EQUITY RESEARCH REPORT

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United States Oil & Gas Corp.

OTC: USOG

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November 24, 2009

Close as of:	November 24, 2009
DJIA:	10,464.40
S&P 500:	1,110.63
NASDAQ Composite	2,176.05
Russell 2000:	592.19

Recommendation: Speculative **Buy**

Price Target: ***$0.10***

Stock Price:	$0.03	Market Cap:	$28.66 M
52 Week Price Range:	$0.17 - 0.02	Shares Outstanding:	998.68 M
Industry/Sector:	Oil & Gas Services	Float*(est.)*:	109.9 M
Avg. Vol:	1,133,953	Fiscal Year:	December

BASIS FOR RECOMMENDATION

- **Growth through acquisitions:** USOG primarily follows an inorganic growth strategy through which it acquires profitable family owned companies with a strong growth history, capable management willing to stay on board for minimum two years, and strong balance sheet with little or no debt.
- **Profitable history**: The company successfully acquired its first acquisition, a Kansas based oil and gas service provider, in May 2009. Turnbull's profitable performance history, including periods of slow economy, position the company for strong growth potential both organically and thorough additional acquisitions which are planned at a rate of one per year over the next several years. These acquisitions would provide significant traction to the company's performance in terms of business synergies, cost synergies, and improvement in market share.
- **Strong business environment:** USOG's business is dependent on the performance of the oil and gas services industry which is expected to record reasonable growth in the future. Drilling activities have improved in the recent past; in the US, 4,097 natural gas wells were completed in the third quarter of 2009. On similar lines, Kansas, where USOG has its operations, also witnessed an increase in drilling permits from 150 in March 2009 to 315 issued in July 2009.
- **Development of green and affordable technology:** USOG has developed and maintains a portfolio of pending patents and patent applications that form the proprietary base for its R&D efforts in eco-drilling and small footprint technologies. The company's technologies, such as the "Simple Fiberoptic Seismometer," is expected to offer a strong breakthrough in providing complex oil techniques for oilfield production management and exploration at affordable cost to growing number of middle market players.
- **Economic trends:** Weakening dollar and inflationary pressure suggests a trend toward capital movement into commodities. USOG's fuel storage capacity and distribution infrastructure position the company to benefit as a potential hedge should such trends materialize.
- Using DCF valuation, we used a discount rate of about 18.4% due to the relative uncertainty and lack of visibility associated with future acquisition integration. Based on industry-standard methodologies, we established a target price of **$0.10**, which reflects our current estimate of the fair market value (FMV), and recommend USOG as a **Speculative BUY**.

BUSINESS/PRODUCT OVERVIEW

United States Oil and Gas (USOG) is a publically traded company based in Austin, Texas, and is focused on the domestic oil and gas services sector. The company was founded in May 2007, and is committed to innovative technologies that will increase both oil and gas extraction with the smallest ecological footprint and ensure the protection of the environment.

The company is also actively engaged in a growth strategy through acquisition. It has a proprietary system of prospecting that is able to identify small to mid-sized oil and gas companies which are regional leaders, have strong profit history, and have experienced management that is willing to stay on board for a minimum of two years. This platform has successfully led to a signed agreement to purchase Kansas-based Turnbull Oil, in May 2009, and a letter of intent to purchase a second private oil and gas services company. A signed agreement for the latter is expected to be finalized in 4Q09.

USOG's core objective –to deliver innovative technologies that will both increase oil and gas extraction with the smallest ecological footprint– implies a significant opportunity. Added value should be created through strategic and targeted acquisitions and balance sheet optimization. By sharing best practices, learning curve effects and economies of scale, tremendous synergies are likely to emerge during the next several months when further acquisitions will be closed and the business model is comprehensively extended.

Acquisitions:

Turnbull Oil

Turnbull Oil, based in Plainville, Kansas, is in the oil and gas services industry. The business was founded in 1965 and is currently owned and managed by Jeff Turnbull who purchased the business from his father in 1991. Turnbull is a regional distributor of oil and gas products including propane, oil, diesel, and gasoline. Customers include farmers, businesses and individuals. The company owns a bulk storage plant, a fleet of tankers and office, storage, and maintenance facilities. (More information may be found by viewing the company's website, accessible through www.usaoilandgas.com). Turnbull's best competitive advantage is customer service. Turnbull has strong personal relationships with customers and is set up to be able to make deliveries of any size quickly. Customer retention rate is very high.

A second acquisition is planned to be completed before year end 2009 for a North Dakota company with a similar nature of business to Turnbull (see Company Strategy for more detail). The company's goal is to complete two acquisitions in 2009, one additional for 2010 and one each year afterwards.

Intellectual Property Portfolio:

USOG has developed technology in the area of two pending patents that form the proprietary base for research and development efforts in the area of Eco-drilling and small foot print technologies. The company believes that the intellectual property and technology base provide a competitive advantage and will facilitate the successful development and commercialization of techniques and devices for use in a wide array of alternative green mining approaches. The company will leverage the technology whenever possible to increase the competitive advantage of acquisition operations and/or license the technology for profit.

USOG has two patents pending for technologies that will support the future growth strategy (see Company Strategy for detail).

- Simple Fiberoptic Seisometer for Rugged Environments
- Leveling System for a Portable Drilling Rig

STOCK LISTING:

United States Oil and Gas is listed on the Pink Sheet exchange under the symbol "USOG". Management is currently working with the SEC on moving the stock to a larger exchange with an expected move to occur following finalization of its first round of acquisitions. USOG became listed by acquiring and performing a reverse merger with Sustainable Energy Development Corporation (SEGV) in May, 2008. In September, 2009, the company effected a forward split of 30:1 to provide liquidity in the marketplace.

Fully audited, the company is in the process of filing with the SEC for listing on the NASD over-the-counter (OTC) exchange. The company plans to continuously work towards increasing market awareness and move the stock to a higher profile exchange. Filings are expected to list the company's stock on the American Stock Exchange (AMEX) after move to Bulletin Board (OTCBB).

