Zacks Small-Cap Research

November 19, 2012

Ian Gilson PhD; MBA; CFA
312-265-9496
igilson@zacks.com

scr.zacks.com

111 North Canal Street, Chicago, IL 60606

Native American Energy Group, Inc. (NAGP-OTC)

NAGP: 3Q12 results in line with expectations. Litigation settled. Focus is now production.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	08/05/2012
Current Price (11/14/12)	$0.19
Six- Month Target Price	**$2.00**

OUTLOOK

Native American Energy Group Inc. is an energy resource development & management company with interests in tertiary oil recovery in Montana, coal-bed methane recovery in Alaska and vertical axis wind turbines.

The company currently has five oil wells on four leased holdings that have been flow tested for commercial production and we expect significant oil sales in 2013.

Our recommendation is Outperform with a price target of $2.00.

SUMMARY DATA

52-Week High	**$6.00**
52-Week Low	**$0.10**
One-Year Return (%)	**N/A**
Beta	**N/M**
Average Daily Volume (sh)	**24,565**
Shares Outstanding (mil)	**36.3**
Market Capitalization ($mil)	**$7.1**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**10.7**
Insider Ownership (%)	**29.5**
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 2013 Estimate	**5.6**
P/E using 2014 Estimate	**3.0**

Risk Level	**N/A**
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)
2011	**$0.00A**	**$0.00A**	**$0.00A**	**$0.00A**	**$0.00A**
2012	**$0.00A**	**$0.00A**	**$0.00A**	**$1.00E**	**$1.00E**
2013	**$1.50E**	**$2.20E**	**$2.40E**	**$2.60E**	**$8.70E**
2014	**$2.50E**	**$2.50E**	**$3.00E**	**$3.30E**	**$11.30E**

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	**-$0.01A**	**-$0.05A**	**-$0.06A**	**-$0.11A**	**-$0.22A**
2012	**-$0.07A**	**$0.01A**	**-$0.01A**	**$0.00E**	**-$0.07E**
2013	**-$0.01E**	**-$0.01E**	**$0.00E**	**$0.02E**	**-$0.01E**
2014	**$0.01E**	**$0.01E**	**$0.02E**	**$0.02E**	**$0.07E**

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

© Copyright 2012, Zacks Investment Research. All Rights Reserved.

RECENT NEWS

Third quarter results

The company has reported its third quarter results. No oil sales occurred in the quarter and the EPS was -$0.01, which is what we had estimated. As discussed below there are two producing oil wells and the production is being stored in tanks ready to be shipped to Shell US Trading. The cold weather in Montana is having an impact on the viscosity of the oil and certain operation will require heating so that the oil will flow more easily.

The focus now shifts from well work-over to oil production. Oil prices have declined slightly to below $90 but are still above $85, which is our estimate for the current quarter.

The Native American Energy Group has agreed to a settlement of the litigation on the loans from High Capital Funding LLC. The amount of loans on the third quarter balance sheet was close to $1.3 million, which we assume is the amount in question. The settlement adds interest and legal fees, which, in our opinion, is between $0.3 and $0.5 million and also includes a combination of shares and warrants equal to 2.2 million shares. The loans will be paid back using 35% of net revenue from the sales of oil to Shell from any well operated by NAGP.

This payment is not onerous and should be paid down by the end of 2013. We are treating this as an expense and not as a reduction in revenue.

Production in the Williston Basin (Montana)

Native American Energy Group is now producing oil from the Wright 5-35 and Beery 2-24 oil wells in the Williston Basin in Montana. The company's field staff and contractors have completed the electrical system repairs and upgrades to surface equipment and subsurface flow-lines.

The Wright well initially flowed oil at 83 bbl/day but settled down to a 53 bbl/day rate. Fluids in the well are being pumped out (both oil and water) and when that is finished it is expected that the mixture will then settle down to about 50% oil.

The Beery well is now flowing at between 8 to 10 barrels of oil a day with a variable choke at 47 psi. The choke will be adjusted to stabilize the pressure and produce oil continuously. When that is done the flow rate should increase.

The two wells combined should exceed our estimate of an average of 53 bbl/d for the December, 2012 quarter. West Texas Intermediate (WTI) has been selling at between $90 and $100 a bbl over the past few weeks. Assuming a $10 a bbl discount to WTI the price received should exceed our $75 target.

Oil demand continues to increase. In the first nine months of 2012 the weekly traffic of major North American (US; Canadian and Mexican) railroads show a Y/Y increase of petroleum

products of 35.5% (42% in the US) and a decline in coal shipments by 8.6% (down 9.6% in the US)

Given the encouraging news and the high probability that we will be increasing our estimates we have increased our target price to $2.00 a share.

Company Reported Debt Reduction of 17% for the 2nd Fiscal Quarter ending June 30, 2012

The company did debt-to-equity conversions at $1.00 and $2.00 per share through agreements reached with owners of a significant amount of the company's long-term corporate debt resulting in a 17% reduction in debt for the three months ending June 30th.

Company's Shares Are Electronically Tradable Among Shareholders & Investment Community

On June 21, 2012 the Depository Trust Company (DTC) restored full electronic clearance and settlement services for the company's "NAGP" security. The company's common shares were previously not electronically tradable due to a Global Lock, also known as a "Chill," imposed by DTC in May 27, 2010. Since the company has been successful in restoring normal electronic trading of the company's common shares, the NAGP security is now freely tradable among shareholders and the investment community.

Restructuring of Wind Technology License Agreement

On April 25, 2012 Native American Energy Group amended its technology license agreement with Windaus Energy, Inc., a supplier of wind turbine energy products, based out of Ontario, Canada. Prior to the amended agreement, the company had license, distribution and manufacturing rights covering the entire United States including all Indian lands and reservations. On April 25, 2012 it negotiated with Windaus Energy Inc. to amend the license agreement to reduce the licensed territory to just the U.S. Indian lands described above and relinquish manufacturing rights.

KEY POINTS

- Zacks Small Cap Research has initiated coverage of Native American Energy Group, Inc.
- Native American Energy Group, Inc. has been a public company since February 2005 (7+years). It has produced some oil every year during the well work-overs since the company started operations. The company is in the process of moving from being a development-stage company to an oil production company with significant production potential.
- The company is using a low cost method of opening up existing capped wells and does not need to spend on exploration.

- There are currently five wells under development of which three should generate revenue by the end of 2012. In August 2011Native American Energy Group had initiated the workover and enhancement of five wells in the Williston Basin and completed Phase One of its 5-Well Enhanced Oil Recovery (EOR) Program in December 2011.

- In 2006, Native American Energy Group entered into a Purchase and Sale Agreement with Shell U.S. Trading Co. (NYSE: RDS.A). Shell Oil has agreed to purchase all oil produced from wells in the Montana part of the Williston Basin, which is part of the Bakken Oil Field, at a price related to the average of the NYMEX contracts.

- The company is focused on energy development on Native American lands in the United States. Native American Energy Group has discussed the potential of working with tribes in Oklahoma that control extensive oil fields.

- Native Americans are the second largest land and mineral owners in the United States, second only to the U.S. Federal Government.

- Since 2005, the company has been a bonded oil & gas operator in the state of Montana and has established offices and facilities on the Fort Peck Indian Reservation.

- In August 2005, the United States Department of the Interior – Bureau of Indian Affairs approved its Nationwide Oil & Gas Bond covering lands or interests in lands held by the United States in trust for Indian tribes, individuals or bands of Indians without any geographic or acreage limitation.

- Subject to financing, the company can easily acquire additional leases near to its current areas of development.

COMPANY BACKGROUND

Native American Energy Group is a development-stage energy resource development and management company, as defined by the Financial Accounting Standards Board (FASB), as an entity that has not commenced planned principal operations and has no significant revenue.

At the moment Native American Energy Group has three areas of interest. These are the extraction of residual crude oil in known oil fields using advanced (enhanced) recovery techniques, the capture of methane that exists in coal fields, and the marketing of vertical axis wind turbines.

