Zacks Small-Cap Research

May 28, 2014

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New Western Energy Corp (NWTR-OTC QB)

NWTR forms operating entity for Kansas that could be expanded and generate revenue.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	12/10/12
Current Price (05/27/14)	$0.17
Six- Month Target Price	**$2.00**

OUTLOOK

New Western Energy Corp. is involved in the acquisition, exploration, development and production of oil and gas from properties in the United States.

The company owns the rights to drill on a significant number of properties in Oklahoma and Kansas. Potential reserves exceed 30 million barrels of oil. As of May, 2014 acreage under lease was over 6,500 on which there were 177 wells.

Our rating continues as Outperform with a price target of $2.00.

SUMMARY DATA

52-Week High	**$0.31**
52-Week Low	**$0.14**
One-Year Return (%)	**-26.1**
Beta	**-0.3**
Average Daily Volume (sh)	**50,968**
Shares Outstanding (mil)	**72.2**
Market Capitalization ($mil)	**$12.2**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**58**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using N4Q Estimate	**N/M**
P/E using 2013 Estimate	**N/M**
P/E using 2014 Estimate	**N/M**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Oil-Us Exp&Prod**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	**$0.04A**	**$0.02A**	**$0.02A**	**$0.03E**	**$0.11E**
2013	**$0.02A**	**$0.01A**	**$0.04A**	**$0.05A**	**$0.12A**
2014	**$0.07A**	**$0.15E**	**$0.20E**	**$0.20E**	**$0.62E**
2015	**$0.25E**	**$0.40E**	**$0.80E**	**$0.80E**	**$2.25E**

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	**$0.00A**	**$0.00A**	**$0.00A**	**-$0.02A**	**-$0.02A**
2013	**$0.00A**	**-$0.01A**	**-$0.01A**	**-$0.02A**	**-$0.04A**
2014	**-$0.02A**	**-$0.02E**	**-$0.02E**	**-$0.02E**	**-$0.08E**
2015	**-$0.02E**	**-$0.02E**	**-$0.02E**	**-$0.02E**	**-$0.07E**

Zacks Projected EPS Growth Rate - Next 5 Years %	**N/A**
N/A	**N/A**

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RECENT NEWS

On May 28, 2014 the company announced the formation of an operating company, New Western Operating LLC. This is a wholly owned entity which will operate the 9 Kansas leases that are currently producing oil and gas.

This should reduce operating expenses (improve gross margins) and similar entities can be formed for properties in Oklahoma.

There is no reason why the services of these operating companies cannot be offered to other lease owners, which would be a new source of revenue for New Western Energy.

New Western Energy reported its first quarter results on May 19, 2014. Revenue increased by 275% but was below our expectations. Oil revenue was $32,599 with production from Volunteer, Lander and Winchester II in Kansas and Oklahoma. Farwell and Puckett leases in Kansas generated $37,739 in revenue and there was $1,050 from salt water disposal. The company did not report any revenue from the Taylor lease.

General and administrative expenses included costs associated with the proposed, but not consummated, merger with Legend Oil and Gas Corp. There will probably be some more costs related to the merger in the second quarter but future quarters should not include any more of these costs.

On February 28, 2014 New Western Energy acquired leasehold interests in four oil and gas leases from Moab Oil and Gas LLC. These are the Taylor, Roberts, Roebuck and Walker leases in Nowata County, Oklahoma. There were 20 wells on 217 acres at the time of the acquisition.

On April 30, 2014 New Western Energy announced that it had terminated the agreement to acquire Legend Oil and Gas that was announced on January 07, 2014. We had not included Legend Oil's financials into our forecasts so no revisions are necessary. Under the proposed terms the acquisition price would have been at a significant premium to the price of the stock prior to the termination and, in our opinion, the dilution from the acquisition would not have been in the best interest of the stockholders of NWTR.

On April 14, 2014 the company filed the 10K for 2013 that had been delayed from March 30, 2014.

Since the financial data was for the full year the fourth quarter is derived by subtraction using the first three quarters. This means that the numbers include all of the rounding errors and any adjustments that actually occurred in prior quarters.

Revenue increased by 55% Y/Y and 21% from the prior quarter and included both oil and (natural) gas. The Fredonia Prospect generated gas sales of $78,631 since its acquisition in June 2013.

We expect the Fredonia leases to generate at the same rate in the first quarter and build as the year progresses. Other leases are being drilled, mainly for gas, and should contribute revenue in the second half of the year.

New Western Energy has acquired a 217 acres project in Nowata County OK. This is comprised of four leases; the Taylor, Roberts, Roebuck and Walker. This project is currently producing gas from 20 production wells on the Taylor lease and there are three saltwater wells used to dispose of water used in water flooding to pressurize the production wells. There are other wells that have been drilled but have been closed and are not currently producing oil or gas. The company plans to open up some of these wells for production from the Bartlesville oil zone which lies beneath the leases, as well as possibly producing coal bed methane. The needed infrastructure is in place but will need to be expanded as the company moves onto the other leases. Given the flat farmland this should not be a problem. The Moab project joins the other leases owned in Nowata County. These are the Acro/Shelby; Anna; Calvin/Jameson and Jackson leases. Nowata Count is NNE of Tulsa, OK and to the NW of Interstate 44. Due south is Rogers County where the company has the other leases in OK. Since most of the leases in OK have the same geological features what is learned from drilling several wells on one lease can be applied to improve production in other areas.

On January 28, the company announced the start of a three well development program on its Fredonia Gas Prospect. Several wells will be drilled at offsets to existing wells. These are called Proved Undeveloped locations (PUD locations). These are new wells drilled into existing producing structures are low risk programs.

Recently prepared “Estimate of Reserves” data from Lee Keeling And Associates for the Fredonia Gas Prospect was released by New Western Energy. Remaining recoverable gas reserves of were estimated at 1,185,530 MCF (thousand cubic feet) or 204 BOE (barrels of oil equivalent). This is a fourfold increase from the prior estimate. We use BOE in the base reserve date in our pricing and valuation model.

New Western Energy has started the work needed to produce and transport natural gas from the Volunteer and Lander leases in Wilson County, Kansas. There are a number of producing oil wells on the leases but the infrastructure for production and sale of natural gas needs additional infrastructure. After working on existing wells to increase oil production and access coal gas structures two centrally located gas meters will be installed for the collection and measurement of natural gas production. Water separator systems will be added to remove and dispose of water associated with the gas production. Finally, a connection point will be constructed to the natural gas buyer.

New Western Energy has reported that reworking and upgrading field equipment has increased oil production on the Winchester II lease in Oklahoma and on the Volunteer and Landers leases in Kansas.

The Winchester II lease has increased production by 50% to 6 BOPD by reworking existing wells. Further rework could increase production from this, and nearby, leases.

By upgrading monitoring equipment and swapping out several downhole pumps should double production from the Volunteer and Landers leases, from about 5 BOPD to 10 BOPD.

The use of fiberglass downhole tubing to replace the existing tubing will extend the life of the tubing and reducing operating costs.

Old wells that have not been pumped for a number of years may still extend down into a slowly replenishing geological structure. Reworking and modernizing these wells can provide a low cost source of oil within the existing infrastructure.

The company has acquired two additional leases in Wilson County, Kansas. These are called Volunteer and Lander. At this time New Western Energy has leases that total 7,800 acres with 185 oil wells, as outlined on page 3.

The Volunteer lease is about 440 acres and has 14 oil wells producing about 455 bbls of oil per quarter, worth about $40,000 at current oil prices. There are also 3 water injection wells that are used to push the oil into the production zones.

The Lander lease has three oil wells in the 160 acres and oil production is close to 225 bbls per quarter with a value of about $20,000.