About the OTC Bulletin Board

A regulated electronic trading service offered by the National Association of Securities Dealers (NASD) that shows real-time quotes, last-sale prices and volume information for over-the-counter (OTC) equity securities. Companies listed on this exchange are required to file current financial statements with the SEC or a banking or insurance regulator. An OTC equity security generally is any equity that is not listed or traded on NASDAQ or other senior national securities exchange. Approved by the SEC in 1997, OTCBB securities include national, regional, and foreign equity issues, warrants, units, American Depositary Receipts (ADRs), and Direct Participation Programs (DPPs).

MANAGEMENT BACKGROUND

Alex Tawse, CEO/CFO

Prior to taking the reins of USOG in 2008, Alex Tawse spent ten years as CFO and Vice President of Operations for the Kaizen Institute; an international consulting company whose mission is to lead the implementation of lean strategy and continuous improvement culture. Clients included Nike, Dannon, Kraft, BioMerieux, JB Poindexter, Hella Lighting and Bacardi. Mr. Tawse has saved customers millions of dollars and increased their competitive advantage through improved system performance and reliability, greater process flexibility, and increased production capacity without investment in new equipment.

Mr. Tawse is a kaizen expert and has trained others in lean tools and principles such as Total Productive Maintenance, Just In Time Systems, 5S, Lean Accounting, and Total Quality Systems. He has served both manufacturing and service companies. Mr. Tawse has serviced high profile global customers in the U.S., China, Russia, Italy, and the U.K. that operate in a variety of industries including specialized oil drilling equipment, consumer goods, automotive, and pharmaceutical.

Mr. Tawse studied at Oxford University, holds a Bachelor of Arts degree in Economics and International Relations from Stanford University, an MBA degree from the University of Texas, and is also a Certified Public Accountant (CPA - inactive).

Jeff Turnbull, Turnbull Oil President

Prior to purchasing Turnbull in 1991, Jeff Turnbull spent ten years honing his executive sales and managerial skills at several companies in Colorado, Texas and Oklahoma. Since taking over at Turnbull, he successfully negotiated the purchase of three businesses (including Basinger Propane), selling a division of one of those companies after seven years of ownership. Mr. Turnbull is an active member of several organizations including: Petroleum Marketers Association, Plainville Chamber of Commerce, Propane Marketers Association, Northwest Kansas Economic Development Group Board (and loan committee), National Propane Gas Association and the Kansas Independent Oil and Gas Association.

Mr. Turnbull received a B.S. in Business and Political Science from Fort Hays State University, Kansas.

POSITIVE OUTLOOK FOR OIL & GAS INDUSTRY

The world oil market saw a turbulent phase with demand for oil contracting by 0.3 mb/d in 2008 and 1.4 mb/d in 2009[1] on account of the global recession. Oil prices witnessed a rollercoaster ride from USD92/barrel at the start of 2008 to USD141/barrel in July and then plummeting to USD33/barrel by the year end.

Demand recovery ahead

Global oil demand, which is expected to witness a steady to improving trend in 2009 and 2010, is forecast to increase from 85.6 mb/d in 2008 to 87.9 mb/d in 2013. Majority of this incremental growth would be driven by developing nations. Here, consumption is expected to rise by 23.1 mb/d over the period 2008–2030 to 56.1 mb/d amidst a U-shaped economic turnaround expected in 2009–2010. Almost 80% of the net growth in oil demand between 2008 and 2030 is expected to come from developing economies in Asia with the transportation sector acting as the largest sectoral source of the increase in demand. Oil demand in the residential/commercial/agriculture sectors is expected to grow 25% from 9.6 mboe/d in 2007 to 12.0 mboe/d in 2030.

Worldwide oil demand outlook: 2008–2030 (mb/d)

	2008	2009	2010	2011	2012	2013	2015	2020	2025	2030
North America	24.3	23.7	23.4	23.4	23.5	23.5	23.6	23.4	23.1	22.8
Rest of World:										
OECD (incl NA)	**47.5**	**46.0**	**45.5**	**45.5**	**45.5**	**45.5**	**45.5**	**45.0**	**44.3**	**43.4**
Developing countries	**33.0**	**33.1**	**34.0**	**34.9**	**36.0**	**37.1**	**39.3**	**44.8**	**50.2**	**56.1**
Transition economies	**5.1**	**5.0**	**5.1**	**5.1**	**5.2**	**5.3**	**5.4**	**5.7**	**5.9**	**6.1**
World	**85.6**	**84.2**	**84.6**	**85.6**	**86.7**	**87.9**	**90.2**	**95.4**	**100.4**	**105.6**

Source: OPEC World Oil Outlook 2009

From a product category perspective, the continuing shift to middle distillates is likely to continue, and middle distillates would remain the main growth driver in future. This can be seen from the fact that out of 20 mb/d of additional demand by 2030 compared to 2008, around 56.5% is from middle distillates. Diesel/propane is expected to witness the maximum share in demand at 32.4% in 2030 while gasoline is likely to witness a decline in global share from 25.1% in 2008 to 23.8% in 2030. This is mainly due to declining demand in North America and Europe (where the current share is 56%). This in turn means that suppliers that focus on gasoline will need to consolidate and/or diversify as a result of declining demand in the future. USOG’s emphasis on diesel and propane service acquisitions position the company to capitalize on the trend.

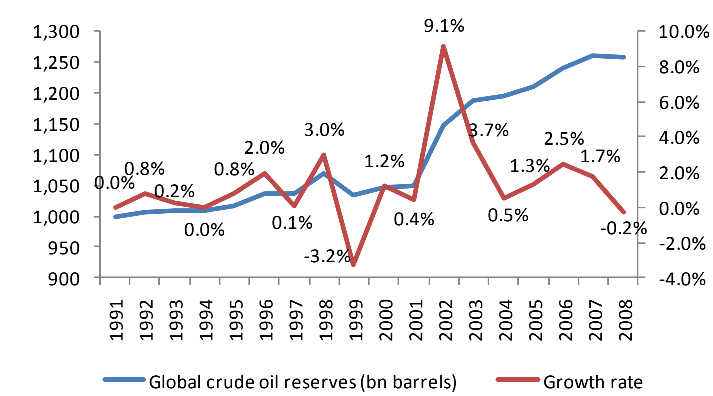
[1] 2009 is expected

Demand for energy is set to continue growing and oil is expected to maintain its leading position in meeting the world's rising energy needs in the foreseeable future. As per an OPEC estimate, fossil fuels will continue to provide more than 90% of the world's total commercial energy needs, accounting for 93% of demand growth in 2030.

