately $12 million of oil and gas development projects approved by the lender, and distributions to VKIN of $65,000 per month for general and administrative expenses, and a quarterly tax distribution at the current statutory rates. The balance shown is net of unamortized discount of $3.9 million at June 30, 2019.	$58.80
On December 28, 2018, the company issued a 10% secured promissory note in the amount of nearly $23.8 million payable to RPM Investments, secured by 100% of the membership interests of Ichor Energy Holdings, LLC. All accrued interest and unpaid principal are due on January 31, 2020.	$23.78
On February14, 2019, a promissory note payable was issued from CrossFirst Bank in the amount of $56,760 for the purchase of transportation equipment, bearing interest at 7.15%, payable in 60 installments of $1,130, with a maturity date of February 14, 2024. **Source: August 2019 10Q Filing**	$0.54

The company had a working capital deficit in excess of $45.8 million. The components causing the deficiency are notes payable with a face value $15 million due in August of 2019 and a $23.8 million promissory note payable to the seller of oil and gas interests purchased on December 28, 2018 with all principal and accrued interest due on the earlier of: the date VKIN or one of its affiliates completes an acquisition with one or more of the sellers for a purchase price equal to or greater than $50 million, or January 31, 2020.

The company plans to address the deficiency by utilizing the following: The $15 million of notes due in August 2019 allow for 50% of the principal to be converted into shares of VKIN's common stock at $0.20 per share and/or using the provision allowing for the company having the right to extend the maturity date for one additional year to

August of 2020. Consideration for the one-year extension is payment of the accrued interest, an increase in the interest rate to 12% and the issuance of a warrant to purchase an additional 115,000 common shares per $100,000 of outstanding principal.

The company anticipates the acquisition of oil and gas assets in Texas and Louisiana should provide cash flow sufficient to not only satisfy the company's debt service associated with this acquisition, but also to fund a development program to enhance the return on owned assets.
To sustain operation in the face of the working capital deficiency, VKIN obtained a revolving credit facility with CrossFirst Bank, which was approved for $30 million. At June 30, 2019, the outstanding balance was $10 million and further reduced in July 2019. Therefore, additional funds could be made available for projects after they are reviewed and approved by the lender.

Competitive Landscape

The company operates in the petroleum exploration and production business, which is extremely competitive due to the fact that in the US and Canada, there are numerous major oil and gas exploration and production companies. Independent operators and major oil and natural gas companies create intense competition within the industry for the acquisition and development of production assets. Industry participants also compete for obtaining capital from investors. Therefore, larger companies are likely to have greater access to capital, making it easier for them to obtain production resources.

There is intense competition for the hiring of experienced personnel. The company's major oil and gas exploration competitors are likely to have substantially larger financial resources, staffs, and facilities. Having the necessary staff and experienced personnel is important since the oil and gas industry is characterized by technological advancements and introductions of new products and services via the use of new technologies.

In addition, the drilling, producing, processing and marketing of oil and natural gas is affected by factors (trade, politics, and potential for military conflicts) that are beyond a companies control, which may delay drilling, increase or decrease prices, and have other adverse effects that cannot be predicted.

Risks

In our view, these are the principal risks underlying the stock.

Going Concern
Viking Energy Group, Inc. has yet to turn an operating profit. At June 30, 2018, the company's accumulated deficit was $21.5 million, up from $10.9 million at December 31, 2019. The company also had a working capital deficit of $45.8 million. These factors raise substantial doubt from the company's auditor about its ability to continue as a going concern.

Dilution
At March 31, 2019, if all potential shares were converted/exercised into common, the company's share count could exceed 183 million, up from over 91 million at July 31, 2019. Excluding any type of equity offering, we estimate VKIN's share count could reach 140 million if outstanding warrants are exercised. However, if the company was to raise capital in an equity and/or convertible debt or preferred offering, existing shareholder stake in the company would most likely be diluted.

Commodity prices
The company's profitability, cash flows, and the carrying value of oil and natural gas producing and undeveloped assets are closely correlated with the market prices of oil and natural gas. Any significant declines in oil and natural gas prices or any other unfavorable market conditions could have a negative effect on the company's operations and overall financial condition.