On Dec. 4, 2013 New Western Energy announced that it had acquired an 80 acre oil lease adjacent to its Winchester and Thomas leases in Rogers County, Oklahoma. This lease, known as Winchester II, has 5 existing oil and gas wells plus a water injection well and produces an average of four barrels of oil a day, or close to 370 bopd a quarter. This is close to $36,000 a quarter.

Water injection is a common technique used to pressurize an oil field and force immiscible fluids to the surface. Several wells may be used to inject water in a pattern to push the oil (and gas) in the desired direction.

Winchester II includes several geological formations of known oil bearing structures that extend across several leases owned by New Western Energy.

New Western Energy reported its third quarter results on November 20, 2013. Results for 2013 cannot be compared to those of 2012 due to the sales of the Swenson and Trice leases (in February and June 2013) and the acquisition of the Farwell and Puckett leases in June, 2013. The two leases acquired were responsible for most of the revenue generated in the third quarter. Revenue was $0.04 million as compared to our estimate of $0.05 million. Due to the receipt of $0.11 million from drilling on the B&W Ranch lease (70% owned by NWTR), which was credited to cost of production, operating losses were less than we had expected. Net for common was a loss of $0.4 million as compared to our estimate of a loss of $0.5 million.

In November, 2013 the company made several private offerings as outlined below.

Nov. 12: A 10% Secured Debenture for a net $1.2 million, plus warrants to buy 7.5 million shares exercisable at $0.25.

Nov. 6: A 8% original issue discount senior secured convertible promissory debenture in the issuance amount of $1.232 million and approximately 5.32 million warrants exercisable at $0.2316. Gross proceeds are expected to be $1.1 million

		Possible					
		Reserves	Wells	% owned	Capitalized costs		Acres
Kansas					Thousand $	Other wells	
B&W Ranch		9.14		90.00%	$75.00		1700
bbl/day							
Smith		2.96		90.00%	$24.75		550
bbl/day							
Fields		1.59		100.00%	$14.40		300
bbl/day							
Rinck		2.65		90.00%	$24.75		500
Fredonia Prospects					$251.20		
Farwell, Eagle, Puckett		204.40	9			1	1040
Volunteer		2.64	14			3	440
Lander		0.96	3				160
Oaklahoma							
Phillips		0.65	7	60.94%	$130.00	1	150
bbl/day							
Glass		0.30	12	60.94%	$221.00	1	80
bbl/day							
Jackson		0.19	4			1	50
Acro/Shelby		0.15	5				40
Anna		0.30	9			1	80
Calvin/Jameson		0.15	4			1	40
Everett		1.18	61			2	320
Kerrigan		0.15	3			1	40
Moab Project			20				217
Taylor, Roberts, Roebuck & Walker							
Thomas		1.67	10			1	450
Winchester		1.85	10			1	500
Winchester II		0.30	5			1	80
Volunteer		1.63	14			3	440
Lander		0.59	3				160
Texas							
Moran		2.52	12			1	680
All Possible Reserves		235.94					
million bbls							
Pennsylvania							
Wellsboro		Gravel	0		$103.50		
			205				8017
Other wells include disposal and injection wells.							

Gas prices have remained in the $3.50 to $3.70 a million BTU (NYMEX, Henry Hub) and, in general, weather in the NE US has been mild. As the colder months arrive we expect the spot prices of natural gas to increase, which will have a positive impact on New Western Energy's revenue.

On October 10, 2013 the company announced that it will start opening up two new payzones on existing wells in the Fredonia lease. The wells will be opened up at depths between 600 to 1400 feet to tap known reserves of natural gas.

Production from the Farwell 34-D3 is now double what it was before recompletion in July 2013. The Fredonia Gas Prospect has 9 wells that could be opened up for added production. New wells could be drilled at a relatively low cost in the shallow sandstone reservoirs.

New Western Energy has completed building out the infrastructure for the ten leases it owns in Rogers and Nowata Counties, Oklahoma. We have expanded our table (on page 4 of this report) to include the new data available to us on the 8 leases acquired early this year from Pioneer Oil and Gas Development. We have included our estimates of the possible reserves in each lease.

The next step is to focus on production. Wells can now be brought on line and other wells reworked. Flow rates can be established and gas can be delivered for sale.

On July 22, 2013 New Western Gas (owned by New Western Energy) announced the results of the work on an existing well in the Farwell part of the Fredonia Gas prospect. Gas production from the well, 34-D3, increased by 50% to 50 thousand cubic feet a day (50 MCF/day). Current spot price , Henry Hub, is about $3.50 a MCF. Natural gas prices had been declining, as they usually do in the summer.

New Western Gas intends to work on several other wells on the lease. When a well is drilled it often passes though several payzones before the well is completed. By opening up the well to gather gas from these zones production can be increased with minimum costs. New wells may also be drilled down to known productive formations.

The Anna #1 well was drilled to 1,793 ft. and the presence of coal gas was confirmed. Structures similar to those found whilst drilling Magnus #1 encountered several zones in the Mississippi Dolomite formation that held coal gas in sufficient quantities to be produced at a profit.

The two wells suggest that there is a significant reservoir of coal gas below the property. The extent of the reservoir will be further determined by the drilling of a third well at the north east

section of the property. The results from the third well should allow New Western Energy to determine the available reserves and the quality of the gas (which could contain water, carbon dioxide, sulfur and possibly gas liquids like ethane and propane).

If the quantity of gas is sufficient the company will construct a gas gathering pipeline to connect the field to the nearest sales point. The cost of acquiring the right of way and the construction of a gas gathering system should not exceed $0.2 million.

Given the success of the first well, the Magnus #1, the company has drilled another well on the B&W Ranch Lease in Kansas, in June 2013. This is the Anna #1 and different technology was used to evaluate the coal gas formations found in the Magnus #1. This is the second of a three well evaluation program on the same lease.

New West Energy has reported that the Magnus #1 well was drilled to nearly 2,000 ft. through several geological structures in the Mississippi Dolomite formation. This well is the first of three wells that will be drilled in the area. The drill encountered several coal gas (gas trapped in coal seams) bearing formations similar to some in the area that are commercially viable. If enough gas is found then the company will build a two mile gas gathering pipeline connecting the B&W Ranch Lease to a local sales point.

In prior reports Natural gas was selling at close to $4 a million BTU (MMBTU, which is a thousand cubic feet or MCF).

The company has announced the acquisition of the Fredonia Gas Prospect in Wilson County, Kansas consisting of three producing gas leases, the Farwell, Eagle and Puckett leases. These aggregate about 1040 acres and include 9 producing gas well and a water disposal well. Current production is close to 6,000 MCF per month at about $4.00 per MCF. Initial reports quoted an incorrect production number.

The three leases are situated in the (mature) Cherokee Basin Structural Province. The gas is trapped in sandstone reservoirs at moderate depths between 600 to 1,400 feet. Drilling costs should be relatively low and any required infrastructure is easily accessible.

New Western Energy has completed the preparation and has started to drill the Magnus #1 well down to 1,900 feet. This will penetrate a number of possible pay zones within the Mississippi Dolomite formation. This formation extends over a considerable number of acres under the B&W Ranch, Smith and Fields leases with possible reserves of over 13.5 million bbls of oil and oil equivalent. The intent to drill at this site was announced on April 10, 2013.This is the first of three wells that will be drilled within an area that has produced over 700,000 bbls of oil.

The company announced that it has closed the limited partnership, 2013 NWE Drilling Program 1, at $650,000 with 51% owned by New Western. The LP was formed to drill for oil on the B&W Ranch in Kansas. This lease is part of 3,000 plus acres leased by New Western Energy. There are five potential

payzones that have been identified and the program will start with the drilling of three wells. Estimated reserves on the B&W lease is about 9 million bbls. The company is pleased with the success of the financing and will probably use this method again for drilling on other leases.