Supply side to witness huge investments

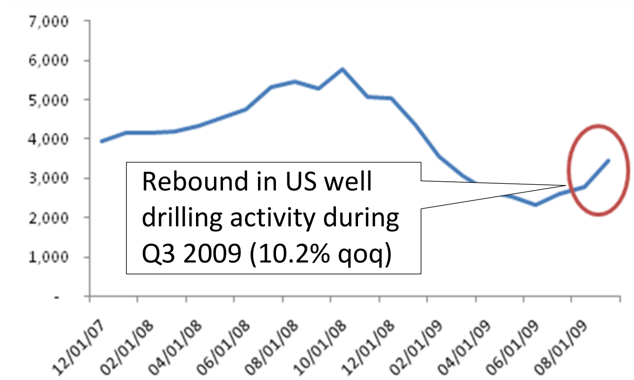
Along with demand, the supply side has also seen ups and downs in 2008–2009. This is due to project delays and cancellations mainly attributed to the lower price environment and difficulty in securing debt and equity financing. Growth in global proved crude oil reserves in 2008 fell by 0.24% which was last seen in 1999. As a result of lower exploration and drilling activities, spare capacity has increased. Similarly, well drilling activities in the US have declined, but are currently experiencing a rebound as oil and gas companies position themselves for US Department of Energy's incentives (as explained below). Natural gas continues to be the primary target for domestic drilling in the US, with an estimated 4,097 natural gas wells completed in the third quarter of 2009. Although this number was down as compared to the previous year's third quarter number, growth in number of wells has shown a significant rebound from the second quarter of 2009.

Global crude oil reserves



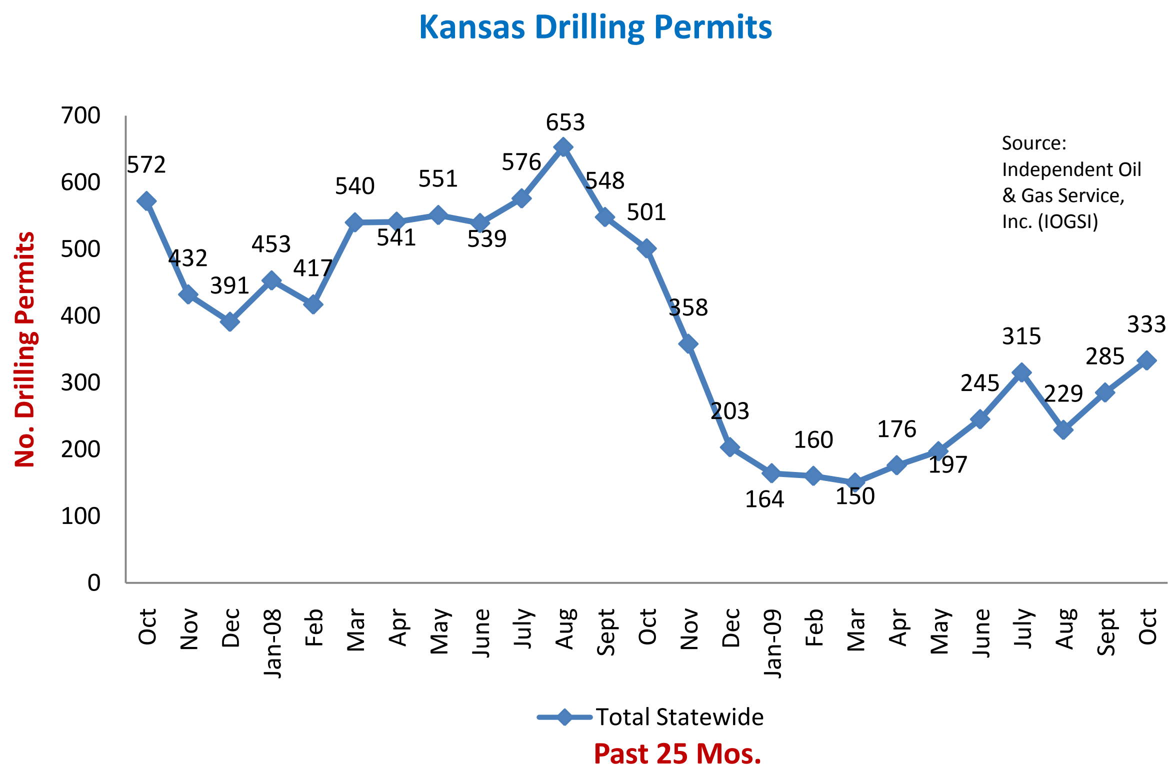
Source: Bloomberg

Well drilling activity (US)



Source: EIA

On similar lines, Kansas, where USOG mainly operates, is also showing signs of recovery in terms of oil and natural gas exploration after a dip in early 2009. One of the indicators of drilling activity is the number of permits that a state issues for drilling. Kansas had issued 333 drilling permits in October 2009 compared to 150 in March 2009, which was the lowest in the last two years. (Source: IOGSI).



Oil supply outlook: 2008–2030 (mb/d)

	2008	2009	2010	2011	2012	2013	2015	2020	2025	2030
US & Canada	10.8	10.7	10.9	11.0	11.2	11.2	11.5	12.1	12.5	13.1
Mexico	3.2	3.0	2.8	2.7	2.7	2.6	2.5	2.5	2.4	2.3
OECD	**19.6**	**19.2**	**19.0**	**18.9**	**18.8**	**18.7**	**18.7**	**19.1**	**19.3**	**19.6**
DCs excl. OPEC	**16.1**	**16.5**	**16.7**	**16.8**	**16.9**	**17.0**	**17.3**	**18.0**	**18.3**	**18.3**
Non-OPEC	**50.3**	**50.4**	**50.6**	**50.9**	**51.2**	**51.4**	**52.4**	**54.3**	**55.4**	**56.3**
OPEC NGLs	**4.3**	**4.6**	**4.7**	**4.9**	**5.2**	**5.5**	**5.8**	**6.7**	**7.4**	**8.0**
OPEC GTLs	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.2**	**0.3**	**0.4**	**0.4**	**0.5**
OPEC Crude	**31.2**	**28.0**	**29.3**	**29.9**	**30.5**	**31.0**	**32.0**	**34.3**	**37.4**	**41.1**
World Supply	**85.8**	**83.1**	**84.7**	**85.8**	**87.0**	**88.2**	**90.5**	**95.7**	**100.7**	**105.9**

Source: OPEC World Oil Outlook 2009

In the US, supply side developments have been positive recently with various gas discoveries in Louisiana, Texas, and Arkansas. Additionally, the US government announced a cumulative amount of USD250 bn of benefits under DOE's Core Oil & Natural Gas R&D programs until 2025—these programs are aimed at increasing domestic oil and gas production. This will benefit smaller companies and independent oil and gas producers, which make up a significant portion of production capacity in the US but have limited resources to undertake R&D programs.

