

American Energy Group, Ltd.

(OTC BB: AEGG)

February 4, 2009

12-Month Target Price \$4.50

Recent Price \$0.80

Rating: SPECULATIVE BUY

## **New Reserve Report Indicates AEGG Severely Undervalued Based on Asset Value of Proved Reserves and Significant Upside Potential**

### **Background and Summary**

Research Analyst  
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#### Snapshot

Ticker	AEGG
Fiscal Year	June 30
Recent Price	\$1.00
Shares Out	
mil fully diluted	34.7
52 Week- Hi	\$1.17
52 Week Lo	\$0.40
Book Value/sh MRQ	\$0.037
Market Cap	\$30 mil
P/E	N/A
P/Sales	N/A
Insider, %	11.1
CEO	Pierce Onthank

American Energy Group, Ltd (AEGG) is a non-operating oil and gas company with the tremendous upside of drilling activities without the downside risk of an exploration budget and capital expenses. AEGG has an 18% overriding royalty interest (ORRI) on the Yasin Block 2768-7 (539,172 acres) in south-central Pakistan. A successful well was drilled and completed by the operator, Hycarbex-American Energy, Inc (Hycarbex) in June 2005 (Haseeb No. 1) that is estimated to contain in place 217 billion cubic feet (BCF) of natural gas on a 90% probability (P90) basis according to Texas based engineering firm GSM, Inc. This amount is only from the Haseeb Field, which is only one of 18 targeted structures on the Yasin Block lease. An earlier (Martin Report) estimated reserves of 7.3 trillion cubic feet (TCF) total reserves including 5.2 TCF classified as 'probable' and 2.1 TCF as 'possible'. The recent confirming engineering report validates this earlier work and indicates this play is massive, and for real. Hycarbex advises Management they have identified several prospects of 1+ TCF potential within the Yasin Block. Drilling of one target began in late November. Drilling costs are only \$3-4 million per well providing exceptionally good risk/reward. Very dramatic price appreciation potential over the next 12-18 months exists as the drilling and non-drilling risk factors are resolved

### **Investment Considerations**

- Short term catalysts
  - GSM Reserve Report provides floor on share price of \$1.25- \$1.50
  - Results from Yasin – 1 exploratory well spud 11/20/2008
  - Imminent revenues from completion construction of surface facility and tie in to gas pipeline from Haseeb No. 1 well
- GSM Reserve Report on initial discovery - structure identified with Haseeb No. 1- shows P90 (90% confident reserves will exceed this amount) of 217 BCF and P50 of 230 BCF and exceptionally high recovery rates (75-80% vs. 30-35% typical) due to geology of targeted Sui Main limestone (high porosity and permeability values). If these characteristics exist across the entire lease, it will be a very positive factor in determining the total recoverable reserves.

See Important Disclosure page 14 [www.microcapoilandgas.com](http://www.microcapoilandgas.com) clay@claymahaffey.com

- Severely Undervalued stock: current share price essentially gives zero probability to any other reserves being found on the exploration Block; a highly unlikely scenario. The apparent 80% discount applied to the current reserve asset value is high and should decline as corrective actions are taken.
- Hycarbex says there are several drill sites with over 1 TCF potential which is significant even to a major operator such as BP, Shell, etc. In addition they are shallow, low cost wells (\$3-4 million) that can be drilled quickly. This is an extraordinarily attractive combination of high return/low cost drilling opportunities.
- AEGG does not need to raise debt or equity capital for drilling and operations. The lease operator can meet the entire drilling budget from the 1<sup>st</sup> year of projected cash flow from just the Hasseb-1 well which will tie in to the pipeline within the next few months.
- The Yasin Block is in the Sui Main/Central Pakistan region that is attracting significant exploration activity (100 exploratory wells expected this year) according to Government reports. Fifteen small- large independent oil companies invested \$836 million in Pakistan last year. Eni will invest \$280 million over three years. BP, BHP Billiton and others are active. International service providers such as Schlumberger, Halliburton and others are active. Drilling rigs are available without excessive delay.
- Pakistan Government/political issues resolved. Transition to democratically elected Government in 2007/2008 period was successful. Steps are being taken to resolve bureaucratic delays.
- Petroleum companies being privatized: OGDC listed on London Stock Exchange 2007. Local petroleum product prices being deregulated and historical subsidies must be eliminated per IMF loan conditions. Terms of Production Sharing Agreements (tax rates, signing bonuses, profit sharing, etc) are more favorable to contractors than is the case in other regions of the world.
- Natural gas comprises 40% of energy demand and is readily sold on the local market. Two pipelines cross the Yasin lease so no delay in selling new production.
- Hycarbex has been active in Pakistan for over ten years and has excellent relationships with Government Agencies and service providers.