New Western Energy has announced the acquisition of 500 acres of additional acreage in Kansas that is adjacent to and in the same geological formations as its prior acquisitions in Chautauqua County. This brings the total combined leasehold in Kansas to 3050 acres. Assuming the reserve per acre is at the lower end of the range of prior leaseholds this will add 2.66 million bbls/day to the companies reserve base. Having a number of leases in close proximity to each other offers significant savings in infrastructure costs as well as reducing operating expense ratios.

The company has announced the formation of NWE Technologies Inc., a wholly owned subsidiary that will be involved in next generation Enhanced Oil Recovery technology. New Western intends to use advanced EOR techniques in its Oklahoma and Texas properties. It is impossible to extract all of the oil in a geological formation. Some oil may be too thick to flow to the well head, some may be trapped in small cavities. Oil pressure at the well may drop to a very low level and that oil field may not respond to external pressure water or carbon dioxide injection. New technologies such as fracking, jetting, fire flooding and polymer flooding can increase the recovery but there may still be over 30% of the reserves that cannot be recovered at a reasonable cost.

A stripper well is defined as a well that produces less than 10 barrels of oil per day, and the DoE estimates that there are 700,000 such wells in the United States. Industry sources estimate that there may be 50 billion barrels or more of oil that could be recovered using current enhanced technologies and next generation technologies could recover another 100 billion barrels.

New Western Energy Corp. announced on January 23, 2013 that it has engaged Carroll Energy to conduct engineering, reserves and geological reports on the Company's newly acquired Winchester and Thomas Leases in Rogers County, Oklahoma. The two leases are contiguous and total 950+ acres with 20 wells and 2 water injection wells and have the potential for numerous oil and gas discoveries. A full 640-acre section within the acquired 950 contiguous acres has drilling opportunities of multiple oil and gas formations and contains a complete gas gathering infrastructure. This will serve New Western's future gas production plans in Rogers County. Mr. Terry L. Carroll is a member of the board of directors of New Western Energy Corp..

On January 17, 2013 the company announced it has started the development operations on its Anna lease properties in Rogers County OK. There are 9 existing oil wells and one disposal well on the 80 acres on the lease, which is part of the 1,520 acres recently purchased. All of the field operations in Rogers County will be managed by Stacey Holland, a 20 year veteran off oil field operations. Mr. Holland will be working with Mr. Coody, who was recently hired as manager of the Oklahoma and Kansas operations.

These actions are moving the company from a lease acquisition mode into a well development mode, leading towards significant hydrocarbon production in 2013. We would anticipate some production from this acreage in late 2013.

New Western Energy has appointed Mr. Richard Coody, an oil industry veteran, as manager of its Oklahoma (1780 acres, 127 old wells) and Kansas (2550 acres no wells listed) operations. Mr. Coody has over 25 years of experience in oil/gas well operations. This appointment is an important step in evaluating the existing wells for remediation and production and where to drill new wells.

New Western Energy has completed the acquisition of 8 oil and gas leases totaling 1,520 acres in Rogers County, OK. This includes 106 oil wells and 8 disposal wells. The properties include 950 contiguous acres, of which a full 640 acre section has proven oil and gas formations, and has a complete gas gathering system. The properties cover the same formations as the Glass lease and the Phillips lease also owned by New Western Energy. We are assuming the same reserve ratio per acre for the acquisitions as we have for the other leases.

The company intends to develop a plan of which wells should be refurbished. The structures will be mapped so that the reservoir(s) can be pressurized by water flooding to maximize oil production. We have not included wells on these properties in our forecasts.

The company has announced the acquisition of 300 acres known as the Fields Lease. This is contiguous to the acres held in the B&W Ranch Lease and the Smith Lease. This area is well known for its history of oil production from several oil bearing strata. No acquisition costs were given.

The oil reserves per acre for B&S and for Smith are very close to each other so we have assumed that the Fields data will be the same. That means that the 300 acres would add close to 1.6 million bbl of oil to the reserves.

The market cap. to oil reserves ratio for New Western Energy is one of the lowest amongst the small oil companies, as shown in the valuation table of this report. Using the new reserve estimate and the median market valuation we have increased our price target from $1.30 to $1.40.

New Western Energy filed its 10Q for the third quarter of 2012 on Nov. 5, 2012. Revenue of $24,000 was above second quarter levels with oil prices within a similar range over the two quarters.

On Oct. 16, 2012 New Western Energy announced that its subsidiary, Royal Texan Energy, started a major work-over program on Well #1 on its Sam Cannon unit in the 680 acre Moran Lease in Shackelford County, Texas. The work-over is initially focused on the Mississippian production zone at a depth of 3,902 ft. However, a broken tube at 2,500 ft. will have to be removed before the well bore is open and production started.

Well #1 and well #4 on the same property, have together produced over 190 BOPD (**B**arrels of **O**il **p**er **D**ay) in the past, or close to $1.5 million per quarter at current oil prices.

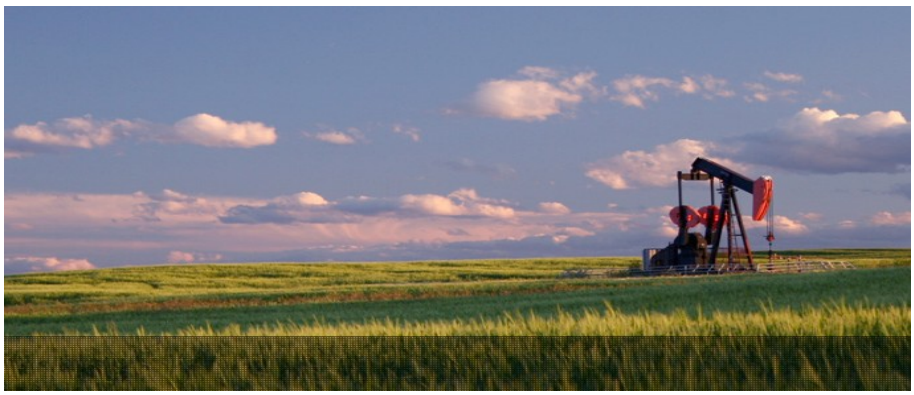
The company completed its drilling program on Swenson #1 oil well on the 160 acre Swenson Lease in Jones County Texas in mid-Sept. 2012. Surrounding leases have been very productive in the past. This well has been a producing well for the company over the past year.

New Western Energy announced on Sept. 17, 2012 that its operating partner on the Glass Lease in Rogers County Oklahoma has completed phase one of a new work-over program. Out of the 14 wells on the property 8 have been plugged to increase oil pressure in the Bartlesville Formation. These 8 wells had not been in use for several years. This work-over will increase oil production from the other 6 wells.

KEY POINTS

- Coverage has been initiated by Zacks Small Cap. Research.
- Revenue and earnings are expected to show significant growth over the next few years.
- We expect positive earnings in 2013.

OVERVIEW



The company was incorporated in the State of Nevada on September 25, 2008. The principal executive offices are located at 20 Truman, Suite 204, Irvine, California 92620.Telephone and fax numbers are (949) 435-0977 and (949) 861-3123, respectively. On December 1, 2010 an entity named New Western Texas Oil and Gas Corporation ("NWT") was incorporated in the State of Nevada as a wholly-owned subsidiary. NWT started its operations in January 2011.

Over the years the company has purchased (and sold) a number of properties to build a portfolio of oil and gas leases. The current strategy is to build the business through acquisition and partnerships, adding proven reserves and increasing production through the use of advanced technologies and using existing wells to minimize costs. The properties are outlined below in reverse order of acquisition.

Chautauqua Lease – **Smith Lease**, Chautauqua County, Kansas ("Chautauqua Lease") On **May 11, 2012,** the Company entered into an Assignment of Oil and Gas Lease with a third party for an oil and gas property in Kansas named as "Chautauqua Lease – Charles and Nancy Smith", whereby the assignor(s) granted the rights to the Company to explore and produce oil and gas. This property is adjacent to the **B&W Ranch** lease purchased in **Dec. 2011**. No hydrocarbons have been produced as of Sept. 30, 2012.