IMPROVED OUTLOOK FOR OIL BYPRODUCTS—A POSITIVE FOR DISTRIBUTION PLAYERS

Driven by the positive outlook for the oil and gas industry, the outlook for oil byproducts such as propane and diesel is also expected to improve in the near future. While total propane sales in the US are expected to increase to around 10,000 M gallons in 2010 after a likely fall in 2009 to about 9,800 M gallons (Source: ICF International), diesel demand is forecasted to improve 2.1% in 2010 after a 5.5% fall in 2009 (Source: EIA).

This favorable outlook in turn is expected to be a major positive factor for companies such as USOG that derives a significant portion of its revenues from the distribution and sales of diesel fuel and heating propane within agricultural regions in the US such as Kansas.

Positive Trends for Propane

Similar to other end markets such as industrial and residential, the agricultural industry is one of the major consumers of propane and diesel in the US. According to industry sources, 8 of 10 raw crop producers use propane to dry their grains. The number of propane irrigation engines used by US farmers exceeds 500,000—these engines use 1.5 gallons of propane per gallon of diesel during engine operation. Moreover, with propane emitting less greenhouse gases (propane-fueled irrigation systems produce 10% less greenhouse gas emissions than diesel systems), its demand in agriculture applications is expected to rise further.

From a regional perspective, Kansas, where USOG primarily operates, is a major producer of natural gas and propane and has robust infrastructure in place to transport these commodities throughout the US. Kansas consumes about three-fifths of its natural gas output and transports excess production to other parts of the country, representing a strong opportunity for the company to increase its market share in distribution of these products.

LOW COST, ECO-FRIENDLY TECHNOLOGIES EXHIBITS STRONG POTENTIAL

With rising environmental consciousness and rising demand for sustainable technologies, the energy industry faces significant challenges in terms of adapting to these trends. Thus, environment-friendly technology at affordable cost is undoubtedly the most important innovation target for energy players.

Technologies such as seismic sensor arrays used in oil recovery schemes to provide formation feedback information for optimization of the oil field are typically expensive. This makes them unaffordable for middle market companies. In the US, oil and gas exploration companies in the middle market are the fastest growing segment within the energy sector—there are more than 325 listed companies plus private companies in the US itself. Thus, there is a strong need for technologies that reduce the carbon footprint of drilling and production activities at lower cost.

Simple Fiberoptic Seisometer for Rugged Environments

The company has a patent pending on a Simple Fiberoptic Seismomoter for rugged environments. Against the backdrop of rising demand for sustainable technologies, USOG's eco-friendly technology "Simple Fiberoptic Seismometer" is expected to drastically reduce the cost of seismic sensor arrays and is reliable enough for permanent down-hole and seafloor installations. This in turn is expected to increase the availability and affordability of complex oil techniques for oilfield production management and exploration for middle market players, representing a strong growth opportunity for USOG in the future, once the technology is fully developed and tested.

The company's fiberoptic seismometer can be used to identify areas suitable for drilling with the least environmental impact and the smallest margin of error, thereby minimizing time, exploration effort, and expense. This invention transcends the intrinsic limitation of existing seismic sensing technology by eliminating physical connections to remote optical fibers in addition to providing a non-electric solution. The simplicity of this new device raises opportunities for seismic sensors that have lifetimes exceeding ten 10 years in deepwater applications.

The advantages include rapid data acquisition, immediate data availability and detailed subsurface information. The applications include seismic-positioning of deep sea exploration, oil and Gas exploration and environmental-contamination prevention studies.

Automated Leveling System for a Portable Drilling Rig

The company also has a patent for an Automated Leveling System for a Portable Drilling Rig that will save setup time and increase precision drilling efficiencies with the smallest footprint keeping with USOG's green commitment to produce oil and gas with the most advance technologies minimizing environmental degradation.

COMPANY STRATEGY

Growth plan should be facilitated by the current acquisitions as well as additional prospects that are in the pipeline. USOG has experienced personnel to improve market awareness and gradually increase institutional holding of the stock. Value will come from continued growth through acquisition and deployment of developed technologies. The current strategy allows for rapid expansion of revenues and profit. Economies of scale, share of best practices, and positive learning curve effects circumscribe some of the competitive edges integral to the company's strategic goals.

Strengths:

- Management
- Established operations

Management Strength:

USOG's primary strength is the diversity of management's strength. The management's engineering and business expertise complement the core objective. Combining expertise and experience out in the field as well as in the corporate suite equips USOG with the right tools to drive its future growth.

Importantly, the company expects to retain the strong management teams in each business unit, capitalizing on their local knowledge of competitors and operating climate, along with their loyal customer relationships. Management at Turnbull is contracted to stay on for a two year minimum, as would the management team from the second acquisition (and each subsequent acquisition).

Operations:

With the current Turnbull management's ten year operating history of generating relatively solid revenues and earnings, USOG has in place a key component to allow it greater access and options in the capital markets.

While the company is relying on the successful completion of its target acquisitions and their accretive revenues derived from many years in the family-owned business sector, the target's local knowledge, loyal clients and the long business history assure a certain stability of the business model; thus complementing the business concept by contributing sustainability and reliability. Due to the company's pricing model, the profit margin is somewhat protected from cost fluctuations. Additionally, the U.S. domestic oil and gas industry trends show an increase in demand for oil and propane and an increase in drilling exploration, despite the recession of the U.S. economy.

Acquisition Strategy

A second acquisition is planned to be completed before year end 2009 for a North Dakota company with a similar nature of business to Turnbull. The company distributes oil and gas to farms, constructions sites and other businesses. They also distribute propane to retail consumers. Propane yields a high margin due to the low cost of extraction in the region.