#### Valuation

There are two issues to be addressed in determining a value on AEGG: 1) How much oil and gas reserves exist, what is the cash flow, and when will shareholders receive this? and 2) What discount rate or risk premium should be applied to this potential cash flow stream? These issues are summarized below:

**Table 1 AEGG Valuation Summary**

**Panel A: Engineering and Financial Estimates**

<b>Case</b>	<b>Floor</b>	<b>A</b>	<b>B</b>
Martin Reserve Report, Risked %	96%	81%	61%
Current Proved Reserves, % Ultimate	100%	23%	12%
Proved + Probable Reserves, BCF	230	1,000	2,000
Probability of Reserve Scenario	5%	75%	20%
Wtd. Average Reserve Estimate, BCF	1,162		

Alternative Valuation Methods: Current Value, \$/share fully diluted

1. SEC PV 10, \$/sh	\$1.42	-	-
2. NAV of Yasin Block @10%	\$1.29	\$4.59	\$6.42
3. Operating Metric (\$/MCF Comparable)	\$1.16	\$3.14	\$6.34
4. P/E Multiple (Yr 2 @ 12)	\$2.51	\$5.73	\$10.79

5. Dividend Yield (Yr2 @ 15%)	\$1.39	\$3.32	\$6.13
Average	\$1.55	\$4.19	\$7.42
Probability Weighted Current Value, \$/sh	\$4.45		

**Panel B: Risk Assessment and Outlook**

	<b>Apparent Current Assessment</b>	<b>Future Outlook</b>	
		<b>Probable</b>	<b>Possible</b>
Perceived Country Risk, %	30%	10%	5%
Operator/Company Specific Risk, %	30%	15%	0%
Sector Risk	10%	0%	0%
Capitalization Risk	10%	10%	5%
Total Discount Factor	80%	35%	10%
Calculated Recent Price	\$0.89	-	-
Risk Adjusted Target Price	-	\$2.89	\$4.01

**Engineering Factors**

A range of reserve estimates is created by combining the Martin and GSM Reports. If no additional oil or gas is found on the Yasin Block the GSM/Haseeb Report value represents the floor volume case. Case A and B assume 81% and 61% discounts to the Martin Report estimated 5.2 TCF probable reserves resulting in 1,000 BCF and 2,000 BCF reserve estimate cases, respectively. The probability of the Floor Case is low but greater than zero. The assigned probabilities to Cases A and B are arbitrary but significant and address the many uncertainties inherent in such estimates including: the gas is present but low quality (high SO<sub>2</sub>, CO<sub>2</sub> content), water entrapment and inability to recover, mechanical problems, the closure was inadequate and gas escaped over time, etc. A very positive factor is the GSM Report validates the earlier Martin Report and gives credence that those exceptionally high estimates may indeed be valid. The operator, Hycarbex, has acquired substantial seismic data and based on that has identified eighteen drilling prospects. Hycarbex believes five exploratory wells will address the bulk of the largest prospects, which equates to about 1 TCF/well potential. These large opportunities exist because Pakistan has been under explored for years. Typically only 30-35% of the original gas in place can be recovered but according to GSM the Haseeb Field can recover 65-70% of the gas due to the geological characteristics of the Sui Main. These factors should be present across the lease since the same zones are being targeted. There are a number of significant producing wells in this area. If only 1 of the prospective wells is successful, you have a 1 TCF field. In summary, I have assumed a 75% chance of one of the five wells being a large success, and a 20% chance that a second well is also successful. Multiplying the reserve potential times the probability and summing for the three cases gives you total reserves of about 1.1 TCF.