Environmental
Oil and gas operations are subject to changing laws and regulations governing the discharge of materials into the environment (overall environmental protection). Any of the properties owned by the company for the exploration and production of oil and gas and the wastes disposed of on these properties may be subject to the Comprehensive Environmental Response, Compensation and Liability Act, the Oil Pollution Act of 1990, as well as the Resource Conservation and Recovery Act, the Federal Water Pollution Control Act. VKIN might be held liable for damage without regard to whether it was negligent or otherwise at fault, which could result in the imposition of administrative, civil and criminal penalties.

Regulation and Governmental Actions
Federal, state, local, territorial and foreign laws and regulations relating to tax increases and retroactive tax claims, as well as the disallowance of tax credits and deductions, cancellation or amendment of contract rights, and changes in import and export regulations, limitations on access to exploration and development opportunities, as well as other political developments may adversely affect the company operations.

Operating Hazards
VKIN is subject to operating hazards associated with the exploration and production of oil and gas, including but not limited to natural disasters such as hurricanes, blowouts, explosions, oil spills, catering, pollution, earthquakes, labor disruptions and fires. If any of these were to occur it could result in substantial losses, since the company (as of December 31, 2018) did not maintain insurance coverage for matters that may adversely affect its operations including business interruptions.

Reserve Estimates
Estimates of reserves will impact future net revenues. Those estimates, which are prepared by different petroleum engineers can vary and are subject to adjustment (up or down). Oil and gas reserve estimates are inexact and involve subjective matters. If declines in and instability of oil and gas prices occur, then write downs in the capitalized costs associated with any oil and gas assets may be required.

Global Warming
The growing political and scientific sentiment is that increased concentrations of carbon dioxide and other greenhouse gases in the atmosphere are influencing global weather patterns. Climate change, including global warming, has led to legislative and regulatory initiatives directed at limiting the greenhouse gas emissions. Laws enacted could directly/indirectly affect VKIN's oil and gas production that could diminish overall financial results.

Internal Controls
Material weaknesses in internal controls as of June 30, 2019 include insufficient segregation of duties consistent with financial reporting that would provide reasonable assurance regarding the reliability of the company's financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Any material weakness or unsuccessful remediation of lack of adequate internal controls could cause investors to lose confidence in reported financial information.

Legal Proceedings
In the 2Q19 10Q filing, it was reported that The Staff of the SEC's Division of Enforcement has notified Viking Energy Group of a preliminary determination to recommend that the SEC file an enforcement action against it, as well as against its CEO and CFO, for alleged (unspecified to the public) violations of Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 there under during the period from early 2014 through late 2016. The Staff's notice is not a formal allegation or a finding of wrongdoing, and the company is in dialogue with The Staff regarding its preliminary determination. Viking Energy Group believes it has adequate defenses and intends to vigorously defend any enforcement action that may be initiated by the SEC.

Shareholder Control
All executive officers and directors as a group, own 23.2% of the outstanding voting stock (March 2019). These owners could greatly influence the outcome of matters requiring stockholder approval, which decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

We estimate average daily-volume in 2018 was 55,500 shares. During the three months to August 19, 2019, volume increased to 120,200. VKIN has a float of 84.9 million shares and outstanding shares of 91.2 million.

Viking Energy Group, Inc.
Consolidated Balance Sheets
FY2016 – FY2020E
(in thousands)