The company's goal is to complete two acquisitions in 2009, one additional for 2010 and one each year afterwards. The company is on target for its 2009 goal. The acquisition target profile is small to medium sized, family owned fuel distribution businesses in the Midwest. USOG seeks companies with risk averse owners/managers that have shown consistent profitability and a stable operating history. Under the assumption of finding appropriate target companies, USOG expects to fulfill its strategic growth plan with an additional acquisition during each of the next several years. Two Kansas companies that meet this profile have been identified for acquisition in 2010 and USOG is currently conducting due diligence. Thus, the company plans to consolidate several regional players under USOG management, while reducing operational cost through economies of scale.

By providing access to financial markets, expanded marketing opportunities and operating expense efficiencies, USOG intends to become the facilitator for future growth and higher long-term profit. In the process, new synergies among the acquired companies may develop, allowing for greater cost effectiveness and productivity, thus further enhancing each individual company's strengths and shareholder wealth. As seen with USOG's acquisition of Turnbull Oil, the success of their acquisition approach rests on the selection of the right companies to join its team. Future acquisitions will depend heavily on the seamless integration into an existing operation. Strong leadership combined with a cooperative corporate environment will be key to the successful conglomeration of several family-owned, small business.

Weaknesses:

- Early stage
- Industry and geographical concentration

Early Stage

The developmental stage of USOG defines a weakness, even though it enables a lot of business potential. An acquisitive model inherently contains a significant level of unknowns. Considering the rate at which the company plans their acquisitions, strain in management's resources could increase margin of error in the due diligence process. Acquisitions of stable profitable companies, combined with the retention of management should counterbalance this concern.

Industry and geographical concentration

There is near-term concern of over dependence on fuel distribution revenue concentrated in specific geographical region. This dependence exposes the company to regional economic volatility, largely tied to agriculture.

However, forecasted strength in the U.S. and the global oil and gas markets should provide opportunity for USOG to diversify its business model and monetize its patents related to exploration and extraction.

Opportunities:

- Fragmented marketplace
- Available capacity
- Market changing technology
- Multiple revenue streams

Fragmented marketplace

The consolidation of other small businesses by USOG offers benefits from economies of scale, added revenue and market share. Primarily consisting of small family run businesses, the opportunity exists for consolidation and subsequent standardization and implementation of efficiency models within the fuel distribution industry.

Available Capacity

An important opportunity is presented in the availability of capacity at Turnbull (including Basinger). The truck fleet is new and has room to double business without a major capital investment. The company has 188,000 gallons of fuel/diesel storage available and 383,000 gallons of propane storage available. Optimization of capacity and higher volumes will also improve economies of scale and enable better pricing from suppliers.

Market Changing “Green” Technology

With growing environmental consciousness all around the world, oil exploration using eco-friendly techniques are attracting attention; this trend would act as a catalyst for the company’s growth. The company is developing its “Simple Fiberoptic Seismometer for Rugged Environment” and “Leveling System for a Portable Drilling Rig.” These technologies support environment-friendly oil and gas operations.

While still being developed, USOG’s proprietary technology represents a market “game changer.” The company’s proprietary technologies will dramatically reduce the cost of exploration and drilling, allowing mid-size exploration and drilling companies to realize cost savings that are currently available only to the largest players.

Multiple Revenue Streams

Turnbull derives revenue from several business facets: retail fuel, propane, lubricants and transportation (see Key Financials section below).

Threats:

- Sector fundamentals
- Execution risk
- Competition
- Fuel cost fluctuation

Sector Fundamentals

The current economic environment increases the difficulty of executing strategy. The worldwide recession is a roadblock to growth and makes financing harder to come by. USOG is reliant on further fund raising in order to execute the growth strategy. While the market for public stock is volatile, the relative strength of the U.S. oil and gas market should reduce this threat. In addition, the rising use of propane as a clean burning alternative fuel and growing part of both of the current acquisitions of the company could be an offset to threat of decline in oil demand.

Execution Risk

The company has to consider typical M&A integrating risks as a major threat. Since the M&A process reveals many potential pitfalls, the investment and optimization process should be initiated as carefully as possible. The speed of growth can be defined as a potential threat (1 acquisition each year). Fast and unstructured growth may happen, giving rise to potential internal conflict among the team of former family-owned subsidiaries. Possible threat of unforeseen incongruencies resulting from multiple acquisitions could have a destabilizing effect on USOG's integration plans, profitability and stock performance. However, management's experience with M&A activity and industry expertise mitigates the likelihood of significant detriment to the growth strategy.

Competition:

Cenex is the largest industry player in Kansas. While they are the energy brand of a large established conglomerate, CHS Inc., with greater resources, they do not compete well with Turnbull on price or service. Catering only to very large customers (mostly gas stations), they do not offer personalized, fast service and their prices are typically higher.

Farming co-ops are businesses put together by large farms to service themselves. They also are not very service oriented but do compete on price. The propane business is not their core competency, and are actively decreasing propane services. Turnbull's market share on propane should increase as a result. Long-term the substitution effect renewable energy poses a minor threat. However, the capacity and efficiency of renewable energy remains in the development stage and not yet an equivalent substitution.

Barriers to entry mitigate the risk of competition. Initial capitalization expenditure is prohibitive, requiring over $1 million to start a small service business and relatively tight margins make the business case to do so difficult to justify. Furthermore, regulation on fuel storage and transport is increasing so most people would not want to deal with it. It takes an established business to know what is necessary and be able to keep up with improvement costs and permitting. In addition, strong customer loyalty characterizes the market, so new businesses would have a very difficult time taking away margin. That is why the best growth strategy is to buy out other small established businesses that already have strong customer base. With its foothold firmly established, USOG is well on its way to succeeding in this area.

Fuel Cost Fluctuation:

If oil price increases are slow then it is not a problem as margin on sales is about the same whether oil price is low or high. However, if oil prices increase quickly then Turnbull needs to do some short term borrowing to cover inventory until sales catch up to purchases. The opportunity for some arbitrage/hedging is available to smooth out risk. And while supply is a minor risk, Turnbull ensures that several suppliers are available so prices can be compared, and if one supplier shuts down, others are available. To date this has never been an issue.