**Financial Factors**

Several approaches were made to assess the current value of the potential reserves. The “SEC PV10” is a calculated present value of cash flows assuming only the ‘proved’ (P90) reserves are produced and sold at the current year end price or as contractually allowed, less the cost of production and excluding SG&A costs and taxes. The \$1.42/share calculated excludes the remaining fields on the lease.

A more comprehensive method is to determine the net asset value (NAV) of the cash flows considering all of the factors affecting cash flow: capital and operating expenses, current and future prices, taxes,

etc as shown in the Appendix Table 1-4. This is done using a ten percentage discount rate by convention and each investor decides what additional discount/premium is appropriate.

The Operating Metric method compares the market capitalization per MCF of reserves of OGDC, the largest E&P Company in Pakistan and traded on the Karachi and London Stock Exchange (LSE: OGDC.L), to that of AEGG. In order to make this calculation one must convert the 18% ORRI of AEGG to a working interest equivalent so the comparison is valid. These metrics are about 75% lower now than they were only a few months ago due to decline in OGDC share price and the general Karachi Stock Exchange (KSE). Contributing factors to the KSE decline include the devaluation of the Pakistan Rupee, which was in turn caused by a decline in exports due to the recession, and ongoing imports of crude oil and refined products among other commodities. These events caused a short-term trade imbalance and forced the Government to work a financial investment deal with the International Monetary Fund. See Appendix Figure 2 for additional information.

**Table 2 Operating Metrics Comparable: OGDC**

OGDC, Ordinary Shares Out, mil	4,300.93	
Price, US\$/sh	\$ 5.60	Global Security Shares (GDS), London Stock Exchange, 1/20/09
Ratio, Ordinary Shares/GDS	10	
Market Capitalization, \$mil	2,409	
Oil and Gas Reserves: Basis	Roved	ProbableSource
		"OGDCL Full Year Results 8/20/2008" , as of
MMBOe	800	1,23312/31/2006
TCFe	4.8	7.4At 6 MCF/bbl
Operating Metric, Market Cap/MCFe	\$0.50	\$0.33

**AEGG Valuation per Operating Metrics: \$/MCF Basis**

Case	Floor	A	B	Note
Unrisked, BCF	230	4,930	4,930	(1),(2)
Risked, %	0%	80%	59%	(3)
Est. Yasin Block Reserves, BCF	230	1,000	2,000	
Working Interest Est. Ownership	35%	33%	33%	(4)
AEGG Est. Reserves, risked	80	335	666	
Operating Metric Ratio, \$/MCF	\$0.50	\$0.33	\$0.33	
Value, \$ mil	40	109	220	
\$ share	\$1.16	\$3.14	\$6.34	(5)

(1) GSM Haseeb Gas Field Reserve Report 1/29/2009, P50 value

(2) Martin Reserve Report P2 Reserves 5,160 BCF

(3) Analyst estimate

(4) Calculated- Table 3

(5) @ 34.7 mil shares fully diluted

**Table 3 Conversion of Over Riding Royalty Interest (ORRI) to Working Interest (WI)**

<b>Case</b>		<b>Floor</b>	<b>A</b>	<b>B</b>
Lease CapEx, \$mil		(16)	(38)	(76)
Recoverable Reserves, BCF		177	776	1,548
NAV 10%-Yasin Lease	A	\$187	\$661	\$1,316
NAV10%- ORRI	B	\$65	\$221	\$438
ORRI, % 100% WI	B/A	35%	33%	33%

The P/E multiple method assumes the current value is the year 2 ending share price based on a P/E of 12 on a trailing 12 month basis. The dividend yield approach assumes the Company is converted to a trust (no SG&A and no taxes), or the cash flow is sold to an existing trust (Canadian Trusts can make acquisitions). In this case the royalties less excise taxes are accumulated and distributed to shareholders. The cash flow stream is assumed to equal such that the shareholder/acquirer earns a 15% yield on the share price. These methods may be aggressive.