	FY16A	FY17A	FY18A	2Q19A	**FY19E**	**FY20E**
ASSETS						
Current assets:						
Cash	$ 19	$ 536	$ 4,010	$ 361	**$ 343**	**$ 222**
Restricted cash	-	5,199	-	4,683	**3,233**	**3,000**
Accounts receivable - oil and gas, net	66	573	258	2,709	**2,882**	**2,992**
Other receivable - related party	77	549	-	-	**-**	**-**
Prepaid expenses and other current assets	88	-	124	91	**97**	**97**
Total current assets	249	6,857	4,393	7,844	**6,555**	**6,310**
Oil and gas properties, full cost method						
Proved developed producing oil and gas properties, net	1,765	12,301	81,332	76,502	**72,014**	**66,380**
Undeveloped and non-producing oil and gas properties, net	1,237	26,860	50,493	49,191	**48,139**	**45,285**
Total oil and gas properties	3,003	39,161	131,825	125,693	**120,153**	**111,665**
Fixed assets, net	-	167	200	563	**565**	**600**
Long-term investment	107	-	682	-	**-**	**-**
Other assets	-	9	110	110	**110**	**110**
Total assets	$ 3,359	$ 46,194	$ 137,210	$ 134,210	**$ 127,383**	**$ 118,685**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accrued expenses and other current liabilities	179	2,556	2,549	1,631	**3,400**	**4,500**
Accounts payable	121	397	1,015	2,742	**2,500**	**3,500**
Undistributed revenues and royalties	-	1,175	1,208	1,308	**1,310**	**1,500**
Derivative liability	1,137	1,053	2,532	7,122	**7,122**	**7,122**
Amount due to directors	1,073	1,193	396	591	**-**	**-**
Long-term debt, net	1,302	3,562	11,806	40,232	**35,341**	**33,341**
Total current liabilities	3,813	9,936	19,504	53,624	**49,673**	**49,963**
Long-term debt, net	1,579	9,743	92,077	65,760	**68,449**	**68,449**
Deferred tax- operating lease liability	-	911	-	339	**353**	**1,000**
Asset retirement obligation	833	3,096	4,413	3,869	**3,800**	**4,000**
Preferred stock,$.001 par value; authorized 5,000,000 shares;	0	0	0	0	0	0
Stockholders' equity:						
Common stock,$.001 par value; authorized 500,000,000 shares;	53	72	91	91	91	91
Additional paid-in capital	11,527	19,030	32,016	32,058	**32,308**	**33,108**
Prepaid equity-based compensation	(35)	(12)	-	-	**-**	**-**
Accumulated other comprehensive loss	(1)	-	-	-	**-**	**-**
Retained earnings (accumulated deficit)	(14,410)	3,418	(10,892)	(21,531)	**(27,292)**	**(38,177)**
Total stockholders' equity	(2,866)	22,508	21,215	10,618	**5,108**	**(4,977)**
Total liabilities and stockholders' equity	$ 3,359	$ 46,194	$ 137,210	$ 134,210	**$ 127,383**	**$ 118,435**
SHARES OUT	53,093	72,348	90,989	91,200	**92,000**	**95,000**

Source: Company reports and Taglich Brothers estimates

Viking Energy Group, Inc.
Annual Income Statement
FY2016 – FY2020E
(in thousands)