Native American Energy Group Inc. was incorporated in the State of Nevada on January 18, 2005 as Halstead Energy Corporation (“Halstead”). On January 25, 2005 the name was changed to Native American Energy Group, Inc. A reverse merger transaction with Flight Management International, Inc. (“Flight Management”), a Delaware corporation was completed in October 2009 and Flight Management changed its name to Native American Energy Group, Inc. The common

stock is quoted on the Over-the-Counter Quotation Bureau (“OTCQB”) market under the symbol “NAGP.”

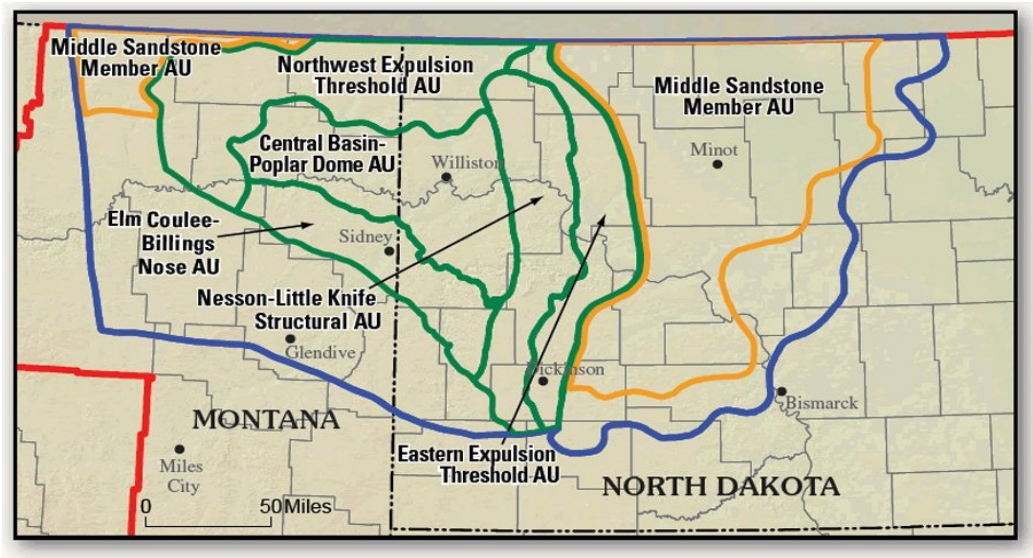
Over the past seven years the company has been in the process of developing several energy projects. This has included the acquisition of oil properties in Montana and natural gas properties in Alaska. Management believes that properties in these two states have potential based on the limited operations that have been conducted there and that there are opportunities to acquire properties that formerly produced oil and gas that can be re-developed for commercial profitable operation using newer production techniques. Native American Energy Group is also pursuing oil properties in Oklahoma on trust lands belonging to the Apache, Comanche, Kiowa and Seminole Tribes and their allotted members.

Native American Energy Group has dedicated significant resources to understanding and working with Native American tribes, many of which own significant reserves of oil and gas and other minerals. Many of the tribes respond to a high level of mutual trust and this allows the company to negotiate attractive arms-length development and lease agreements.

On August 4, 2005 the company received approval of a Nationwide Oil and Gas Bond from the Bureau of Indian Affairs (BIA) at the United States Department of Interior in Washington D.C, which authorizes it to enter into or otherwise acquire an interest in oil and gas mining leases and oil and gas prospecting permits of various dates and periods of duration covering all lands or interests in lands held by the United States in trust for individual Native Americans or Native American tribes or bands also known as Federal Indian Reservations. According to the BIA, approximately 56.2 million acres are held in trust for individual Native Americans or Native American tribes or bands in Federal Indian Reservations spread over about 326 Indian land areas.



In August 2011 the company commenced a five well-workover program on four oil and gas lease holdings in the Central Basin part of the Williston Basin in Montana. During the months of August 2011 through December 2011 the first phase of enhanced oil recovery (“EOR”) operations was completed on four of five wells. During the 3rd and 4th quarters of 2011 approximately 1090 barrels of oil was collected and sold, in aggregate, from two wells. The leases include historically producing oil and gas wells that were shut-in by previous oil and gas companies due to depressurization, paraffin, production falling below commercial levels at that time, termination of previous oil and gas leases by the tribal governments due to improper development and various economic reasons, and most commonly, declining oil prices.



Williston is in the center of the large Bakken oil formation — 640 square miles of oil, holding up to 34 billion barrels or more of oil.

However, there are several other oil and gas bearing formations in the same area. The Three Forks formation lies directly below the Bakken formation and this contains several billion barrels of oil and both the Tyler, which lies about 2,500 feet above the Bakken and holds between 4 and 8 billion barrels of oil, and the Spearfish (which contains high sulfur oil) formations are accessible.

OVERVIEW

The Williston Basin



[http://www.undeerc.org/bakken/bakkenformation.aspx]

The Williston Basin contains a lot of oil. Producing wells have been operating for over 50 years. However, the technology used in the early years left a lot of oil in the ground, estimated by industry sources to be over 20% of the original amount. Much of the oil is in rock formations, such as oil shale that could not be accessed by 1950's technology.

In May, 2012 Kodiak (KOG) released an interim corporate update providing details for its drilling activities in the Williston Basin in North Dakota on the Middle Bakken and Three Forks formations, where most of the company's acreage is held. A completed well on the Three Forks formation is producing an average of 1,454 boe (Barrels of Oil Equivalent) per day and a completed well on the Middle Bakken is producing an average of 2,033 boe per day.



There are number of factors that influence the flow of oil through a well to the surface. These include the pressure and temperature in the oil reservoir, the permeability of the rock, which determines the flow of oil to the bottom of the well, and the mixture of fluids in the rock formation. The oil may contain dissolved natural gas, light liquids like ethane propane and butane, and heavier hydrocarbons like paraffin waxes, water, suspended solids and organic sulfur compounds. The gases and light liquids may boil off at the well head. As the pressure and temperature in the bore-hole declines the paraffin waxes can separate out and reduce the oil flow of the well and the surrounding rock. The result is a reduction in oil flow to the point where the production is no longer profitable.

In Native American Energy's Five-Well Program, it is using advanced technology to enhance oil recovery on the leases. This technology, known as Single Entry Multi-Lateral Jetting System, or SEMJet®, has shown that it can enhance and exploit reservoirs and increase production from mature properties. The SEMJet System (Services | SEMJET International) allows the well operator to:

- Inspect the condition of production tubing with in-situ inspection, log the cement bond and correlate the casing collars using its built-in logging system;
- Create horizontal channels off any new or old wellbores that have 4.5” casing or greater, whether the wells are vertical, deviated or horizontal in design;
- Enter mono-bore completions and jet lateral channels at a true 90º in casing as small as 3.5” using a secondary, unique coiled tubing system;
- Unlock and stimulate trapped oil reserves beyond any near wellbore damage by displacing acid, specialty fluids or microbial products into the laterals;
- Penetrate the reservoir and open up larger producing channels without using conventional perforating guns, which can damage the formation and are hazardous;
- Create a low pressure, high velocity circulating environment within the wellbore to ensure cuttings removal, geological samples and efficient well cleaning.

To solve the paraffin problem Native American Energy Group injects specialized surfactants into the well and this causes the oil, paraffin and water to form an emulsion that can then be pumped out and the hydrocarbons recovered.