On **January 2, 2012**, **RTE** was acquired by New Western Energy pursuant to a Plan and Agreement of Reorganization dated December 1, 2011, in exchange for 1,000,000 shares of common stock and other considerations. RTE was acquired for its lease properties as well as its expertise in developing properties for exploration and production.

As part of the acquisition of RTE New Western Energy acquired a number of leases known as **the Mrs. W.G. Trice, Trice and Methodist Home and Trice Methodist "400"** in Shackelford County, Texas **("Trice Lease").** This lease had been acquired by RTE on April 1, 2010 when they entered into an assignment of oil and gas lease agreement with a Mr. Richard Windham JR, dba Tracker Mineral.

The **Reeves Lease** in Jones County TX was acquired on Oct. 10, 2012. This is about 84 acres and includes an area for a tank battery.

On Aug. 8, 2011 the **McLellan** lease was assigned to New Western Texas, a wholly owned subsidiary of New Western Energy, from a third party. This 160 acre property includes a tank battery site.

A property in Rogers County Oklahoma acquired by New Western Energy (a 60.94% net revenue lease) on June 27, 2009 is the **Phillips Lease**, from RC Oil. This is about 150 acres. PEMCO became the lease operator when it acquired the interest from RC Oil.

On May 21, 2009 a lease was signed with RC Oil Co. Inc for the acquisition of 60.94% net revenue interest of the **Glass Lease** in Rogers County, Oklahoma. This 120 acre property is overseen by PEMCO LLC which acquired the ownership of RC Oil's share in Nov. 2011 and is the operator of the property.

New Western Energy also owns a land lease near Middlebury Township in Tioga County, Pennsylvania, the **Wellsboro Lease**. This is not far from Mansfield and US 15. This is in the Marcellus Shale formation. The lease has sand and gravel deposits that are essential components of the shale fracking process. There may also be natural gas in formations below the lease.



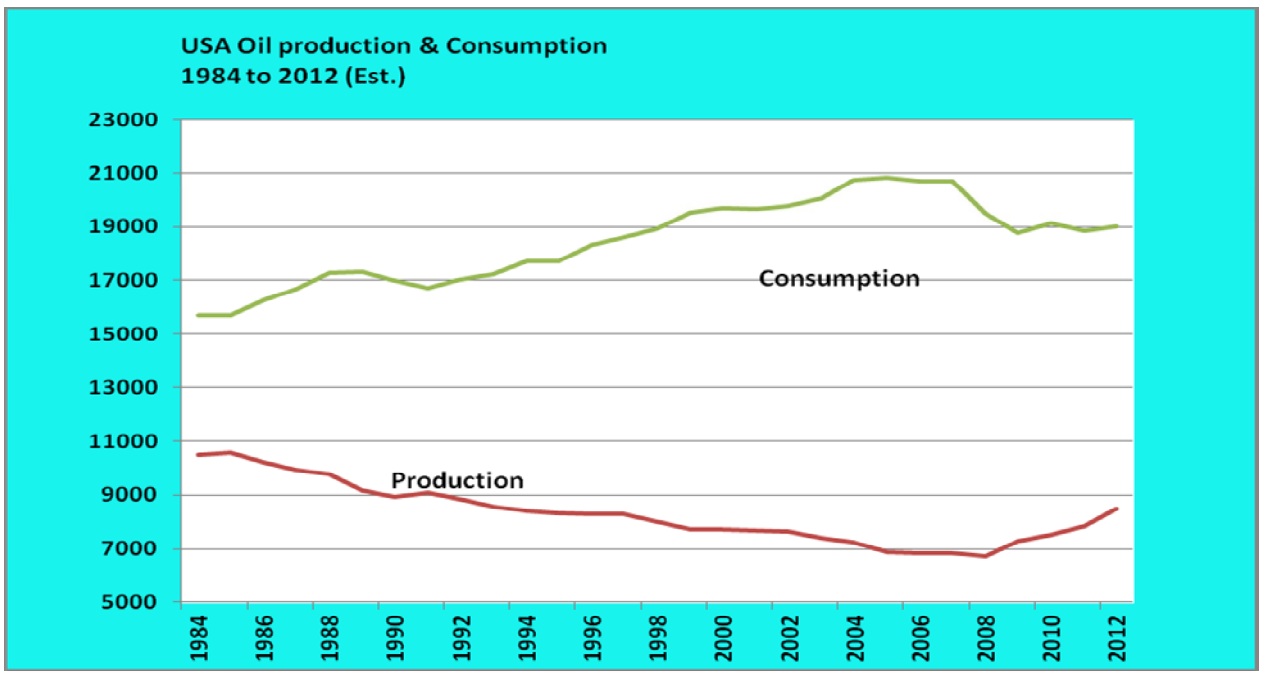
INDUSTRY OUTLOOK

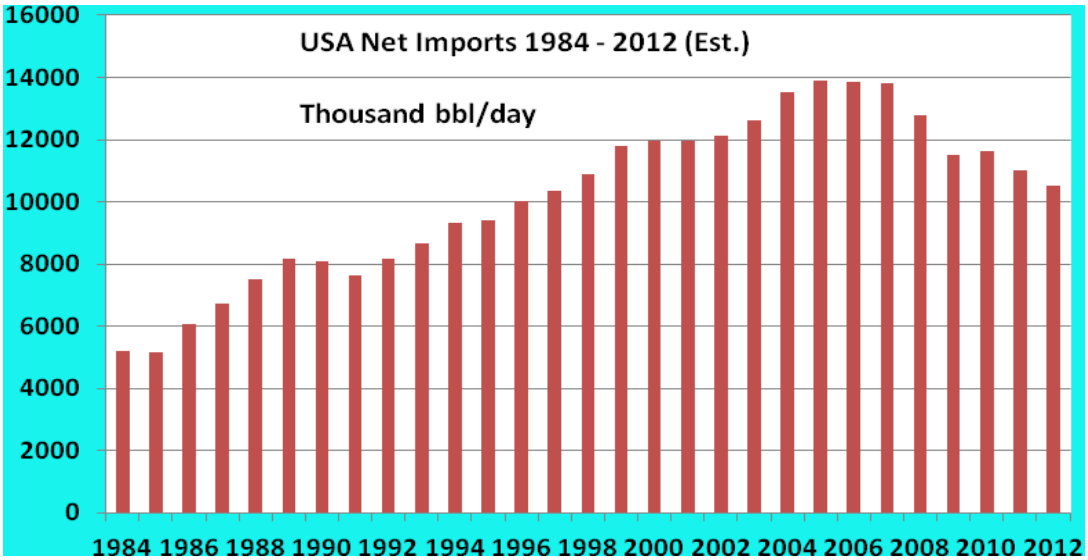
Oil and gas are the predominant sources of energy in the world and are likely to remain so in the foreseeable future. Natural gas will remain a "local" fuel. Given the reluctance to replace the nuclear power stations in Japan, Germany and the United States, dependence worldwide on oil will increase over time. The EPA is pressurizing the coal fired generating stations to close or switch to cleaner fuels, thereby moving electricity generation to natural gas where available or to fuel oil, although at present prices, gas is cheaper than coal. Natural gas currently exceeds coal as the energy source for power stations in the US.