	FY16 A	FY17 A	FY18 A	**FY19 E**	**FY20 E**
Revenue - Oil and gas sales	$ 377	$ 1,982	$ 7,968	**$ 35,781**	**$ 35,900**
Lease operating costs	248	1,137	3,836	**10,907**	**10,325**
Revenue in excess of lease operating costs - gross profit	129	845	4,132	**24,874**	**25,575**
Operating Expenses:					
General and administrative	781	1,595	7,266	**4,861**	**5,390**
Stock based compensation	767	5,405	2,303	**92**	**120**
Accretion - asset retirement obligations	23	58	86	**308**	**300**
Depreciation, depletion & amortization	99	507	1,645	**8,854**	**8,500**
Impairment of oil and gas properties	1,710	-	-	**-**	**-**
Total Operating Expenses	3,380	7,566	11,300	**14,115**	**14,310**
Operating Income (loss)	(3,251)	(6,721)	(7,167)	**10,759**	**11,265**
Interest (expense) income includes non-cash debt discount**	(2,483)	(1,604)	(7,880)	**(21,887)**	**(22,150)**
Change in fair value of derivatives	204	49	(1,605)	**(5,272)**	**-**
Sale of investments gain (loss)	(18)	(7)	-	**-**	**-**
Gain (loss) on disposal of assets	-	-	624	**-**	**-**
Gain (loss) on settlement of debt and ARO	103	-	-	**-**	**-**
Bargain purchase gain	-	27,021	-	**-**	**-**
Total Other Income (expense)	(2,194)	25,459	(8,861)	**(27,158)**	**(22,150)**
Pre-Tax Income (loss)	(5,445)	18,738	(16,028)	**(16,400)**	**(10,885)**
Income Tax Expense (Benefit)	-	911	(911)	**-**	**-**
Net income (loss)	$ (5,445)	$ 17,828	$ (15,118)	**$ (16,400)**	**$ (10,885)**
Earning (loss) per share*	$ (0.12)	$ 0.28	$ (0.18)	**$ (0.18)**	**$ (0.12)**
Avg Shares Outstanding	45,721	62,589	81,950	**91,299**	**94,000**
EBITDA - Adjusted	$ (675)	$ (808)	$ (3,219)	**$ 20,005**	**$ 20,185**
Margin Analysis					
Revenue in excess of lease operating costs - gross profit	34.1%	42.6%	51.9%	69.5%	71.2%
Selling, general, and administrative	65.9%	57.4%	48.1%	30.5%	28.8%
Operating margin	(862.8%)	(339.1%)	(89.9%)	30.1%	31.4%
Pre-tax margin	(161.1%)	247.7%	(141.8%)	(116.2%)	(76.1%)
Tax rate	0.0%	4.9%	5.7%	0.0%	0.0%
YEAR / YEAR GROWTH					
Total Revenues	N/A	426.0%	302.0%	349.1%	0.3%

** 2019 EPS forecast includes approximately $5.3 million or ($0.06) per share due to loss in fair value of derivatives*
*** The cash portion of interest expense in 2019 and 2020 should approximate $12 million, respectively.*

Source: Company reports and Taglich Brothers estimates

Viking Energy Group, Inc.
Income Statement Model
Quarters FY2018A – 2020E
(in thousands)