SEMJet® Systems at Native American Energy Group’s sites:



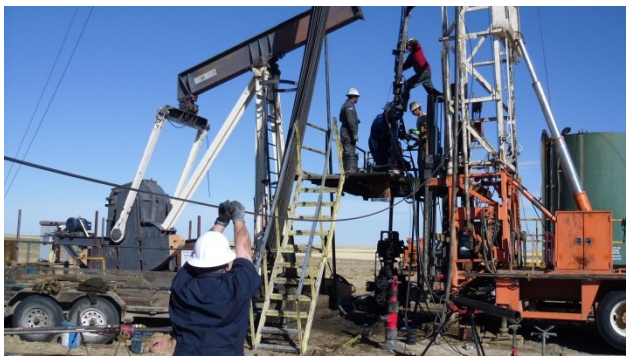
SEMJET Coiled Tubing Unit Truck



SEMJET on location at the Cox 7-1 well-site



SEMJET – Unspooling coiled tubing for jetting



SEMJET – Coiled tubing running in-hole

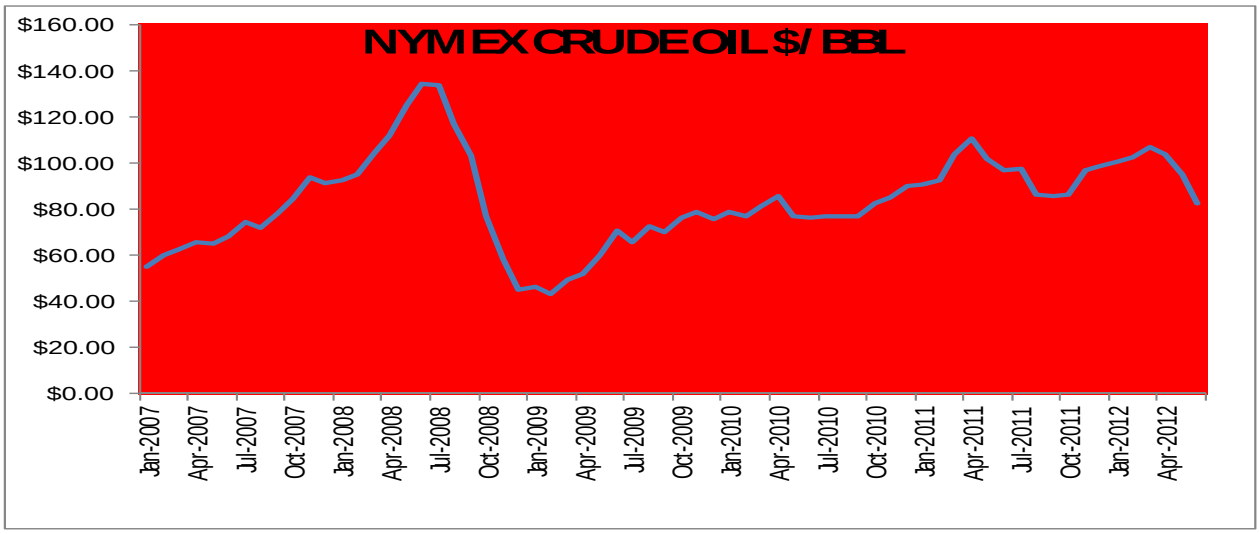


Sandvick 1-11 – Preparing for Jetting Operation



Wright 5-35 – Jetting Operations

In September 2006, the company consummated an Oil Sale and Purchase Agreement with Shell Trading U.S. Company (Shell), which provides for Shell to purchase all crude oil produced, with no delivery commitments. Since 2006 the company sold oil from these five wells while performing minimal workover operations with a company owned workover service rig, surfactant treatments and flow testing. As a result of the initial EOR operations during the 3rd and 4th quarters of 2011, approximately 1090 barrels of oil, cumulatively, was collected and sold from two wells during the 4th quarter ending December 31, 2011. The price received was based on a discount from the average NYMEX contract at the time of purchase. The discount varies depending on the characteristics of the oil and varies from $5 to $15 from the NYMEX average.



Oil & Gas Properties, Wells, Operations and Acreage:

The properties consist primarily of interests in properties on which oil and gas wells are located, both non-producing and in progress, as well as undeveloped properties. Such property interests are often subject to landowner royalties, overriding royalties and other oil and gas leasehold interests and are listed below:

Five-Well Program:	Production Expected in:	Est. Production* BBL/Day
Wright 5-35	**Sept. 2012**	**60**
Beery 2-24	**Sept. 2012**	**100****
Beery 22-24	**Nov. 2012**	**70**
Cox 7-1	**July 2013**	**40**
Sandvick 1-11	**Aug. 2013**	**75**

***** Assumed production rate 90 days after well is producing oil Zacks estimates assume sufficient financing is in place. Wright 5-35; Beery 2-24 & Beery 22-24 are not on the Fort Peck Indian Reservation.

******Beginning in September 2012, the Company expects to begin initial production on the Beery 2-24 prior to the Phase 2 workover process which includes installation of a specialized down-hole pump specifically designed for this well, repairing a casing issue at a depth of 124 feet, installation of electrical equipment and a larger pumpjack for optimal production.

These five wells were specifically chosen due to the following important characteristics present in all wells: Permeability, Porosity and Pressure. Management's strategy regarding the Five-Well Program was to complete the initial workover (casing scraping, tubing testing), surfactant treatment and lateral jetting EOR process for the five wells and complete the final phase of workovers necessary to bring the wells online and into production during Phase 2 of its planned operations. By December 2011 the company completed as much of the plan as possible and intends to complete the Five-Well Program in its entirety by the end of the 3rd quarter of 2013.

Native American Energy Group started its production stage operations in the Williston Basin in Montana in the third quarter, 2012. In August 2012 the company's field staff and contractors began completing electrical system repairs and upgrades to surface equipment and subsurface flow-lines due to increased well pressures experienced during the well enhancement and pre-production flow-testing process. The company's initial focus, following the completion of all planned repairs and upgrades, is to establish steady commercial production on the Wright 5-35 and Beery 2-24 wells, since these wells are near commercial production and accounted for the majority of oil sales in 2011 following an enhanced oil recovery (EOR) program by the company last year. During the third and fourth quarters of 2011 the company collected and sold approximately 1090 barrels from the Wright 5-35 and Beery 2 wells alone as a result of the initial EOR operations. The total annual oil production for 2011 was 1590 barrels. All of Native American Energy Group's oil production was purchased by the company's oil purchaser, Shell U.S. Trading Company. The company anticipates commencing commercial production by September 30, 2012.

Cox 7-1 Well - located on 80 acres (SW NW of Sec.11-31N-44E) in Roosevelt County, Montana. Historically producing sweet crude from the shallow *Mississippian Charles Formation*, Cox 7-1 was first drilled in 1981 by Century Oil & Gas Corporation and completed at 35 barrels of oil per day, but was later shut-in primarily due to a build-up of naturally occurring paraffin which clogged perforations in the original well bore as well as a tubing anchor that was not able to be released or retrieved over the years by other operators. In addition, the well was only operating approximately 50% of the time mainly due to past operator's inability to effectively correct mechanical problems with surface equipment. The workover and EOR process was started in August, 2011 on this well. During the well operations to retrieve the tubing anchor, it was discovered that, in fact, it was a packer instead of an anchor. The packer was retrieved and the workover and EOR process completed in mid-September with satisfactory results. Updated surface equipment was installed as well as in-ground flow lines. Implementing a casing patch operation in midsummer 2013 should bring the well online for production.

Sandvick 1-11 Well - located on 320 acres (SW NW of Sec.11-31N-44E) in Valley County, Montana. The well was originally drilled in 1983 by Clayton W. Williams, Jr. and oil flowed at 99 barrels per day; however, the average historical production of the well through the 1980s and 1990s declined to approximately 20 barrels per day, due largely to mud blockages down hole. During the initial phase of the workover, the company succeeded in overcoming mud filtration issues which hindered past production. After jetting the laterals in the *Ratcliffe formation*, approximately 60 barrels of oil almost immediately flowed back into the pits on location, which indicated that the company definitely stimulated the section of rock from which oil or gas is expected to be produced in commercial quantities (the "pay zone"). Swab testing showed a 30% oil cut (difference between oil and water) from total fluids. The well was brought online for testing in November, at which time it exhibited strong oil production - during the initial 18 hours the well was online it produced approximately 80 barrels of oil. However, a packer installed to close off a casing leak from a water zone above the oil zone lost integrity and allowed water to migrate into the wellbore which overpowered the pay zone. Consequently, the company's plan is to re-enter the well during the summer of 2013 and recomplete the well by applying a cement squeeze into the casing to close off the water zone and then bring the well online for production.