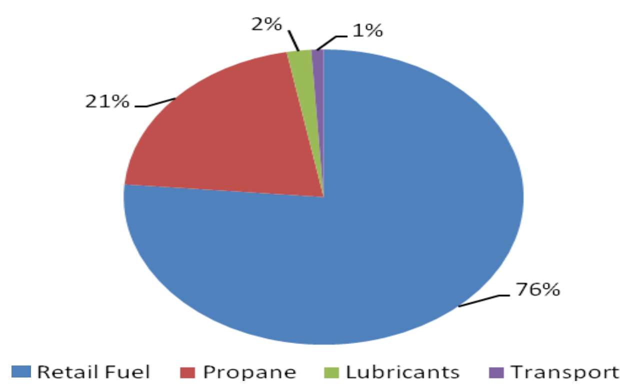
The prices in the fuel distribution business are set based on a mark up of fuel costs. This pricing model locks up margins even though revenues can fluctuate. This offers some downside protection in the event fuel costs are increased by suppliers. The mark up diesel and oil is 10% - 12%, while the mark-up on propane is about 40%.

Performance

USOG plans to generate revenues primarily through acquisitions followed by strong support from its developed patents. Currently, the company generates revenue exclusively from Turnbull, its first acquisition in May 2009. Management expects to earn more revenues in the near future by acquiring more firms including a North Dakota based regional provider of oil and gas products.

USOG, through Turnbull, earns revenues from four segments: retail fuel, propane, transport, and lubricants.

Turnbull Revenue BreakDown (Q309)



Source: Company Documents

The retail fuel segment, which contributes the highest to the company's top line at around 76%, sells diesel, gasoline, and redline diesel to customers in construction, farming, and oil field drilling. This business goes on throughout the year but witnessed increased agri-based demand during harvesting season in the summer. The propane segment primarily caters to businesses and retail customers. Mainly a winter business, this segment contributes around 21% to the top line.

Lubricants and transport are small business segments, which together generate 3% of total revenues. These segments serve customers in the retail fuel and propane segments. To take advantage of available capacity, truck time is sold to other parties that need fuel transportation, known as "haul for hire." Both these segments are year-round businesses.

On the margin front, retail fuel and propane, the main business segments, have low margins. On the other hand, the lubricants segment earns high margins of about 40% but contributes less to the top line. Overall, the company's EBITDA margin is expected to be higher than 4–4.5%, as the company is transitioned from being run for tax efficiency to being run for earnings.

Capital Resources

Turnbull's working capital management is expected to improve as the company introduced cash management measures after its acquisition by USOG. Bad debts, which are 2–3% of revenues, have reportedly recovered in Q309 by as much as 80% of the provision made in the earlier period. Going ahead, we expect USOG's experienced management to gradually improve cost savings, efficiencies, margins and improve its overall financial position.

As of September 2009, notes payable amounted to USD4.49 M, of which USD3.75 M was related to the Turnbull acquisition. Along with notes payable, the company has nominal convertible notes and convertible preference shares on its balance sheet.

Currently, USOG has fixed assets of about USD1.27 M mainly in the form of building, equipment, and vehicles.

OUTLOOK

In 2009 and beyond, USOG's top line is also expected to receive benefit from acquisitions of profitable companies. USOG plans to complete an acquisition by the end of 2009 and one additional acquisition in early 2010. USOG reaffirmed a letter of intent in October 2009 with a North Dakota based company which owns a bulk storage plant, fleet of tanker trucks, and retail outlet, similar to Turnbull. The target company's 2009 sales are expected to be USD8.0 M (USD7.0 M in 2008). Furthermore, USOG plans to acquire a third company in Kansas with a size similar to Turnbull in 2010 to expand its existing business lines. These future acquisitions are expected to significantly increase USOG's customer base and capacity.

In 2009, USOG is expected to register revenue of around USD10.36M through Turnbull and the N. Dakota company. Although both companies are expected to record lower top line performance due to the ongoing recessionary effect on the oil and gas industry, profits are expected to be higher in 2009. The top line of Turnbull is expected to fall by as much as 30% off of 2008 levels, largely due to lower oil prices. Going forward, we expect to see year on year revenue growth of 38% in 2010 for Turnbull and N. Dakota. This expected growth is attributed to recovering oil prices and an increase in demand. According to management, North Dakota, an oil and gas distributor of refined fuels and other oil-based products increased its residential propane business customer base by 30% year-to-date through October 31, 2009. Compared to the same period last year, sales volume grew by over 94,000 gallons along with a material amount of backlog of new customer orders. Management attributes N. Dakota's increase market share to coupling strong customer relationship, superior service and competitive pricing structures without tightening profit margins.

Turnbull grew its truck wagon hauling capacity of refined fuels by 64% in 3Q09, with the purchase of an additional truck wagon. Turnbull's total hauling capacity is now 60,000 gallons. Total storage capacity is 600,000 gallons, 10 x greater than the hauling capacity.

USOG – Expected key financials (M US$)					
	2009E	2010E	2011E	2012E	2013E
Total Revenue	10.36	38.34	50.71	80.17	114.34
Revenue Growth	N/A	269.7%	32.3%	58.1%	42.6%
EBITDA	0.49	2.92	4.68	8.96	14.89
EBITDA Margin (%)	4.7%	7.6%	9.2%	11.2%	13.0%

Based on management's guidance, 2010 expected revenue growth of 269.7% can be broken down in two components, partial revenue for 2009 acquisitions compared to full year revenue for 2010 and to a third acquisition in 2010:

1. Of USOG's expected growth in 2010, 178.8% is due to receiving only partial year revenue for 2009 for Turnbull and second acquisition totaling $10.4M, compared to a full year of revenue for 2010 of $29M, an increase of $18.6M.
2. Of the 180% increase for Turnbull and the second acquisition (N. Dakota), the combined organic growth is expected to be 38% for 2010 compared to an assumed full year of combined revenue for 2009. For the full year 2009, the combined revenue is expected to be $21M compared to total revenue of $29M for 2010, an increase of $8M (38%).
3. The company expects an additional $9.5M from a third acquisition in 2010 which accounts for 90.9% of the expected growth.

The company's EBITDA margins are expected to improve over time as the company realizes synergies among acquired companies. We expect the company's EBITDA margin to increase from 4.7% to 13% over the forecast period.