	Q1 18 A	Q2 18 A	Q3 18 A	Q4 18 A	FY18 A	Q1 19 A	Q2 19 A	Q3 19 E	Q4 19 E	**FY19 E**	Q1 20 E	Q2 20 E	Q3 20 E	Q4 20 E	**FY20 E**
Revenue - Oil and gas sales	$ 2,162	$ 2,319	$ 1,896	$ 1,591	$ 7,968	$ 9,347	$ 8,734	$ 8,700	$ 9,000	**$ 35,781**	$ 8,800	$ 8,355	$ 8,865	$ 9,880	**$ 35,900**
Lease operating costs	1,008	1,035	913	878	3,836	2,599	2,857	2,750	2,700	**10,907**	2,600	2,350	2,625	2,750	**10,325**
Revenue in excess of lease operating costs - gross profit	1,154	1,283	983	713	4,132	6,747	5,877	5,950	6,300	**24,874**	6,200	6,005	6,240	7,130	**25,575**
Operating Expenses:															
General and administrative	901	1,126	1,365	3,874	7,266	1,033	1,258	1,275	1,295	**4,861**	1,300	1,265	1,325	1,500	**5,390**
Stock based compensation	173	1,045	680	405	2,303	40	3	25	25	**92**	30	30	30	30	**120**
Accretion - asset retirement obligations	48	49	40	(52)	86	83	76	75	75	**308**	75	75	75	75	**300**
Depreciation, depletion & amortization	490	460	413	282	1,645	2,371	2,228	2,155	2,100	**8,854**	2,200	2,150	2,100	2,050	**8,500**
Total Operating Expenses	1,612	2,680	2,498	4,510	11,300	3,526	3,564	3,530	3,495	**14,115**	3,605	3,520	3,530	3,655	**14,310**
Operating Income (loss)	(458)	(1,397)	(1,515)	(3,797)	(7,167)	3,221	2,313	2,420	2,805	**10,759**	2,595	2,485	2,710	3,475	**11,265**
Interest (expense) income includes non-cash debt discount**	(1,069)	(2,531)	(1,676)	(2,603)	(7,880)	(5,407)	(5,494)	(5,495)	(5,490)	**(21,887)**	(5,575)	(5,550)	(5,525)	(5,500)	**(22,150)**
Change in fair value of derivatives	(355)	(633)	(342)	(275)	(1,605)	(9,746)	4,474	-	-	**(5,272)**	-	-	-	-	**-**
Gain (loss) on disposal of assets	-	-	556	68	624	-	-	-	-	**-**	-	-	-	-	**-**
Gain (loss) on settlement of debt and ARO	58	-	-	(58)	-	-	-	-	-	**-**	-	-	-	-	**-**
Total Other Income (expense)	(1,366)	(3,164)	(1,463)	(2,868)	(8,861)	(15,153)	(1,020)	(5,495)	(5,490)	**(27,158)**	(5,575)	(5,550)	(5,525)	(5,500)	**(22,150)**
Pre-Tax Income (loss)	(1,825)	(4,561)	(2,978)	(6,665)	(16,028)	(11,932)	1,292	(3,075)	(2,685)	**(16,400)**	(2,980)	(3,065)	(2,815)	(2,025)	**(10,885)**
Income Tax Expense (Benefit)	(272)	(605)	(34)	-	(911)	-	-	-	-	**-**	-	-	-	-	**-**
Net income (loss)	$ (1,553)	$ (3,955)	$ (2,945)	$ (6,665)	$ (15,118)	$ (11,932)	$ 1,292	$ (3,075)	$ (2,685)	**$ (16,400)**	$ (2,980)	$ (3,065)	$ (2,815)	$ (2,025)	**$ (10,885)**
Earning (loss) per share*	$ (0.02)	$ (0.05)	$ (0.03)	$ (0.07)	$ (0.18)	$ (0.13)	$ 0.01	$ (0.03)	$ (0.03)	**$ (0.18)**	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.02)	**$ (0.12)**
Avg Shares Outstanding	74,306	80,957	84,561	89,479	81,950	91,103	91,192	91,400	91,500	**91,299**	93,000	93,500	94,500	95,000	**94,000**
EBITDA - Adjusted	$ 205	$ 108	$ (422)	$ (3,110)	$ (3,219)	$ 5,631	$ 4,543	$ 4,750	$ 5,080	**$ 20,005**	$ 4,900	$ 4,740	$ 4,915	$ 5,630	**$ 20,185**
Margin Analysis															
Revenue in excess of lease operating costs - gross profit	53.4%	55.3%	51.8%	44.8%	51.9%	72.2%	67.3%	68.4%	70.0%	69.5%	70.5%	71.9%	70.4%	72.2%	71.2%
Selling, general, and administrative	46.6%	44.7%	48.2%	55.2%	48.1%	27.8%	32.7%	31.6%	30.0%	30.5%	29.5%	28.1%	29.6%	27.8%	28.8%
Operating margin	(21.2%)	(60.2%)	(79.9%)	(238.6%)	(89.9%)	34.5%	26.5%	27.8%	31.2%	30.1%	29.5%	29.7%	30.6%	35.2%	31.4%
Pre-tax margin	(113.2%)	(170.2%)	(119.2%)	(147.8%)	(141.8%)	(338.4%)	36.3%	(87.1%)	(76.8%)	(116.2%)	(82.7%)	(87.1%)	(79.7%)	(55.4%)	(76.1%)
Tax rate	14.9%	13.3%	1.1%	0.0%	5.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
YEAR / YEAR GROWTH															
Total Revenues	NMF	NMF	NMF	NMF	302.0%	332.3%	276.7%	358.9%	465.5%	349.1%	(5.8%)	(4.3%)	1.9%	9.8%	0.3%