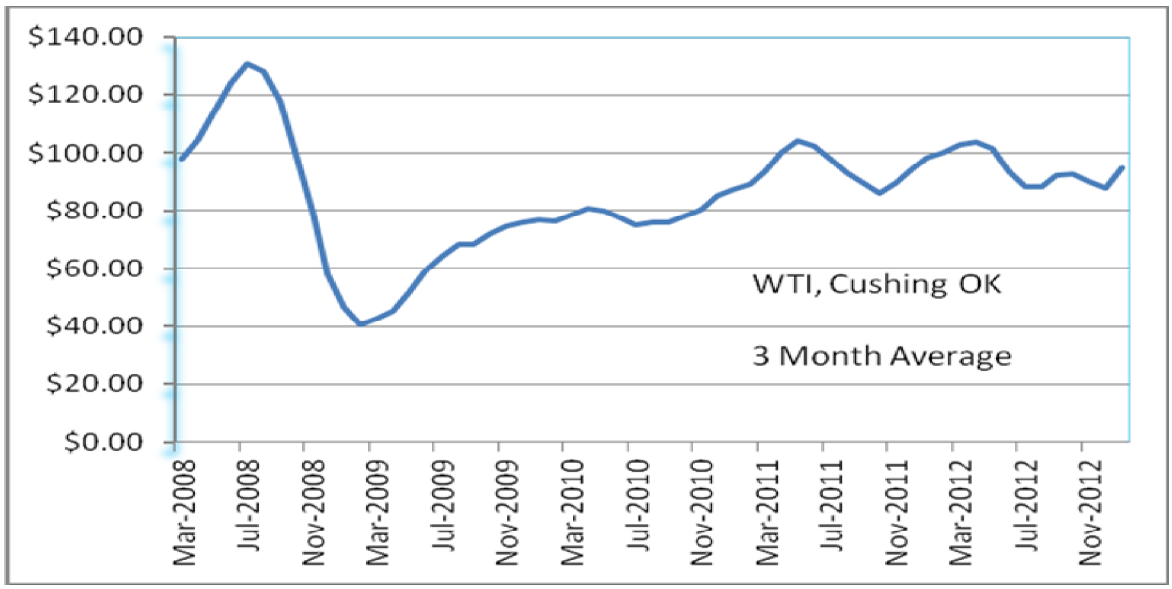
Over the past three to four years the poor economic conditions world-wide have reduced the demand for both oil and gas.. When the economies recover crude demand will increase, as will the price. Consumption has also declined due to the Ethanol and Biodiesel mandates. Biofuels account for about 5% of crude consumption. If you include the biofuel as a crude oil component, then crude consumption would be about 20,000 bbl/day, and the import gap would be larger.

The current cost of corn has resulted in a lack of profits by the ethanol industry causing plant closures. If a waiver is not granted to the ethanol/gasoline blenders, there will not be enough ethanol to meet the quotas, and ethanol will be replaced by gasoline from crude oil

Much of the interest is in the new fields that contain both oil and gas. However, there is still a large gap between production and consumption, one that is unlikely to shrink to much less than 10,000,000 barrels a day. So there will always be a demand for domestic sources of crude oil. Natural gas is hard to transport outside of a pipeline. As a result, the current transportation infrastructure is not in place to transport oil from such places as the Bakken shale formation to refineries or for gas production from shale fracking in the Marcellus, Utica and Huron structures in New York, Pennsylvania and Ohio. This has had a negative impact on gas prices, as supply exceeds local demand.

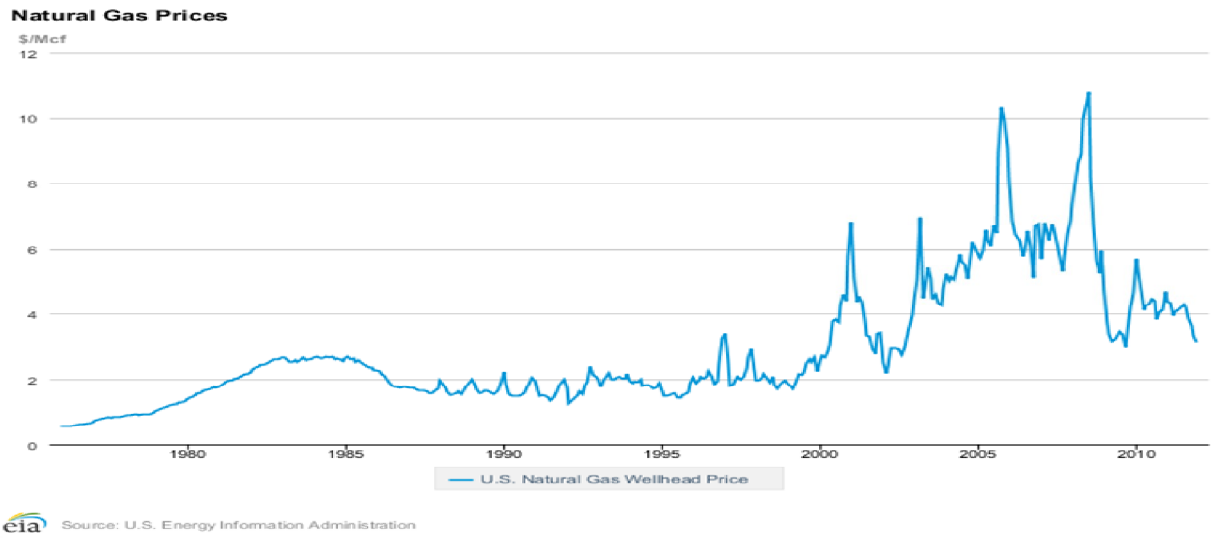


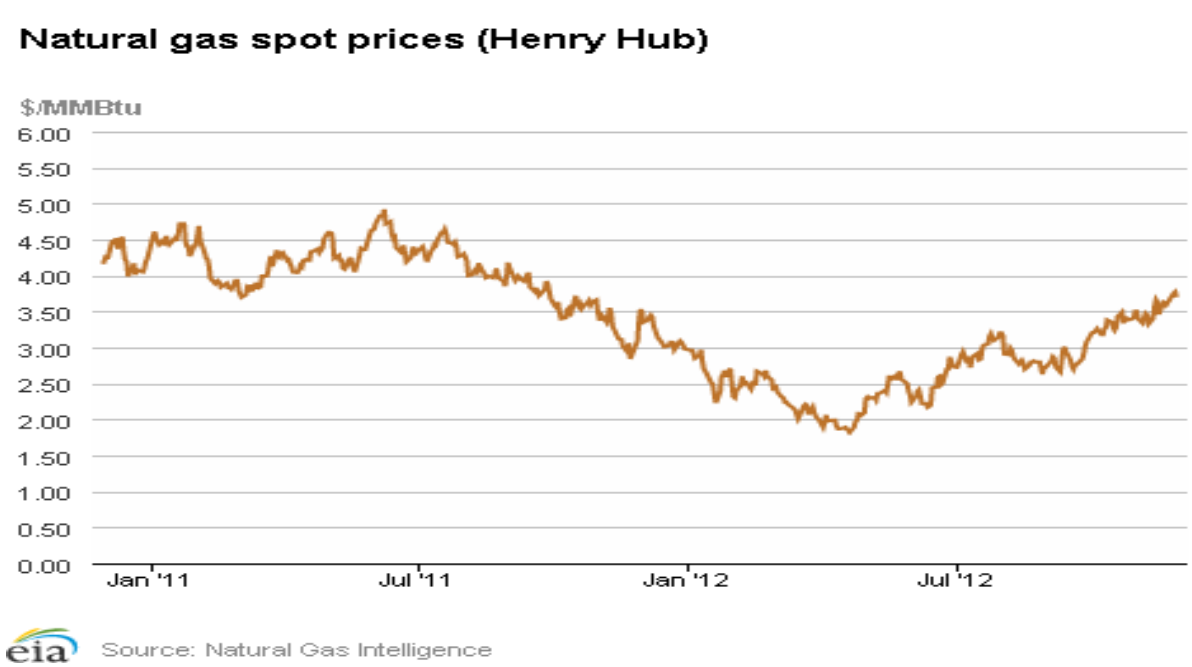




Recently the price of gas has been low enough, due to a supply glut, that power generating stations have been switching from coal to natural gas as a heat source. As a result railcar shipment of coal in the US has declined 10.5% year to date but has increased by 5% in Canada.