Wright 5-35 Well - located on 160 acres (SW NW of Sec.35-24N-46E) in McCone County, Montana. This well was first drilled in 1960 by State Oil and Cities Service Oil Company. Original completion of the well in the *Mission Canyon* formation resulted in 36 barrels of oil per day, a

production level which persisted for most of its productive life through 1985 when it was shut down for two years. The well was brought back into production in 1987 and continued to produce oil until 1995 when it was again shut down. At that point in time, oil production had declined to approximately six barrels of oil per day due to a build-up of paraffin that plugged off perforations in the well bore. Following acquisition of the lease in 2006, the well was serviced and a paraffin surfactant was used to clean the perforations, casing and tubing. Over the two-day testing period, the well produced over 400 barrels of 36 Degree API Gravity Oil. In November 2011 the initial workover and EOR process of the Wright 5-35 well was completed. Further, field crews successfully upgraded the electrical systems which power the surface equipment, replaced the pad under the jumpjack and winterized the well site. The production on the Wright 5-35 prior to originally being shut-in during 1995 was 9 barrels of oil per day. Well testing during the completion stage exhibited an oil cut ranging from 25% to 50%. On December 10, 2011 the well was brought online into minimal production and underwent adjustments to surface equipment to stabilize the well. During the following 2 weeks after being brought online, the well was generating approximately 24 barrels of 36 degree API Gravity Oil per day until it was shut-in during the last week of December 2011 pending purchase of additional equipment needed to effectively operate the well and modifications to flow lines due to increased pressures resulting from the well re-work and lateral jetting application. Based on the well test which included swab testing, it is estimated that daily oil production will approximate 60 barrels per day.

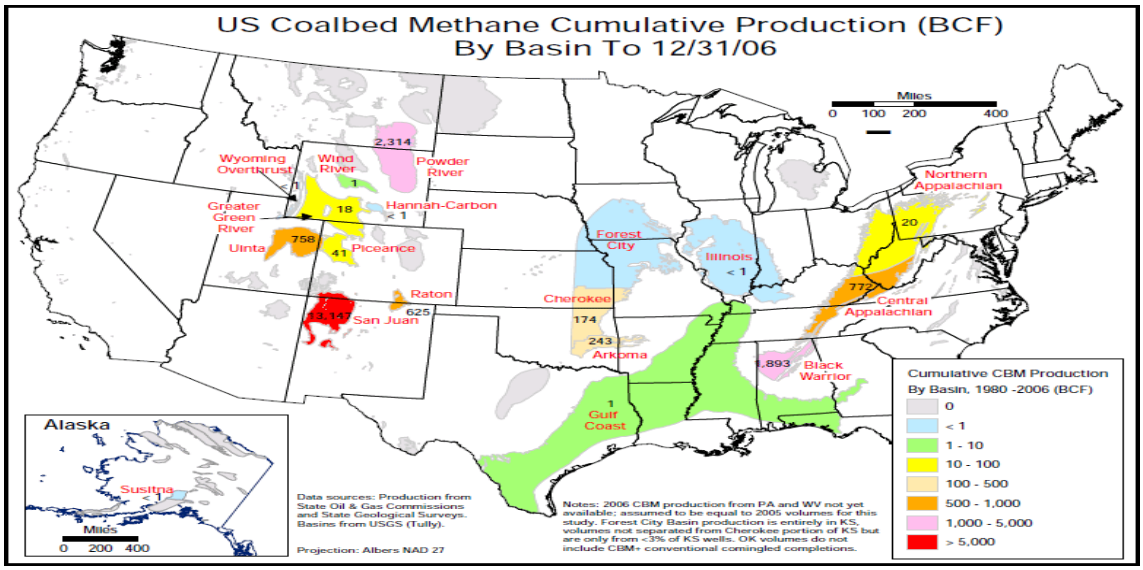
Beery 2-24 & 22-24 Wells - located on 320 acres (N/2 of Sec.24-23N-49E) in McCone County, Montana. Both Beery 2-24 and Beery 22-24 are situated on NAGP's 320 acre lease in north McCone County and located in an oil and gas field originally discovered by Shell Oil in the early 1950s. Beery 22-24 was first drilled and completed in 1953 and is the only original well drilled by Shell that remains in the field today. This well was the second largest producer in the *East Richey Field,* producing 2300 barrels of oil per day ("BOPD") during its active production life. Beery 2-24 was originally drilled and completed by Dick Shackelford and Edward Beery in 1980 and initially produced 24 BOPD. The Beery property produced approximately 350,000 barrels of the 2 million barrels of cumulative oil produced in the entire field.

In January 2012 Native American Energy Group completed the workover, lateral jetting and winterization of the Beery 2-24. Four oil storage tanks were purchased and installed at the tank battery location onsite, providing 1600 barrels of total fluid capacity. Since the jetting of the laterals combined with a proprietary chemical blend, the down-hole pressures had increased significantly and the well was naturally flowing in excess of 5 barrels of oil and a significant amount of gas every morning when the well was being bled off for daily operations. The swab tests indicated a consistent 50% oil cut from total fluids. The company plans to move a work-over rig to this site during the fall season of 2012 to complete the workover process which includes installation of a specialized down-hole pump specifically designed for this well, repairing a casing issue at a depth of 124 feet, replacing the current pumpjack with a larger pumpjack that will allow the company to get a longer stroke when the well is in production and install electric equipment needed to operate the well which includes a 50 Horsepower motor. Once these tasks have been completed, the company expects to bring the well online for full production. Based on the well tests from the EOR process, the daily production from this well is estimated to be at least 100 barrels per day once all planned tasks have been completed for the Beery 2-24. In September 2012 the company expects to bring the well online while additional modifications are made prior to the Phase 2 rework of the well in the fall of 2012 or summer of 2013 depending on the availability of certain field services including a work-over rig.

Beery 22-24 - Rework Plan. The Beery 22-24 is the fifth and final well in NAEG's five well Rework Program. Shell completed this well at 2600 barrels of oil per day in 1950's and it was one of the largest producers in the area. In 1986 the operator at the time installed a 385' liner at the bottom of the well in order to shut off water from one of the three open zones (B2, C2 and Mission Canyon). Until recently, this well would not have many options to improve oil production but with perforating technology achieving penetration distances of three feet or better and with the success of surfactants, and what was learned from the Beery 2-24 EOR program, this well has very similar potential, as the well is in the same geological formations and pay-zones. Plans include perforating more holes in the B2 zone but, more importantly, perforate the same part of the C2 zone that was completed in the Beery 2-24. The perforating will be followed up with a two hundred barrel surfactant and acid treatment. Ball sealers will be used to make sure all of the perforations are open. Based on the geology, past production history of the well and experience with the same formations in the Beery 2-24, which is in the same field, estimated daily production from the Beery 22-24 well is expected to be approximately 70 barrels per day once it is brought online. The company expects to commence the work-over and EOR operations on the Beery 22-24 well in the fall of 2012.

Coal bed Methane in Alaska:

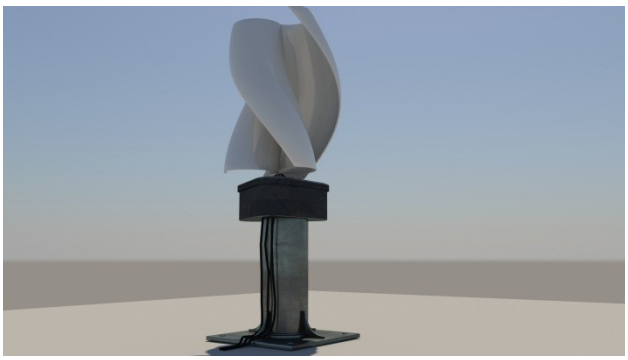
All coal beds contain entrapped methane (natural gas) also known as Coal Bed Methane (“CBM”). This gas can be captured and transported by pipeline. Natural gas production is in high demand by purchasers in and about the Mat-Su Valley in the Cook Inlet, Alaska, such as the local gas and electric utilities including the Conoco Phillips LNG plant (“Conoco”), as they export liquefied natural gas to Japan directly from Alaska. Since 2008 the Company has continued to maintain communication with the various prospective purchasers in the Cook Inlet area such as Conoco, Chugach Electric Association Inc. (“Chugach”) and the Matanuska Electric Association (“MEA”). In addition, MEA is working to build its own power generation facilities. In 2009 MEA acquired about 70 acres of land located northeast of the Eklutna Interchange of the Glenn Highway. The 70 acres are divided into parcels that are re-zoned as I-3 (industrial 3, rural industrial district). MEA's plans include up to a 180 megawatt natural gas generation plant and related facilities (the “Power Plant”). Building a natural gas power plant at Eklutna is part of MEA’s mission of bringing reliable, affordable power to the residents of the Cook Inlet. Construction of the plant is scheduled to begin in April 2012, and they expect to be ready for testing by October 2014. MEA currently has a power purchase agreement with Chugach which expires on December 31, 2014. Due to MEA’s need for natural gas for their power plant, the company feels that CBM production from their Kircher Unit CBM well and any additional development could contribute towards the power plant’s growing needs. MEA expects to begin generating its own power by January 1, 2015.