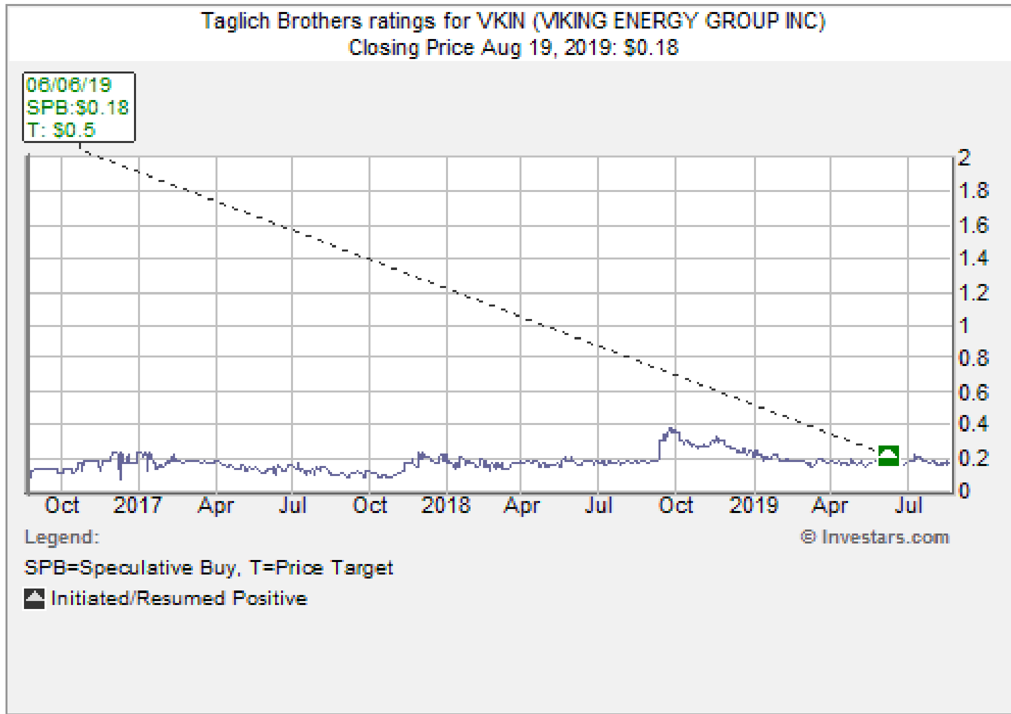
** 2019 EPS forecast includes approximately $9.7 million or ($0.11) per share due to loss in fair value of derivatives*
*** The cash portion of interest expense in 2019 and 2020 should approximate $12 million, respectively.*
Source: Company reports and Taglich Brothers estimates

Viking Energy Group, Inc.
Cash Flow Statement
FY2016 – FY2020E
(in thousands)