VALUATION

Typically, going concerns are valued using two approaches, the —income approach and the market approach. The income approach determines fair market value by discounting to the present the future projected benefits, or free cash flows, expected to flow from operations of the business. The market approach determines fair market value by an analysis of trading multiples of companies with similar business models to each unit. The typical methodology to value a company is to determine a value based on both the market and income approaches, and then averages the two values, or combines the two values in a reasonable way.

DCF Valuation	1	2	3	4	5
	2009E	**2010E**	**2011E**	**2012E**	**2013E**
Sales from Turnbull	8,369,889	19,800,766	24,156,934	28,022,044	33,346,232
Growth Rate		*38.0%*	*22.0%*	*16.0%*	*19.0%*
Sales from North Dakota-based Company	2,000,000	9,040,000	11,028,800	12,352,256	14,390,378
Growth Rate		*13.0%*	*22.0%*	*12.0%*	*16.5%*
Sales from Third Acquisition		9,500,000	11,495,000	13,219,250	15,664,811
Growth Rate			*21.0%*	*15.0%*	*18.5%*
Sales from Fourth Acquisition			4,026,156	26,572,628	31,488,564
Growth Rate				*10.0%*	*18.5%*
Sales from Fifth Acquisition					19,451,969
Total Sales	**$10,369,889**	**$38,340,766**	**$50,706,890**	**$80,166,178**	**$114,341,954**
Sales Growth Rate		*269.7%*	*32.3%*	*58.1%*	*42.6%*
EBITDA from Turnbull	394,672	1,346,452	2,029,182	2,704,127	3,551,374
As % of Sales	*4.7%*	*6.8%*	*8.4%*	*9.7%*	*10.7%*
EBITDA from Other Acquisitions	94,308	1,575,900	2,654,996	6,257,296	11,339,401
As % of Sales	*4.7%*	*8.5%*	*10.0%*	*12.0%*	*14.0%*
Total EBITDA	**$488,979**	**$2,922,352**	**$4,684,178**	**$8,961,423**	**$14,890,775**
EBIT from Turnbull	319,343	1,197,946	1,848,005	2,493,962	3,301,277
As % of Sales	*3.8%*	*6.0%*	*7.7%*	*8.9%*	*9.9%*
EBIT from Other Acquisitions	76,000	1,297,800	2,177,096	5,214,413	7,385,250
As % of Sales	*3.8%*	*7.0%*	*8.2%*	*10.0%*	*12.0%*
Total EBIT	**$395,343**	**$2,495,746**	**$4,025,102**	**$7,708,375**	**$10,686,527**
Less: Int. Paid for Funding New Acquisitions	-	(1,053,028)	(1,053,028)	(1,053,028)	(1,053,028)
Less: Tax	(118,603)	(1,064,632)	(1,523,439)	(2,628,421)	(3,521,867)
PAT	**$276,740**	**$378,086**	**$1,448,635**	**$4,026,927**	**$6,111,633**
Add: Depreciation (% of Sales)	48,393	306,726	405,655	641,329	914,736
Less: Capital Expenditures (% of Sales)	(51,417)	(306,726)	(405,655)	(641,329)	(914,736)
Less: Change in WC (% of Sales)	(24,196)	(153,363)	(202,828)	(320,665)	(457,368)
Unlevered Free Cash Flow to Enterprise	**$249,519**	**$224,723**	**$1,245,808**	**$3,706,262**	**$5,654,265**
Discount factor	0.84	0.71	0.60	0.51	0.43
Mid year adjustment	0.14	1.14	2.14	3.14	4.14
Adjusted discount factor	0.98	0.82	0.70	0.59	0.50
PV OF FCF	**$243,657**	**$185,341**	**$867,805**	**$2,180,498**	**$2,809,597**

USOG Corp. - Weighted Average Cost of Capital (WACC) Determination – Discount Rate

Build Up Method - Ibbotson Data:	
Risk-free rate (10 yr Treasury) (a)	3.46%
Plus: Equity risk premium	8.00%
Plus: Firm size premium	3.00%
Plus/minus: Industry premium (b)	2.19%
Plus/minus: Company specific risk(c)	1.75%
Net Cost of Common Equity	**18.40%**

(a) 10-year Treasury bond yield as of 11/09/09.

(b) Bloomberg Estimates

(c) Based on a multi-variable matrix set forth on the next page in the chart labeled "Company Specific Risk Premium."

Company Specific Risk Premium:		
Depth of Management	-1.00%	Management has domain expertise
Importance of Key Personnel	1.00%	Company is small business with key owner/officers
Competition	0.50%	**(see below)**
Diversification of Product Line	0.50%	Little diversification
Diversification of Customer Base	-1.00%	Range of customers
Diversification/Stability of Suppliers	-1.00%	Multiple suppliers
Merger Risk	1.50%	Pending acquisitions
Stability of Earnings	1.00%	Subject to recessionary environment
Earnings Margins	-1.00%	Stable
Financial Structure	1.25%	Undercapitalized
Company Specific Premium	**1.75%**	

Competition Components:		
Proprietary Content / Patents	1.00%	Low mid barriers to entry
Competition	1.00%	Fragmented industry
Product Differentiation	-0.50%	Range of fuel offering-oil,gas,propane
Relative Product/Service Quality	-1.00%	Service quality resulting in customer retention
Pricing Competition	0.50%	Potential competitors and/or customers could force prices down
Ease of Market Entry	-0.50%	Capital and regulatory requirements
Covenant not to Compete	0.00%	No covenant restrictions
Total Competition Risk Premium	**0.50%**	Overall

Terminal Growth Rate Determination:

Long-term Growth Rate (d)	**15.00%**

(d) 5-yr. average earnings growth rate for Oil & Gas Services (source: Bloomberg)

USOG Corp. - Financing Calculation

Calculation of EV/Sales Multiple for Turnbull Acquisition	
Notes Payable	$3,750,000
Cash	800,000
	$4,550,000
Stock and assets (assumed)	1,820,000
Estimated Deal Price for Turnbull	**$6,370,000**
2008 Sales	16,492,392
EV/Sales	0.39