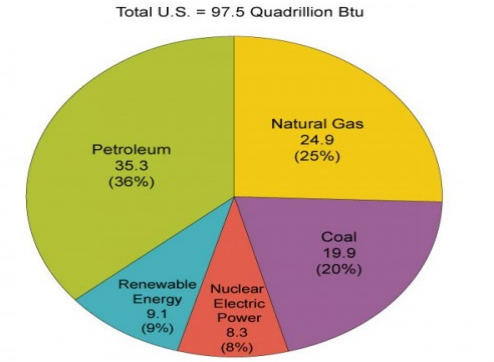
Since March, 2012 gas prices have recovered and are now over $3.00 a million BTUs (which is 1,000 cubic feet). The low prices of C_2, C_3 and C_4 hydrocarbons have allowed the petro chemical industry to match import prices for such things as plastics and increase production


Natural Gas Prices
$/Mcf
12
10
8
6
4
2
0
1980
1985
1990
1995
2000
2005
2010
U.S. Natural Gas Wellhead Price
eia
Source: U.S. Energy Information Administration


Natural gas spot prices (Henry Hub)
$/MMBtu
6.00
5.50
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Jan '11
Jul '11
Jan '12
Jul '12
eia
Source: Natural Gas Intelligence

Primary Energy Use by Source, 2011

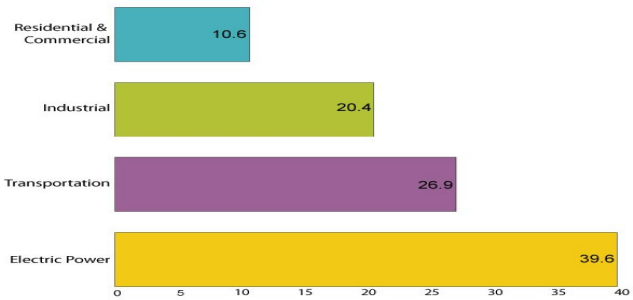
Quadrillion Btu and Percent



Source: U.S. Energy Information Administration, *Monthly Energy Review,* Table 1.3 (April 2012), preliminary 2011 data.

Primary Energy Use by Sector, 2011

Quadrillion Btu



Source: U.S. Energy Information Administration, *Monthly Energy Review,* Table 2.1 (April 2012), preliminary 2011 data.

Figure 3. Total U.S. petroleum and other liquids production, consumption, and net imports, 1970-2035

(million barrels per day)

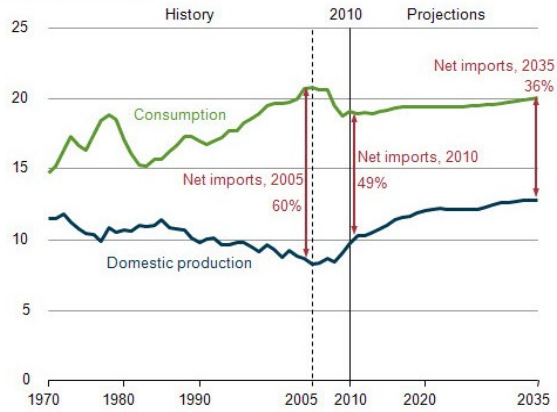
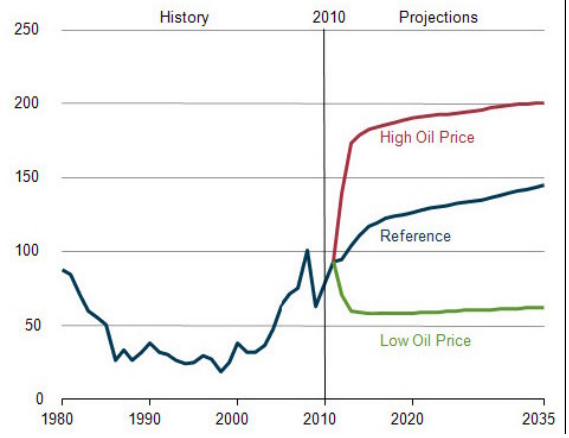


Figure 18. Average annual world oil prices in three cases, 1980-2035

(2010 dollars per barrel)



In the 2012 Annual Energy Outlook, the U.S. Energy Information Administration estimates that net imports of crude oil will decline from 49% of consumption in 2010 to 35% (of a higher rate of consumption) in 2035. The reference and high price targets in 2035 are $140 a bbl and $200 a bbl.

Even the most optimistic of forecasts do not see an elimination of crude oil imports within the next decade.

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INDUSTRY POSITION

There is a large number of small oil and gas companies in an industry dominated by very large multinationals. Most of the very small companies are not profitable at this time The industry is highly competitive at all levels as well as competing with other sources of energy such as coal and synthetic fuels. No single company is able to control its selling prices, which are set by the international markets in conjunction with OPEC. The oil and gas industry is subject to changes in regulation and legislation that may not be favorable to small companies

VALUATION

A method of valuing oil and gas companies is the ratio of market capitalization to proven reserves. Although this does not include a value for the undeveloped properties the equity markets do include such a value and the reserve values would be under stated. With an estimated reserve base at less than $0.50 per bbl NWTR is undervalued.

COMPARISON TABLE	Ticker	Price	Mkt	ROE	P/E	P/E	P/B	P/S	EV/Sales	EV/EBITDA	PEG	Inst.	Mkt Cap
		5/28/14	Cap	(%)	L4Q	N4Q	LQ	L4Q	L4Q	L4Q		Ownership	per reserve bbl
			(in million)									%	
New Western Energy Corp.	**NWTR**	**$0.17**	**$12.3**	**N/M**	**-2.9**	**-2.3**	**-28.97**	**N/M**	**14.60**	**N/A**	**N/A**	**N/A**	**$0.05**
Abraxas Petroleum Corp.	AXAS	$5.12	$474.1	61.23	11.40	10.02	5.19	4.82	5.49	10.80	N/A	42.5	**$16.35**
Clayton Williams Energy Inc.	CWEI	$126.73	$1,540.0	7.90	55.58	20.78	4.19	3.45	4.72	8.35	N/A	41.5	**$24.44**
Dejour Energy Inc.	DEJ	$0.20	$30.6	N/A	N/A	4.83	3.87	4.08	5.60	33.60	0.79	2.3	**N/A**
Hydrocarb Energy Corp.	HECCD	$4.25	$89.1	N/A	N/A	9.70	10.95	16.85	16.73	N/A	N/A	N/A	**$7.43**
Hyperdynamics Corp	HDY	$2.69	$56.6	N/A	N/A	N/A	1.38	N/A	N/A	N/A	N/A	23.1	**N/A**
Legend Oil & Gas Ltd.	**LOGL**	$0.01	$1.2	N/A	N/A	N/A	0.59	1.88	3.22	N/A	N/A	N/A	N/A
Lucas Energy, Inc	LEI	$0.52	$15.6	N/A	N/A	N/A	0.56	2.63	3.63	N/A	N/A	5.2	**$1.77**
Native American Energy Group	NAGP	$0.17	$9.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
LGX Oil & Gas Inc.	ROAOF	$0.47	$41.2	3.10	N/A	N/A	0.49	2.14	2.84	8.97	N/A	N/A	**$14.21**
Royale Energy Inc.	ROYL	$3.01	$45.0	N/M	28.13	N/A	N/M	14.84	14.43	N/A	N/A	8.7	**$7.79**
Samson Oil & Gas Inc.	SSN	$0.33	$46.8	N/A	N/A	N/A	1.00	5.14	5.16	N/A	N/A	1.0	**$47.76**
Triangle Petroleum Corp.	TPLM	$10.36	$890.0	20.28	11.38	11.51	1.66	3.37	4.31	10.54	0.29	44.2	**N/A**
Vanguard Natural Reseources I	VNR	$30.82	$2,470.0	8.38	24.66	18.79	2.05	4.95	7.52	12.58	3.95	14.8	**$34.35**
Data from Yahoo Finance and Zacks Investment Research													
Mean				20.18	21.37	10.47	0.25	5.83	7.35	14.14			**17.13**
Median				8.38	18.03	10.02	1.52	4.08	5.33	10.67			**14.21**

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RISKS

- If the history of losses, continues it will have negative impacts on the company's ability to achieve its business objectives. The company will need additional funding to expand its drilling program. Without such additional capital New Western Energy will not be able to meet its objectives on sustainable positive net free cash flow.