The average current price value for the five methods is \$1.55 in the Floor Case, \$4.16 in the most likely Case A and \$7.42 in Case B. If these values are adjusted for the assumed probability of each occurrence, you get a \$4.45/share present value.

#### Risk Assessment

The calculated net asset value has to be discounted for various risk considerations including country, company, sector and capitalization since AEGG is not trading anywhere near this value. The recent price of \$1.00 represents an approximate 80% discount to the \$4.45 estimated value. Each risk component is given an assigned value and an outlook for probable and possible changes is discussed below.

The Country risk is that perceived by the typical US retail investor. Pakistan is often associated with terrorism, bombings and assassinations and a knee jerk response of some is to look no further. Frankly this creates an opportunity for those who look closer and see the positive attributes and recognize that whatever problems exist do not really affect this particular investment opportunity. One should consider that this is a high growth economy with huge energy needs, with a British legal history and practice of adherence to the rule of law. The country is a net importer of oil, and gas is immediately used to fuel clean burning gas turbine powered power generation plants. The country has transitioned to a democratically elected regime but that has not been without problems including issues specific to AEGG. Certain Government actions have not been taken including release of the reserve report, approval of drilling plans and similar activities that have harmed AEGG by delaying commercial actions. According to Management this was due to political in-fighting and conflicts from the election last year. That was the past and the recent press releases indicate major changes have been made which will be very positive for AEGG.

AEGG does not have a working interest in the lease but an ORRI. The operator and 85% working interest owner is Hycarbex, which is owned by a privately held Turkish company called Hydro Tur. The President of Hycarbex is Dr. Iftikar Zahid who is also a Director of AEGG who is a well-established local businessman. Hycarbex has a staff of senior engineers most of whom were trained at major local oil and gas companies such as OGDC and PPL. Despite these solid credentials, developments since the successful drilling of Haseeb -1 in June 2005 have been slow. Announced actions have not been met on schedule and generally Hycarbex communications have not met the expectations of AEGG shareholders.

The communications issue is subject to policies and regulations of the Petroleum Ministry, which wants to regulate such matters to avoid 'Ponzi' schemes and irresponsible 'hying' of stocks in order to protect the public and investors in the country. The Production Sharing Contract signed by Hycarbex and AEGG require that the Ministry approve press releases relating to the operations and activities on the designated lease. From time to time during the Government transition period in 2007/2008 there were vacancies in this Ministry at the Cabinet level and this approval authority could not be delegated to lower level employees. The recent press releases are evidence that this issue has been resolved in a favorable manner.

I would give the greatest risk to the country and company specific issues (total 60% of apparent 80%). The 2 ½ year delay from the June 2005 drilling is not due to the economy or low gas prices but a combination of factors involving primarily Hycarbex and the Pakistan political situation. Whether this discount is attributable to one party over the other can be debated. The reality is that if the beaurocratic delays disappear and Hycarbex can meet their announced plan and produce and sell natural gas these risks will quickly dwindle.

The global oil and gas sector has been decimated with the collapse of world oil prices from \$145/barrel this summer to the \$40 range today. However, the sector risk is not relevant to AEGG since the lease is primarily natural gas, which is a local market. Pakistan has historically subsidized gas prices but with the IMF loan of 2008 has agreed to eliminate subsidies.

With the current recession micro cap companies have been punished. AEGG has actually held up fairly well everything considered. A key issue going forward is overcoming the "too good to be true" syndrome i.e. how did such a small company get such a good deal? The classic answer is after ten years they were discovered over night!