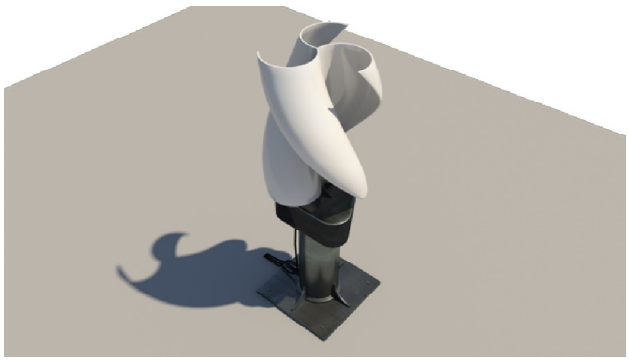


Since February 2007 Native American Energy Group has had licensing and distribution rights from Windaus Energy Inc. (Windaus) based out of Ontario, Canada for Windaus' proprietary, highly advanced Vertical Axis Wind Turbine Energy Systems.

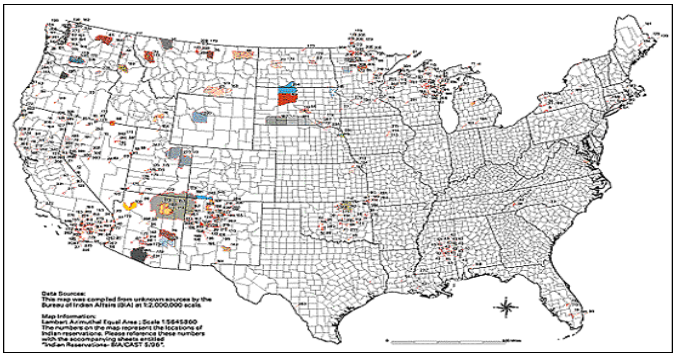
In March 2010 Native American Energy Group executed an amendment to its license agreement whereby it acquired exclusive manufacturing, marketing, sales, sublicensing and distribution rights to bring to the entire U.S. market, including all Indian lands and reservations with boundaries established by treaty, statute, and/or executive or court order, and recognized by the U.S. federal government as territory in which American Indian tribes and U.S. federally recognized tribes have jurisdiction, which include Rancherias, Pueblos, Indian Colonies, Alaska Native Villages and owned by Alaska Native corporations ("U.S. Indian Lands") as recognized by the U.S. Department of the Interior – Bureau of Indian Affairs.

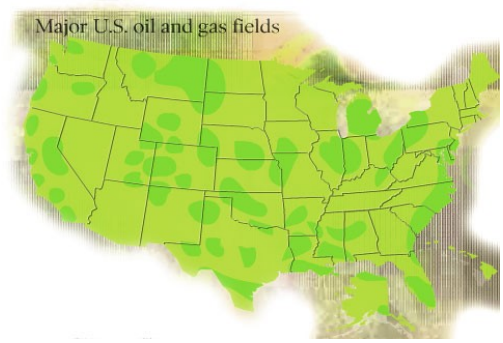
Due to the company's current focus on its five-well enhanced oil recovery program in Montana, on April 25, 2012, it negotiated with Windaus to further amend the license agreement to reduce the licensed territory to just the U.S. Indian Lands described above and relinquished its manufacturing rights for Windaus' turbine systems. The company's license agreement expires in February 2037.





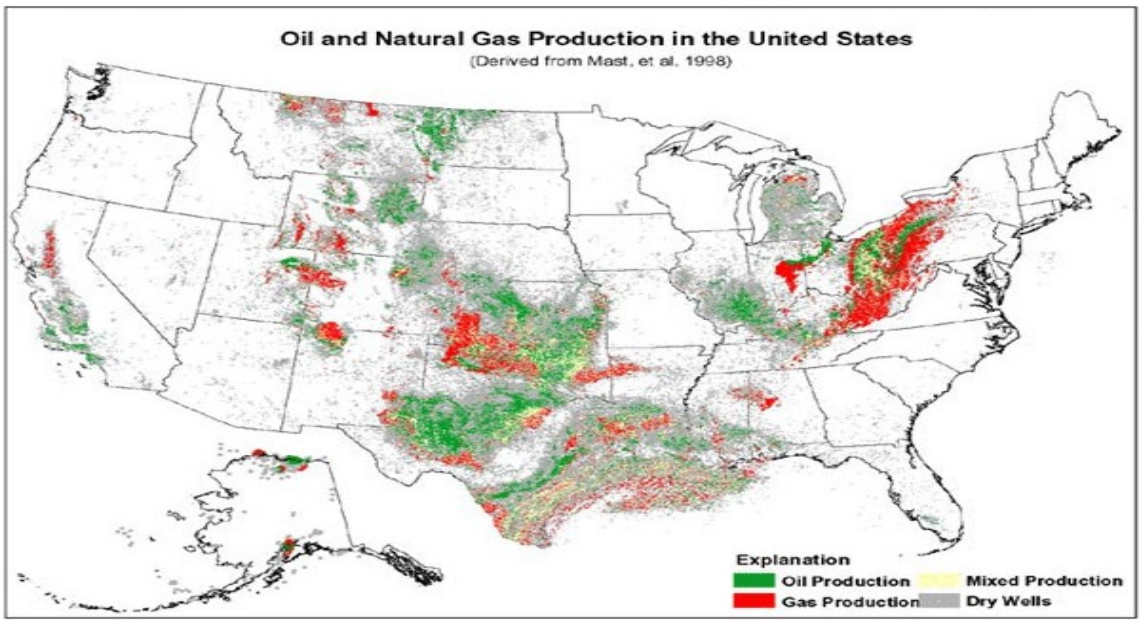
Native American Energy Group has discussed the potential of working with tribes in Oklahoma that control extensive oil fields. There are many other areas where older oil fields exist on Indian Reservation lands.