- The company has no control over the price of crude oil and a decline in that price would impact its ability to raise capital.

- Exploration, drilling and producing oil and natural gas are high risk operations and actual production may differ significantly from estimates and forecasts.

INSIDER TRADING AND OWNERSHIP

AS of December 31, 2013

Javan Khazali, director and CEO, owns 39,600,000 shares.

Haris Baha, Executive VP, owns 1,400,000 shares.

Terry L. Carroll, director, owns 600,000 shares.

Amir Eskarous, director, owns 50,000 shares.

Officers and directors own 57.6% of the shares outstanding.

PROJECTED INCOME STATEMENT & BALANCE SHEET

New Western Energy Corp.																					
Consolidated Statements of Operations																					
(Dollars in millions except per share data)																					
Fiscal Year Dec. 31.	**2010A**	**2011A**	**1Q12**	**2Q12**	**3Q12 A**	**4Q12A**	**2012E**	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**2013A**	**1Q14**	**2Q14**	**3Q14**	**4Q14**	**2014E**	**1Q15**	**2Q15**	**3Q15**	**4Q15**	**2015E**
								Act.	Act.	Act.												
Net sales	**$0.53**	**$0.08**	**$0.04**	**$0.02**	**$0.02**	**$0.03**	**$0.11**	**$0.02**	**$0.01**	**$0.04**	**$0.05**	**$0.12**	**$0.07**	**$0.15**	**$0.20**	**$0.20**	**$0.62**	**$0.25**	**$0.40**	**$0.80**	**$0.80**	**$2.25**
% Change								(47.95)	(22.37)	58.33	54.67	8.99	275.79	1171.19	426.32	331.03	439.41	250.14	166.67	300.00	300.00	262.09
Cost Goods	0.57	0.06	0.01	0.01	0.03	0.48	0.54	0.02	0.31	(0.11)	0.14	0.37	0.28	0.08	0.11	0.11	0.57	0.13	0.20	0.40	0.40	1.13
G & A	1.56	0.26	0.12	0.10	0.09	0.49	0.80	0.17	0.29	0.51	0.40	1.36	0.68	0.70	0.70	0.60	2.68	0.70	0.80	0.80	0.90	3.20
Accretion	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.08)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depr. & Amort.	0.09	0.00	0.01	0.01	0.01	0.08	0.09	0.02	0.03	0.03	0.03	0.10	0.03	0.03	0.03	0.04	0.13	0.06	0.10	0.10	0.10	0.36
Op Income GAAP	(1.71)	(0.28)	(0.10)	(0.11)	(0.10)	(1.02)	(1.33)	(0.19)	(0.62)	(0.39)	(0.48)	(1.67)	(0.91)	(0.66)	(0.64)	(0.55)	(2.76)	(0.64)	(0.70)	(0.50)	(0.60)	(2.44)
Interest Expenses	0.07	0.00	0.00	0.00	0.00	0.00	0.01	0.02	0.12	0.03	0.27	0.44	0.71	0.70	0.70	0.70	2.81	0.70	0.70	0.70	0.70	2.80
Interest Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.07	0.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non Op Income	(1.71)	(0.10)	0.00	0.00	0.00	0.00	0.00	(0.06)	(0.00)	(0.00)	0.08	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.08	(0.07)	0.00	(0.83)	(0.82)	0.23	0.00	0.00	0.00	0.23	0.00	0.00	0.00	0.00	0.00
Calc.Pretax	(3.49)	(0.38)	(0.10)	(0.11)	(0.11)	(1.02)	(1.34)	(0.18)	(0.81)	(0.43)	(1.43)	(2.84)	(1.39)	(1.36)	(1.34)	(1.25)	(5.34)	(1.34)	(1.40)	(1.20)	(1.30)	(5.24)
Taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.85)	0.00	0.00	0.00	0.00	(0.84)
Tax Rate	0.00	(0.27)	0.00	0.00	0.00	0.00	(0.74)	0.00	0.00	0.00	0.00	(0.03)	0.00	0.00	0.00	0.00	16.00	0.00	0.00	0.00	0.00	16.00
Other NAT Income	0.00	(0.05)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pro-forma adj.	0.00	0.00	0.00	0.07	0.00	0.00	0.07	0.00	0.00	0.00	0.00	0.00	(0.23)	0.00	0.00	0.00	(0.23)	0.00	0.00	0.00	0.00	0.00
Net Income	(3.49)	(0.43)	(0.10)	(0.11)	(0.11)	(1.02)	(1.34)	(0.18)	(0.71)	(0.42)	(1.40)	(2.71)	(1.31)	(1.36)	(1.34)	(1.25)	(5.25)	(1.34)	(1.40)	(1.20)	(1.30)	(5.24)
Net For Common	($3.49)	($0.43)	($0.10)	($0.18)	($0.11)	($1.02)	($1.42)	($0.18)	($0.71)	($0.42)	($1.40)	($2.71)	($1.31)	($1.36)	($1.34)	($1.25)	($5.25)	($1.34)	($1.40)	($1.20)	($1.30)	($5.24)
Shares Used, millions	1.83	64.17	65.54	66.51	66.89	68.00	66.73	68.44	68.82	68.66	72.19	69.10	69.10	72.20	72.20	72.20	72.00	74.00	74.00	74.00	74.00	74.00
Earnings Per Share																						
EPS	**($1.91)**	**($0.01)**	**($0.00)**	**($0.00)**	**($0.00)**	**($0.02)**	**($0.02)**	**($0.00)**	**($0.01)**	**($0.01)**	**($0.02)**	**($0.04)**	**($0.02)**	**($0.02)**	**($0.02)**	**($0.02)**	**($0.07)**	**($0.02)**	**($0.02)**	**($0.02)**	**($0.02)**	**($0.07)**
Pro Forma EPS	**($1.91)**	**($0.01)**	**($0.00)**	**($0.00)**	**($0.00)**	**($0.02)**	**($0.02)**	**($0.00)**	**($0.01)**	**($0.01)**	**($0.02)**	**($0.04)**	**($0.02)**	**($0.02)**	**($0.02)**	**($0.02)**	**($0.08)**	**($0.02)**	**($0.02)**	**($0.02)**	**($0.02)**	**($0.07)**