## **Conclusion**

The GSM Reserve Report indicates reserve quantities that equate to about \$1.25/share present value for AEGG. The reserves present on the remaining 18 target structures are yet to be determined. Either there is no more gas and the \$1.25 is the ceiling price, or there is more gas in which case the \$1.25 sets the floor price. The prior Martin Report with its 7.3 TCF probable and possible total has been essentially ignored as either wildly optimistic or not up to current standards. In contrast the GSM Report is very detailed and specific to just the Haseeb Field which will be producing in short order. The Haseeb quantities are very significant and when you combine this volume with the broader Martin Report, and the detail provided by GSM as to recoverability factors it tends to support possibility of more very large fields are on the lease. Hycarbex used the Haseeb-1 results and additional seismic to identify a dozen and a half drilling prospects of which many have 1+ TCF potential each. This is a staggering portfolio of prospects. The 1 TCF reserve case is an 80% risk to the Martin probable reserve estimate and seems most probable at this time. This corresponds to a NAV of \$4.45/share using an average of several valuation methods. This assumes modest price increases, which may prove conservative. The cash flow from the Haseeb-1 will begin soon and should fund the drilling program. The Yasin-1 is underway. The discrepancy between the current price and the NAV based on the reserves seems excessive and the same could be said if the price was \$2.00 or \$2.50 much less \$1.00. The 2 year price decline from the 2005 high (\$3.20) suggests the bulk of the stock is now in patient, if not stronger hands that see the underlying value and not in and out traders. There is an over hang of warrants exercisable at \$1.70/share resulting from the 2006 equity offering. The risk factors that have discounted the share price so heavily can be resolved simply by Hycarbex executing on the plan and

the Government approving routine requests in a timely manner. These factors point to substantially higher share prices in the near future, and approaching the \$4.45 fair value price at some point. This is especially true as awareness is created in the general market place. The next upward price move is likely to occur soon and investors with an appetite for risk exposure should consider establishing a position now.

#### Recent Developments

**New Reserve Report** GSM, Inc of Amarillo, TX prepared a reserve report in December, 2007 which is available from the AEGG web site at [www.aegg.net](http://www.aegg.net). The key result is their assessment of the reserves from the Haseeb Field as summarized below:

GSM Reserve Report			
Basis	P-90	P-50	P-10
Total Gas In Place, BCF	217	230	261
Recovery Factor, %	80%	77%	75%
Recoverable Gas, BCF	174	177	196

P-90 means there is a 90% chance the actual volume of gas meets or exceeds the stated amount, and so on for P-50 and P-10. They provided a detailed geological description of the field and presented the recovery factors shown above. The reader should be advised these are about double the recovery rates typically found in natural gas fields around the world. The average porosity is 23% which is relatively high and enables high recovery. All of the drilling sites identified are targeting the same SUI Main Limestone. Consequently it seems probable that other exploratory fields will have similar recovery rates.

**New Exploratory Well Yasin-1 Spudded November 21, 2008.** Management originally expected to spud a new well by June 30, 2008 but this was delayed. The Yasin-1 targets two reservoirs: the very prolific Sui Main Limestone at 3,642 ft and the Pab Sandstone at 5,085 feet. These sites were selected from the seismic data collected in December 2007 and published on the AEGG web site [www.aegg.net](http://www.aegg.net). The targeted potential reservoirs are massive: the Sui Main is 5,745 acres with 120 feet of prospective pay and the Pab is 5,245 acres with 90 feet of pay. Comparing these values to those of the successful Haseeb No. 1 17 km away, which had 230 BCF reserves on a P50 basis, suggests, according to Management, that the potential reserves of the Yasin -1 could be 1.0 to 1.5 TCF. This is a very large prospect and a true 'elephant' by any standard. Mari Gas Company Limited, a major E&P company in Pakistan, recently had a discovery well in the Sui Main Limestone only 16 km from the Yasin No. 1 site. The Yasin-1 well total depth should have been reached by now but no press release has been issued.