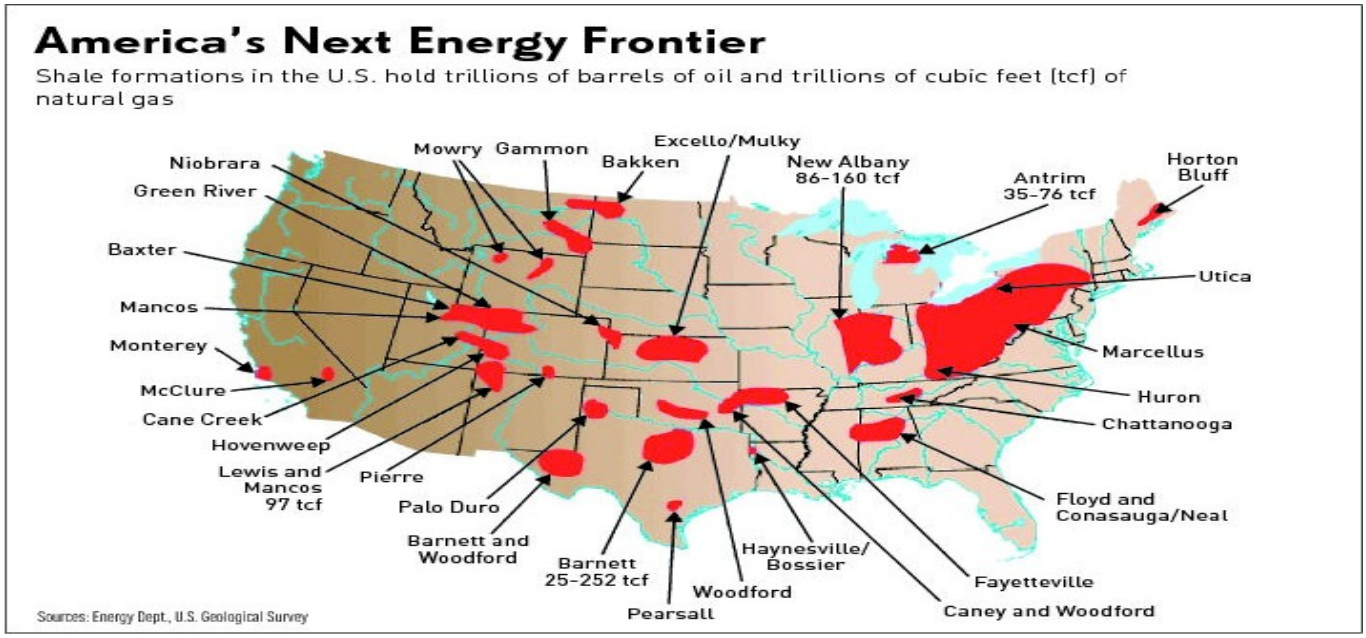




Indian Reservations in the contiguous United States:
http://www.nps.gov/nagpra/DOCUMENTS/ResMap.htm

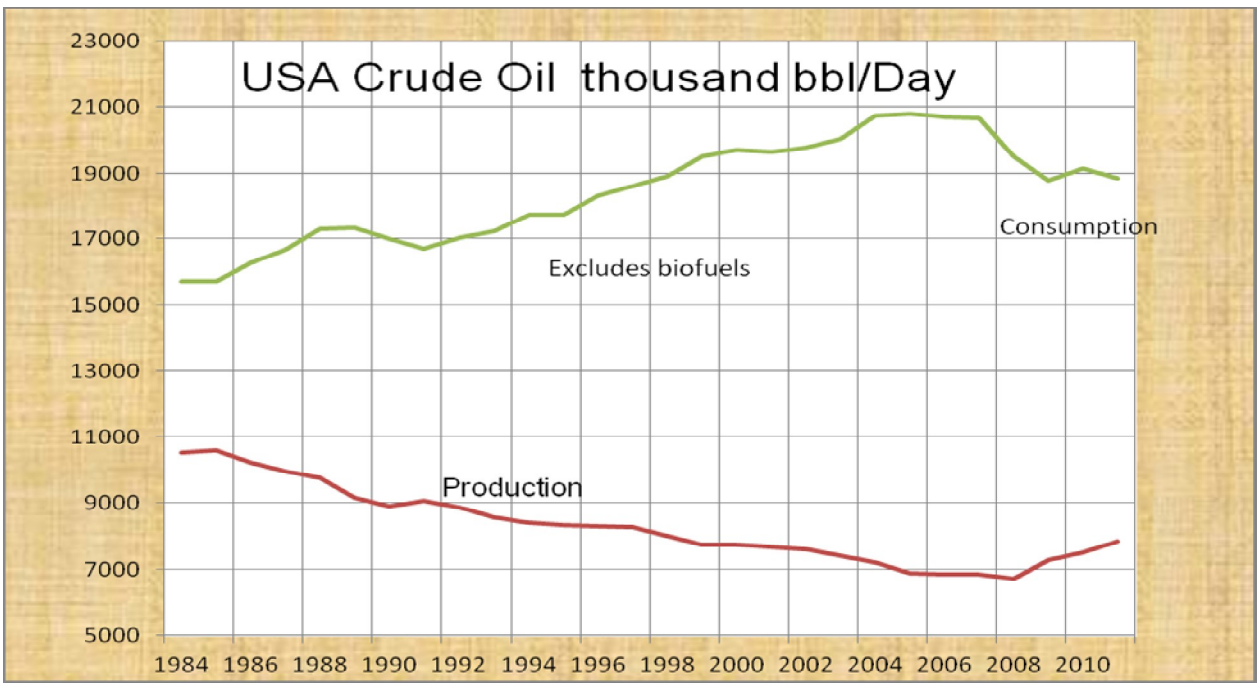
INDUSTRY OUTLOOK



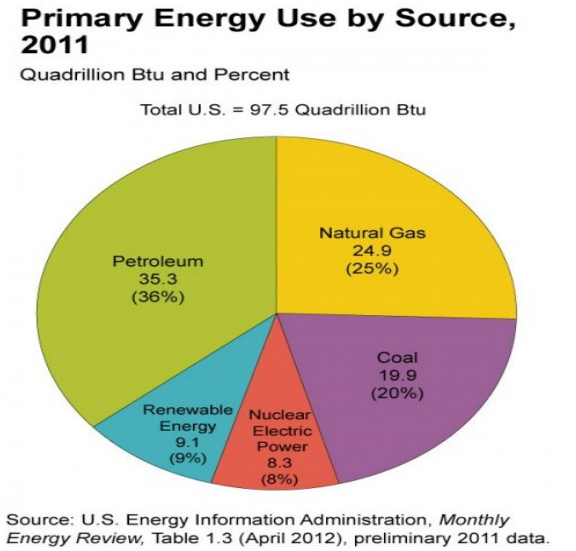


Many oil shale formations also have oil bearing structures that are not associated with the shale, as is the case in the Bakken formation. Much of the interest is in the new fields that contain both oil and gas. However, there is still a large gap between production and consumption, one that is unlikely to shrink to much less than 10,000,000 barrels a day.

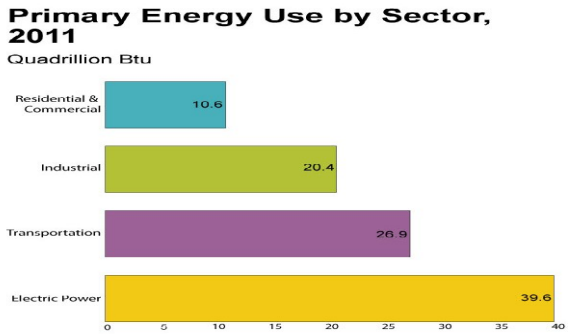
Oil and gas are the predominant sources of energy in the world and are likely to remain so in the foreseeable future. Natural gas is difficult to transport outside of a pipeline and so will remain a "local" fuel. Given the reluctance to replace the nuclear power stations in Japan, Germany and the United States, the 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. Natural gas currently exceeds coal as the energy source for power stations in the US.



Energy production and consumption by sectors are shown below.