Determination of EV of New Entities	
Sales of Dakota based Company	8,000,000
Sales of third prospective Acquisition	9,500,000
Sales of fourth prospective Acquisition	24,156,934
Sales of fifth prospective Acquisition	33,346,232
Total Sales	**75,003,166**
EV/Sales Multiple	0.39
EV i.e Funds Required for Acquisition	**$28,969,125**

Sources of Fund		
Funds raised through Debt	14,484,563	*50.0%*
Average High Yield Bond Interest Rate	**$1,053,028**	*7.3%*
Equity Issue	14,484,563	*50.0%*
Average Equity Share Price (1 Year average)	0.07	
No. of Additional Equity Shares Issued	206,922,324	

DCF Valuation	
PV of FCF	**$6,286,897**
plus:	
PV of Terminal Value	**$95,030,473**
Total Firm Value	**$101,317,369**
Less: Net Debt	3,798,890
V of Common	**$97,518,479**
Shares Outstanding	998,677,620
Additional Shares	206,922,324
Shares	1,205,599,944
PV per Share	**$0.08**

Market Approach: Enterprise Value-to-Sales (EV/S)

Since USOG's business model is based on a combined strategy of in-house R&D and inorganic growth, there are no pure comparables that contain the same areas of operation. USOG is a start-up company, with a clear vision on future acquisitions, although there is uncertainty over execution as there is with all M&A. Therefore, for valuation purposes, we took a weighted average of a collection of companies with similar operations.

Relative Valuation	TransMontaigne Partners (TLP US)	Petroleum Development (PETD US)	Cabot Oil & Gas (COG US)	Apache Corp (APA US)	Eagle Rock Energy (EROC US)	Average
2010E Sales (US$ M)	$141	$294	$855	$8,491	$657	
2010E EBITDA (US$ M)	$59	$175	$612	$5,790	$186	
EBITDA Margin	41.8%	59.4%	71.6%	68.2%	$0	
2010E Net Earnings (US$ M)	$26	($7)	$168	$1,076	($0)	
Shares Outstanding (M)	11	19	104	336	55	
Earnings Per Share	2.04	0.21	1.63	5.46	($0)	
Last Price	26.03	18.51	38.22	96.47	4.60	
Market Capitalization (US$ M)	$324	$356	$3,962	$32,431	$353	
Enterprise Value (US$ M)	$480	$686	$4,736	$36,221	$1,119	
Price/Sales	1.99	1.21	4.64	3.82	0.39	2.41
P/E	12.77	88.99	23.51	17.67	(18.55)	24.88
EV/Sales	3.40	2.33	5.54	4.27	1.70	3.45
EV/EBITDA	8.13	3.93	7.74	6.26	6.03	6.42

Note: All figures as of 11/09/09, Bloomberg Estimates

Average EV/Sales	3.45
Sales	38,340,766
Enterprise value	**132,224,184**
Less: Debt	4,492,893
Add: Cash	694,003
Shareholder's Value	**128,425,294**
Shares Outstanding	998,677,620
Additional Shares	206,922,324
Total Shares Outstanding	**1,205,599,944**
Value per Share	**$0.11**

Final Valuation

The market approach is receiving greater weight over the income approach in the final valuation due to improving fundamentals within the oil & gas sector.

Approach	Price	Weight	Price
Income Approach	$0.08	35%	$0.03
Market Approach	$0.11	65%	$0.07
Value per Share		**100%**	**$0.10**
Current market price (CMP)			$0.03
Premium/(Discount) to CMP			**224%**

RISK FACTORS

- *Limited Operating History.* Though USOG's current subsidiary and future acquired companies have a long operating history with a sound track record, USOG itself has had a very limited operating history. To date, USOG has not generated any revenues organically.
- *Funding Crunch.* The company would require both working capital financing and long term capital to fund expected growth. Earlier, the Turnbull acquisition was made through a promissory note to be repaid over one year and the issuance of USOG stock. Hence, future funding for acquisitions needs to be done carefully considering the effects of stock dilution and debt covenants.
- *Typical M&A Integrating Risks.* Since the M&A process is fraught with many potential pitfalls, the investment and optimization process needs to be initiated as carefully as possible.
- *Alternative Energy:* In the long term, the substitution effect of renewable energy poses a threat. Nevertheless, the capacity and efficiency of renewable energy is still in the development stage and not yet an equivalent substitution.
- *Rapid Growth.* The rate of growth can be defined as a potential threat. Fast and unstructured growth may happen, which may be a cause for concern.
- *Reliance on Key Personnel.* The company is highly dependent on its management and key personnel. Only about four employees mainly operate the company and its success depends largely on the services of Mr. Alex Tawse, CEO and CFO, and Mr. Jeff Turnbull, President of Turnbull Oil.

About the Analyst

Jasmine Breitbach, CFA, founder and Senior Equity Analyst of Valencia Research Group has more than 15 years of diverse experience. She has performed in-depth analyses of a wide variety of companies ranging from small private companies to large public companies covering many industries, primarily focusing on determining corporate valuation and litigious risk exposures for Directors and Officers.

Prior to founding Valencia Research Group, Ms. Breitbach served as Enterprise Risk Manager for Westfield, LLC for North America. Working with senior executives, she utilized her expertise to effect operational improvements throughout nearly all corporate departments and oversaw system-wide procedures for auditing income allocation and financial analysis. In addition, she also provided departmental training on issues related to financial statement analysis and valuation techniques. Previous to Westfield, she specialized in Directors and Officers (D&O) litigation and coverage, where she supervised teams of underwriters, providing guidance on technical and broker relationship matters.

Jasmine is a Chartered Financial Analyst (CFA) charterholder and a graduate of DePaul University where she obtained her MBA with a concentration in operations management. She received her Bachelor's Degree in Finance with a minor in Economics from Northern Illinois University.

The assumptions and estimates underlying the projections are untested and subject to significant business, economic, and competitive uncertainties and contingencies, all of which are difficult to predict and many of which are beyond the control of the Company. Accordingly, there can be no assurance that the Company's projected results will be realized. The Company's actual results in the future may vary from the projected results and those variations may be material. The Company does not intend to update or otherwise revise these projections to reflect circumstances existing after the date hereof or to reflect the occurrence of future events, even in the event the assumptions or estimates underlying the projections are shown to be in error. Anyone expressing a possible future interest in investing in the Company should not rely upon the projections.

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