**Future Drilling Plans.** Hycarbex plans to drill the major structures first so as to 'prove' as many reserves as possible. The cash flow of the Haseeb-1 well should begin in a few months. Initial production of 28MMCF/day will generate \$1.5 million/month in cash to the working interest owners (\$2.45/MCF less 12.5% excise tax and 18% royalty). Hycarbex will get a premium price on production in excess of this quantity. This price is only for the 6-month testing period and once the well is deemed commercial a new price can be negotiated which Management expects to be higher due to Government commitments made to the IMF and business trends. Prices for the Iran-Pakistan-India Gas Pipeline are similarly being negotiated. Some parties believe prices could go up to \$4/MMBTU.

The financials presented here assume the \$4/MCF price is not met for ten years. The NAV is proportionate to the starting price: 25% higher prices than assumed give 25% higher NAV.

**Gas Tie in Expected end March 2009 for 1<sup>st</sup> well -Haseeb No. 1** Hycarbex has contracted with an engineering firm in the US to construct and install a gas processing facility to treat the well production so that it is suitable for pipeline sales. This surface facility will then be tied into a production line only a few kilometers away. Management anticipates production rates of 28 million cubic feet per day assuming the well is acidized and fraced as recommended by Schlumberger. The current wellhead price is  $\$3.06/\text{MMBTU} \times 805\text{MBTU}/\text{MCF} = \$2.45/\text{MCF}$ . The 18% overriding royalty is applied net of the 12.5% excise tax =  $\$0.386/\text{MCF}$  due AEGG. Assuming the 28 MMCF/D is met this is \$300,000/mo income before taxes. This will be the initial Company revenue and a major step forward.

### **Political Developments in Pakistan 2007/2008 Stalled Plans – Now Rectified?**

Hycarbex announced its 2008 operating plans last January (installing the surface facility to treat and tie in gas from the Haseeb No. 1 and scheduled a 2<sup>nd</sup> exploratory well by June 2008). On February 18, 2008, a few months after the death of former Prime Minister Benazir Bhutto, Pakistan held its general elections. Pakistan Peoples Party (PPP) won the majority of the votes and formed an alliance with the Pakistan Muslim League (PML)(N). Mr. Musharraf's PML-Q party was soundly defeated in the election. The PML-N and PPP parties formed a ruling coalition and elected Yousaf Raza Gilani as Prime Minister of Pakistan and appointed the 25 Cabinet Ministers. Several months later the two groups could not agree on whether to re-instate 60 judges that had been dismissed by Former President Pervez Musharraf and other matters. Mr. Nawaz Sharif, the leader of one of the two large parties in the coalition, PML-N, opted to withdraw all 9 of his appointed Ministers in May 2008 as an act of protest. The vacancies in Government Ministers, including the Oil Minister, has caused havoc and contributed to a 30+% decline in the Karachi 100 stock index.

On September 6, 2008 Asif Ali Zardari, the widower of the slain former prime minister Benazir Bhutto and leader of the PPP was elected President of Pakistan. On September 8<sup>th</sup> he accepted the resignations of the Ministers nominated by his former coalition partner, the PML-N Party. The vacancy in the Government Petroleum and Natural Resources Minister position has been blamed for the delay in publishing the Haseeb-1 reserve report. It was finally issued January 29, 2009 which was a year after it was prepared.

As a condition to a loan the World Bank requested the Government reduce gas subsidies by 70%, which would, if agreed on, result in proportionately higher prices to AEGG. This has not been finalized however. <http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/Politics/06-Aug-2008/Govt-assures-World-Bank-of-gas-subsidy-withdrawal>. The current price of gas is \$3.06/MCF.