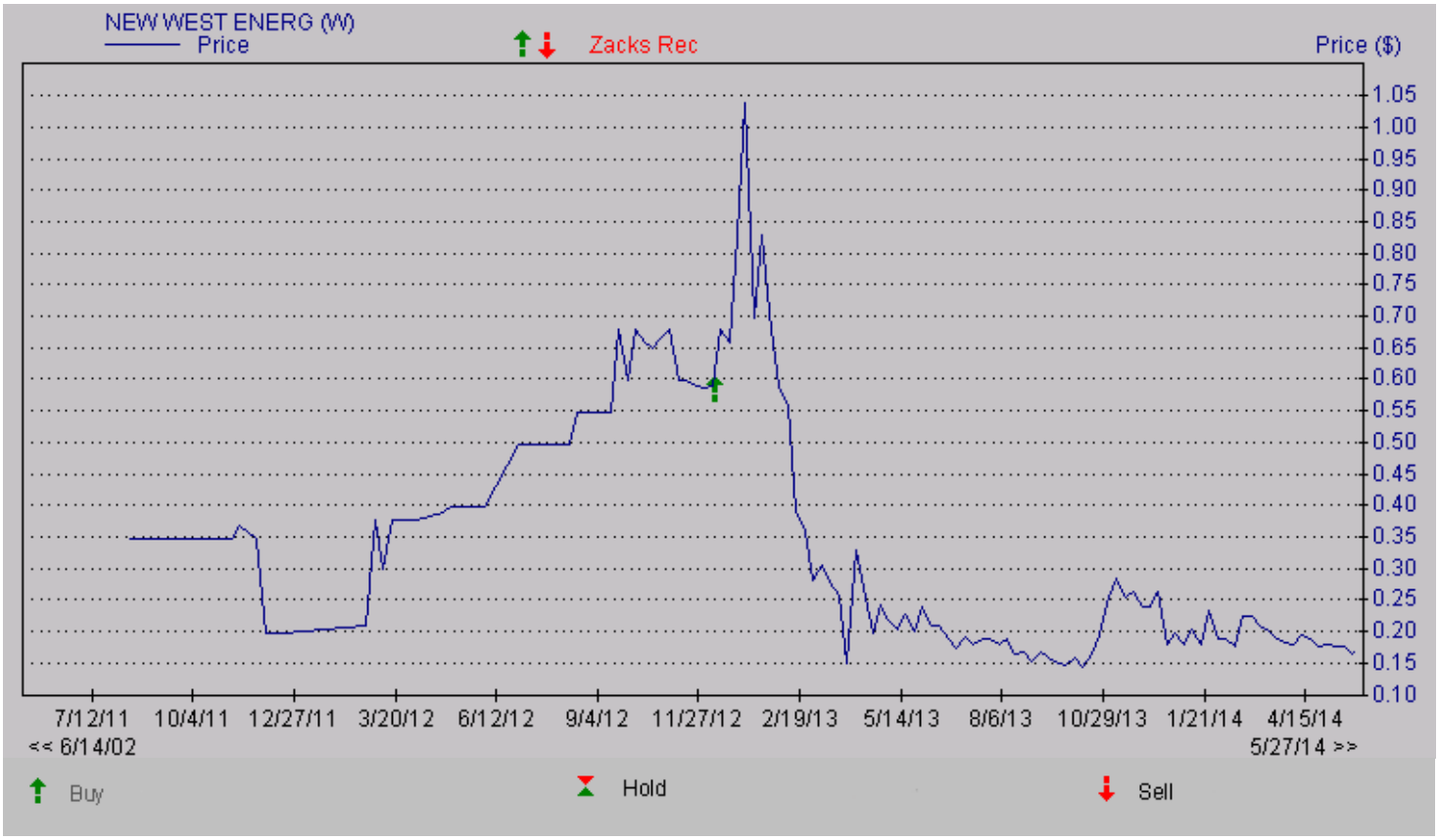
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New Western Energy Corp.										
Consolidated Balance Sheet (in $ millions)										
Fiscal Year Dec. 31.										
	2010A	2011A	1Q12	2Q12	3Q12 A	4Q12A	3Q13	4Q13	2013	1Q14
ASSETS										
Cash & Equiv.	0.11	0.02	0.00	0.10	0.03	0.01	0.13	1.52	1.52	0.60
A/R, Oil & Gas	0.00	0.01	0.00	0.00	0.00	0.01	0.04	0.04	0.04	0.05
Inventories	0.00	0.00	0.00	0.00	0.00	0.03	0.03	0.03	0.03	0.07
Other	0.02	0.19	0.00	0.03	0.03	0.00	0.02	0.08	0.08	0.06
Total current assets	$0.13	$0.21	$0.00	$0.13	$0.07	$0.05	$0.21	$1.67	$1.67	$0.78
Oil & Gas properties	0.49	0.47	0.00	0.54	0.55	0.96	1.13	1.46	1.46	1.49
Acc. Impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Resticted Cash	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other PP&E	0.11	0.10	0.00	0.11	0.21	0.10	0.05	0.20	0.20	0.19
Other	0.00	0.04	0.00	0.44	0.34	0.00	0.04	0.28	0.28	0.22
All Assets	$0.72	$0.82	$0.00	$1.22	$1.16	$1.12	$1.43	$3.61	$3.61	$2.68
LIABILITIES AND NET WORTH										
Debt Due 1 Yr	0.00	0.10	0.00	0.03	0.00	0.00	0.00	0.00	0.00	0.00
Notes Payable	0.00	0.14	0.00	0.13	0.10	0.38	0.54	0.02	0.02	0.01
A/P	0.01	0.02	0.00	0.00	0.01	0.03	0.02	0.07	0.07	0.08
Taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other, inc warrant liability	0.00	0.06	0.00	0.08	0.17	0.07	0.23	1.80	1.80	1.77
Total current liabilities	$0.01	$0.32	$0.00	$0.23	$0.28	$0.48	$0.79	$1.88	$1.88	$1.86
Conv. Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.13	0.38
L.T.Debt	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.79	0.79	0.86
Other LT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Def. Taxes & ITC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All Liabilities	0.01	0.32	0.00	0.24	0.28	0.50	0.79	2.81	2.81	3.10
Pref.Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	0.01	0.01	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Surplus	1.75	1.91	0.00	2.61	2.61	3.38	4.17	5.75	5.75	5.92
Retained Earnings	(1.04)	(1.42)	0.00	(1.63)	(1.74)	-2.76	-4.08	-5.47	-5.47	-6.78
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.54	0.51	0.51	0.42
Treasury Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Worth	0.71	0.50	0.00	0.98	0.88	0.62	0.65	0.80	0.80	-0.42

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New Western Energy Corp.						
Condensed Consolidated Statements of Cash Flows						
thousands of dollars						3 months
Fiscal Year Dec. 31.	**2010A**	**2011A**	**2012A**	**2013A**	**2014A**	**2015**
Cash flow from operations:						
Net (Loss) Income	($0.82)	($0.43)	($1.35)	($1.31)	($2.71)	($1.31)
Impairment, Depreciation & amortization			0.46	0.29	0.04	0.39
Depletion &Accretion			0.02	0.029	0.04	0.016
Stock issued for services			0.40	0.24	0.24	
Stock based compensation						
Impairment						
Misc.						
Other			0.16	0.03	1.27	0.01
Net cash provided by (used in) operating activites	**($0.82)**	**($0.43)**	**($0.31)**	**($0.72)**	**($1.12)**	**($0.89)**
Investment in Oil & Gas properties			0.06	(0.12)	(0.32)	
Purchase of PP&E			0.00	(0.00)	(0.09)	
Proceeds from disposal of PP&E					0.41	
Other			0.04	0.01	(0.17)	-0.035
Net cash provided by (used in) investing activities	**$0.00**	**$0.00**	**$0.10**	**($0.11)**	**($0.16)**	**($0.04)**
Cash flow from financing activities:						
Proceeds from issuance of common stock			0.50	0.63	0.16	
Proceeds (payment) on lines of credit, net			(0.11)	(0.11)	2.83	
Proceeds from debt - related parties						
Proceeds from debt						
Payment on debt - related parties			(0.19)	(0.21)	(0.09)	
Payment on debt					(0.51)	
Other			0.11	0.11	0.40	0.002
Net cash provided by (used in) financing activities	**$0.00**	**$0.00**	**$0.31**	**$0.42**	**$2.80**	**$0.00**
Increase (decrease) in cash and equivalents	($0.82)	($0.43)	($0.10)	($0.01)	$1.52	($0.93)
Cash & equivalents at beginning of period	$0.02	($0.80)	$0.02	$0.02	$0.01	$1.52

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

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