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



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

INDUSTRY POSITION

The petroleum production industry is dominated by very large companies with market caps in excess of a billion dollars. Native American Energy Group is a development company just starting production and generating revenue. As such its future does not depend on the dynamics of the industry.
The top five US hydrocarbon liquid producers in million barrels worldwide are

Exxon Mobil	832
Chevron	632
ConocoPhillips	534
Occidental Petroleum	142
Hess Corporation	94

VALUATION

Oil and gas companies are usually valued on a reserve basis, or on Net Asset Value, the largest part of which is the oil and gas reserve. Since Native American Energy Group does not have a significant ownership of an oilfield, this method cannot be used. We are using the Market Cap. to Enterprise Value and Market Cap. to sales ratios as a proxy for valuation. The group average, as shown below, is 7.6 times sales. The price to sales ratio is 7.5. Using 2013 revenue and the current cash and debt positions the price target is $2.00

COMPARISON TABLE	Ticker	Price	Mkt	ROE	P/E	P/E	P/B	P/S	EV/Sales	EV/EBITDA	PEG	Inst.
(Source: Yahoo Finance)		11/16/12	Cap	(%)	L4Q	N4Q	LQ	L4Q	L4Q	L4Q		Ownership
			(in million)									
Native American Energy Gp.	**NAGP**	**$0.19**	**$7**	**NM**	**NM**	**NM**	**N/M**	**N/M**	**N/M**	**0.37**	**NA**	**NA**
Abraxas Petroleum Corp.	AXAS	1.69	$149	43.20	7.92	12.46	2.52	2.22	4.39	11.16	N/A	54.4
Continental Reources	CLR	$70.77	$13,000	15.23	31.54	15.38	4.27	5.54	6.33	10.42	0.74	21.5
Duma Energy Corp.	DUMA	$1.99	$21	NM	N/A	N/A	1.75	3.00	2.86	N/A	NM	N/A
Newfield Exploration Co.	NFX	$24.47	$3,250	7.15	11.60	9.83	0.77	1.24	2.42	4.06	0.65	92.4
New Western Energy Corp.	NWTR	$0.60	$40	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Petro Bakken Energy Ltd.	PBKEF	$11.37	$2,160	1.17	52.16	N/A	0.61	2.06	3.57	5.42	N/A	N/A
Primary Petroleum Corp.	PETEF	$0.22	$32	10.65	13.57	N/A	1.28	N/A	N/A	N/A	N/A	N/A
Bowood Energy Inc.	ROAOF	$0.74	$22	N/A	N/A	N/A	0.61	3.05	N/A	19.45	N/A	N/A
Vanguard Natural Resources LL	VNR	$27.00	$1,590	N/A	74.72	16.11	1.49	4.89	7.74	17.91	3.20	18.60
Whiting Petroeum Corp.	WLL	$44.83	$5,270	12.49	13.49	12.22	1.51	2.45	3.22	4.88	0.89	87.2
Mean				14.98	29.29	13.20	1.65	3.06	4.36	10.47	1.37	
Median				11.57	13.57	12.46	1.49	2.73	3.57	10.42	0.82	
AeroVironment Inc.	AVAV	$20.05	$441	12.56	15.50	13.57	1.45	1.35	0.97	6.20	1.26	66.2
Broadwind Energy Inc.	BWEN	$2.01	$29	N/A	N/A	N/A	0.28	0.13	0.23	N/A	N/A	53.4
Vestas Wind Systems A/S	VWSYF	$4.10	$835	N/A	N/A	N/A	0.42	0.10	0.29	22.52	N/A	N/A
Data from Yahoo Finance and Zacks Investment Research												
Mean				12.56	15.50		0.72	0.53	0.50			

RISKS

- The company will require immediate financing to implement its plans of producing oil and increasing the number of oil wells under production.

The company has limited financial resources available, which has had an adverse impact on its activities and operations. Additional funding would allow the development of future wells and pay for expenditures for exploration and development, general administrative costs, and possible entrance into strategic arrangements with third parties. The company will have to raise capital through the sale of equity or convertible debt securities and through loans from stockholders and

third parties. There can be no assurance that additional funds will be available. If adequate funds are not available, operations would have to be curtailed or funds obtained through entering into arrangements with collaborative partners may require relinquishment of rights to certain assets.

- Relations with Native American Tribes. The loss of the ability to develop leases on Native American land would have a significant negative effect on the company.

In April 2007, the company created a proprietary initiative called the Tribal Empowerment Program (the "Program") to promote tribal self-sufficiency by helping Native Americans develop their own mineral resources and to use the revenue from such sources to implement renewable energy systems on their tribal lands. The Program has gained attention from tribes throughout the country and continues to win support from Native American activists, tribal leaders, U.S. politicians, spiritual leaders and business and energy professionals.

Over time many Native Americans have sold their properties to others. Many reservations include properties owned by non Native Americans that are surrounded by reservation land. Having an agreement with the tribes presents a barrier to entry to others wanting to develop that land. Three of the five wells under development are on privately owned lands.

INSIDER TRADING AND OWNERSHIP

All officers and directors own 29.5% of the common stock and 100% of the Series A Stock. High Capital Funding LLC owns 10.7% of the common stock.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Native American Energy Group Inc.																					
Consolidated Statements of Operations																					
(Dollars in millions except per share data)																					
Fiscal Year Dec 31.	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14	2014
	Act.					Act.		Act.	Act		Est.					Est.					Est.
Net sales	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$1.00**	**$1.00**	**$1.50**	**$2.20**	**$2.40**	**$2.60**	**$8.70**	**$2.50**	**$2.50**	**$3.00**	**$3.30**	**$11.30**
% Change																	66.67	13.64	25.00	26.92	29.89
Cost Goods	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.50	0.75	1.10	1.20	1.04	4.09	1.00	1.00	1.05	1.16	4.21
G & A	1.23	0.20	0.00	0.00	0.00	5.54	0.43	0.30	0.35	0.50	1.59	0.50	0.60	0.60	0.70	2.40	0.70	0.80	0.80	0.90	3.20
In process R&D	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	0.00
R&D	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	0.00
Depr. & Amort.	2.77	0.04	0.00	0.00	0.00	0.85	0.04	0.04	0.04	0.06	0.18	0.10	0.20	0.20	0.20	0.70	0.20	0.20	0.30	0.30	1.00
Op Income GAAP	(4.00)	(0.24)	0.00	0.00	0.00	(6.39)	(0.47)	(0.34)	(0.39)	(0.06)	(1.26)	0.15	0.30	0.40	0.66	1.51	0.60	0.50	0.85	0.95	2.90
Interest Expenses	0.07	0.00	0.00	0.00	0.00	0.55	0.00	0.06	0.09	0.00	0.15	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Income	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	0.00
Non Op Income	0.00	0.00	0.00	0.00	0.00	0.17	(1.76)	0.65	(0.02)	0.00	(1.12)	(0.53)	(0.77)	(0.36)	0.00	(1.66)	0.00	0.00	0.00	0.00	0.00
Other	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Calc.Pretax	(4.00)	(0.24)	0.00	0.00	0.00	(6.77)	(2.23)	0.26	(0.50)	(0.06)	(2.53)	(0.38)	(0.47)	0.04	0.66	(0.15)	0.60	0.50	0.85	0.95	2.90
Taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.08)	0.01	0.11	(0.02)	0.10	0.08	0.14	0.15	0.46
Tax Rate	0.00	0.00	#DIV/0!	#DIV/0!	#DIV/0!	0.00	0.00	0.00	0.00	0.00	0.00	0.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00
Other Income	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	0.00
Pro-forma adj.	2.77	0.00	0.00	0.00	0.00	0.06	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
Net Income	(4.00)	(0.24)	0.00	0.00	0.00	(6.77)	(2.23)	0.26	(0.50)	(0.06)	(2.53)	(0.38)	(0.39)	0.03	0.55	(0.18)	0.50	0.42	0.71	0.79	2.43
Costs and expenses are on a pro-forma basis																					
Net For Common	(4.00)	(0.24)	0.00	0.00	0.00	(6.77)	(2.23)	0.26	(0.50)	(0.06)	(2.53)	(0.38)	(0.39)	0.03	0.55	(0.18)	0.50	0.42	0.71	0.79	2.43
Shares Used, millions	19.45	27.13	0.00	0.00	0.00	30.47	35.26	35.69	36.34	35.80	35.50	36.00	36.00	36.00	36.00	36.00	36.00	36.00	36.00	36.00	36.00
Earnings Per Share																					
EPS	**($0.21)**	**($0.01)**	**#DIV/0!**	**#DIV/0!**	**#DIV/0!**	**($0.22)**	**($0.06)**	**$0.01**	**($0.01)**	**($0.00)**	**($0.07)**	**($0.01)**	**($0.01)**	**$0.00**	**$0.02**	**($0.01)**	**$0.01**	**$0.01**	**$0.02**	**$0.02**	**$0.07**
Pro Forma EPS	**($0.06)**	**($0.01)**	**#DIV/0!**	**#DIV/0!**	**#DIV/0!**	**($0.22)**	**($0.07)**	**$0.01**	**($0.01)**	**($0.00)**	**($0.07)**	**($0.01)**	**($0.01)**	**$0.00**	**$0.02**	**($0.01)**	**$0.01**	**$0.01**	**$0.02**	**$0.02**	**$0.07**