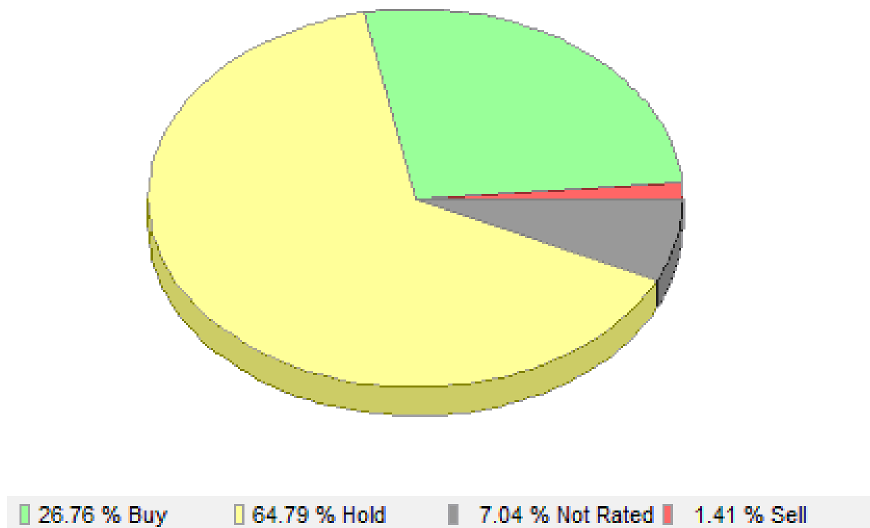
	FY2016A	FY2017A	FY2018A	6 Mos. 19A	**FY2019E**	**FY2020E**
Cash Flows from Operating Activities						
Net Income (loss)	$ (5,445)	$ 17,828	$ (15,118)	$ (10,639)	**$ (16,400)**	**$ (10,885)**
Change in fair value of derivative liability	(204)	(49)	1,605	5,272	**5,272**	**-**
Realized loss on long-term investment	18	7	-	-	**-**	**-**
Stock based compenstion	767	5,405	2,303	42	**92**	**200**
Stock based interest payment	326	-	-	-	**-**	**-**
Gain on disposal of assets	-	-	(614)	-	**-**	**-**
Bargin purchase gain	-	(27,021)	-	-	**-**	**-**
Depreciation, depletion and amortization	99	507	1,645	4,599	**8,854**	**8,500**
Amortization of operational right-of-use assets	-	-	-	2	2	-
Accretion - Asset retirement obligation	23	58	86	158	**308**	**300**
Allowance for bad debt	77	129	217	-	**-**	**-**
Amortization of debt discount	1,804	1,106	5,970	4,583	**9,175**	**4,600**
Gain on settlement of debt	(103)	-	-	-	**-**	**-**
Impairment of oil and gas properties	1,710	-	-	-	**-**	**-**
Cash earnings (burn)	(928)	(2,030)	(3,905)	4,017	**7,303**	**2,715**
Changes In:						
Accounts receivable	(66)	(560)	131	(2,363)	**(2,624)**	**(109)**
Other receivables	-	(549)	549	-	**-**	**-**
Prepaid expenses and other assets	32	227	(160)	34	**28**	**(0)**
Accounts payable	119	435	(337)	(1,608)	**1,485**	**1,000**
Accrued expenses and other current liabilities	189	227	615	1,727	**851**	**1,100**
Undistributed revenues and royalties	-	(79)	32	100	**102**	**190**
Deferred tax liability	-	911	(911)	-	**-**	**-**
Amounts due to directors	427	140	59	-	**-**	**-**
(Increase)/decrease in Working Capital	702	752	(21)	(2,109)	**(158)**	**2,180**
Net cash provided by Operations	(227)	(1,278)	(3,926)	1,908	**7,145**	**4,895**
Cash Flows from Investing Activities						
Purchase of and capital expenditures on oil and gas properties	(2,253)	(2,197)	(4,424)	(3,320)	**(6,640)**	**(3,250)**
Cash paid for acquisition	-	(1,000)	(3,702)	-	**-**	**-**
Cash acquired with acquisition	-	1,253	-	-	**-**	**-**
Proceeds from sale of oil and gas assets	-	-	-	288	**600**	**-**
Proceeds from sale of investments	-	101	1,611	-	**-**	**-**
Cash Flows from Investing Activities	(2,253)	(1,843)	(6,515)	(3,032)	**(6,040)**	**(3,250)**
Cash Flows from Financing Activities						
Proceeds (repayment) of amount due to directors	(70)	(225)	(857)	195	**195**	**-**
Proceeds from sale of common stock	426	332	-	-	**-**	**-**
Common stock issuance costs	(38)	-	-	-	**-**	**-**
Debt issuance costs	-	(349)	(1,042)	-	**-**	**-**
Short term advance	-	-	-	694	**694**	**-**
Proceeds (repayment) long-term debt	2,149	9,080	10,615	1,270	**(2,428)**	**(2,000)**
Net cash provided (used) by Financing	2,467	8,838	8,716	2,158	**(1,539)**	**(2,000)**
Net change in Cash	(12)	5,717	(1,725)	1,035	**(434)**	**(355)**
Cash Beginning of Period - including restricted cash	31	19	5,735	4,010	**4,010**	**3,576**
Cash End of Period - including restricted cash	$ 19	$ 5,735	$ 4,010	$ 5,045	**$ 3,576**	**$ 3,222**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	9
Hold		
Sell		
Not Rated	1	25

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

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I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

Asahi Kasei Corporation	(OTC: AHKSY)	3M Company	(NYSE: MMM)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.