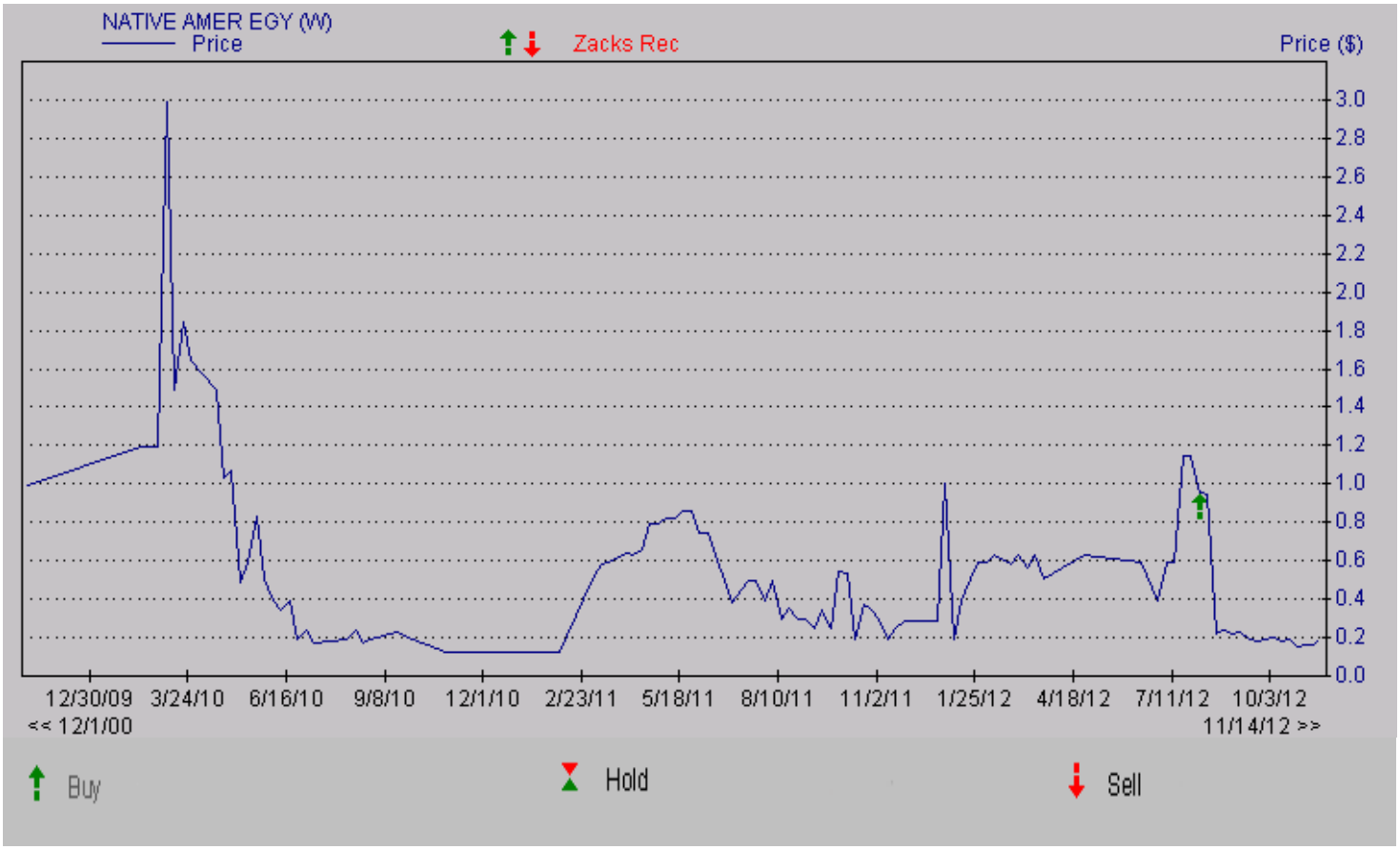
© Copyright 2012, Zacks Investment Research. All Rights Reserved.

Native American Energy Group Inc.					
Consolidated Balance Sheet (in $ millions)					
Fiscal Year Dec 31.					
	2010A	2011A	1Q12	2Q12	3Q12
ASSETS					
Cash & Equiv.	0.01	0.02	0.02	0.00	0.00
A/R	0.00	0.02	0.00	0.00	0.00
Inventories	0.00	0.00	0.00	0.00	0.00
Other	0.16	0.04	0.00	0.00	0.14
Total current assets	0.17	0.07	0.02	0.00	0.14
Gross Plant	0.54	0.62	0.58	0.54	0.50
Acc. Deprn	0.00	0.00	0.00	0.00	0.00
Investments	0.33	0.23	0.23	0.23	0.00
Intangibles	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.18
All Assets	1.04	0.91	0.83	0.77	0.82
LIABILITIES AND NET WORTH					
Debt Due 1 Yr	0.54	1.27	1.37	0.88	0.87
Notes Payable	0.54	1.21	1.37	1.31	1.27
A/P	1.14	2.43	2.26	1.97	2.04
Taxes	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.10	0.00	0.00	0.01
Total current liabilities	2.22	5.00	5.01	4.16	4.19
Conv. Debt	0.00	0.00	0.00	0.00	0.00
L.T.Debt	0.00	0.01	0.01	0.01	0.01
Other LT	0.00	0.00	0.00	0.00	0.00
Def. Taxes & ITC	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.11
All Liabilities	2.22	5.02	5.02	4.17	4.31
Pref.Stock	0.00	0.00	0.00	0.00	0.00
Common Stock	0.03	0.03	0.04	0.04	0.04
Surplus	19.31	23.14	25.49	26.01	26.43
Retained Earnings	-20.51	-27.28	-29.72	-29.46	-29.96
Other	0.00	0.00	0.01	0.02	0.00
Treasury Stock	0.00	0.00	0.00	0.00	0.00
Net Worth	-1.17	-4.10	-4.19	-3.40	-3.49
Total liabilities & stockholders' equity	1.05	0.91	0.83	0.77	0.82

© Copyright 2012, Zacks Investment Research. All Rights Reserved.

Native American Energy Group Inc.			
Condensed Consolidated Statements of Cash Flows			
millions of dollars			9 Months
Fiscal Year Dec 31.	**2010A**	**2011A**	**2012 E**
Cash flow from operations:			
Net (Loss) Income	-4.00	-6.77	-2.69
Depreciation & amortization	2.77	0.85	0.12
Amortization of goodwill			
Stock issued for services		374.77	1.38
Stock based compensation	481.08	3199.69	0.25
Impairment of machinery			
Misc.	169.27		
Other	16.93	1431.90	0.48
Net cash provided by (used in) operating activites	**$666.04**	**$5,000.45**	**($0.46)**
Investment in Oil & Gas properties		(780.39)	
Purchase of PP&E		(124.91)	
Proceeds from disposal of PP&E			
Other			
Net cash provided by (used in) investing activities	**$0.00**	**($905.30)**	**$0.00**
Cash flow from financing activities:			
Proceeds from issuance of common stock	292.70	224.40	0.46
Proceeds (payment) on lines of credit, net		987.18	
Proceeds from debt - related parties			
Proceeds fromo debt	242.46	750.00	
Payment on debt - related parties			
Payment on debt			
Other	(35.69)	(133.09)	(0.02)
Net cash provided by (used in) financing activities	**$499.47**	**$1,828.50**	**$0.44**
Increase (decrease) in cash and equivalents	$1,165.51	$5,923.64	($0.02)
Cash & equivalents at beginning of period	$5.92	$1,171.43	$0.02
Cash & equivalents at end of period	$1,171.43	$7,095.07	($0.01)

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1011 companies covered: Buy/Outperform- 14.5%, Hold/Neutral- 77.8%, Sell/Underperform – 7.1%. Data is as of midnight on the business day immediately prior to this publication.

© Copyright 2012, Zacks Investment Research. All Rights Reserved.