### **Discussion**

**Background** AEGG was formed in 1987 and the SEC deemed their Form S-18 effective in 1989. The original efforts to pursue exploration in Belize were not successful. They acquired Texas based Simmons Oil and Gas in 1994 and adopted the current name. In 1995 their 100% owned subsidiary Hycarbex American Energy acquired an exploration license in Pakistan (the Jacobabad Lease 2768-4) in the central Sindh Valley about 250 miles north east of the major port city of Karachi. In 1997 AEGG acquired the assets of Luck Petroleum including reversionary working interests in mid depth zones as well as undeveloped deep rights working interests in two oil and gas leases in Galveston County, TX. In 2002 involuntary bankruptcy proceedings were brought against AEGG, which were

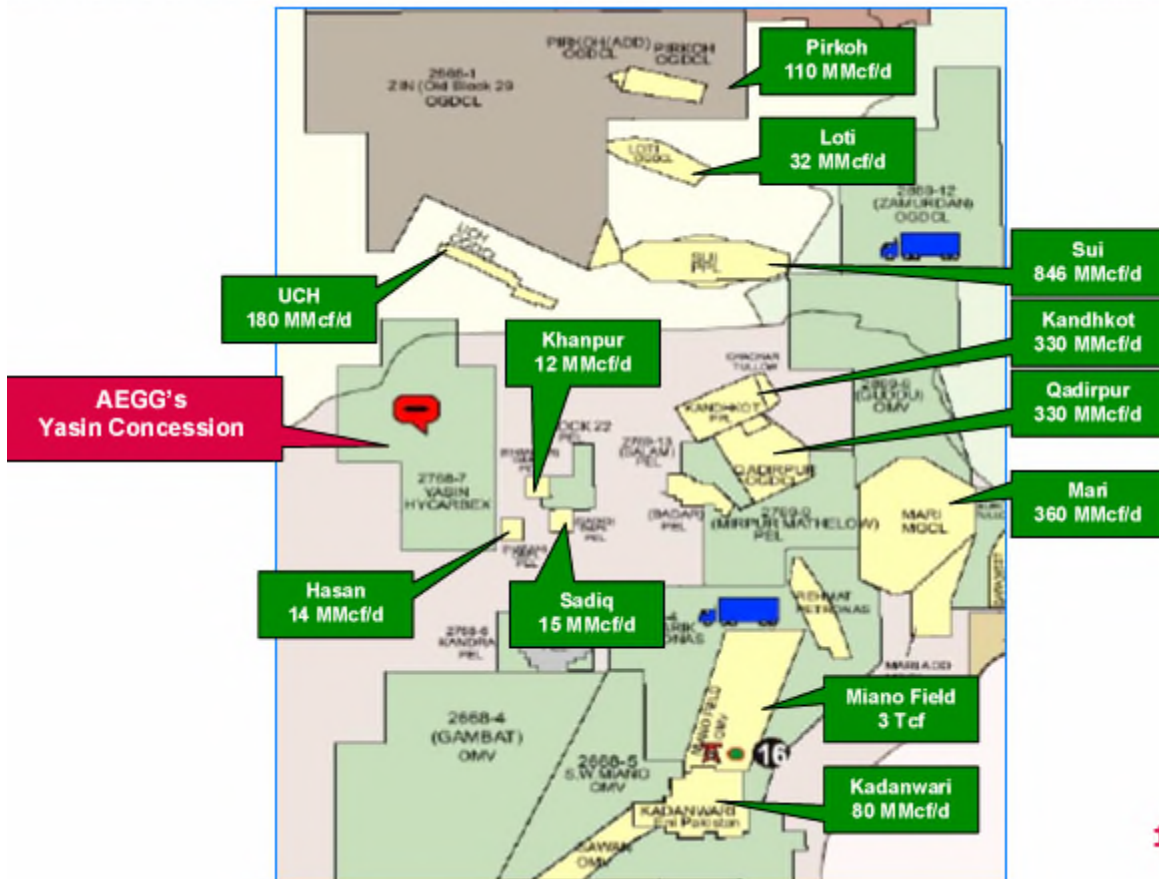


later converted to Chapter 11 debtor -in -possession. The Bankruptcy Court approved the Second Amended Reorganization Plan in 2003, which required cancelling all outstanding common and preferred shares, and new shares were issued to the creditors. AEGG emerged in 2004 virtually debt free and had two assets: the lease interests in Galveston, TX and in Pakistan. AEGG sold its working interest in Hycarbex-American Energy in November 2003 to Hydro Tur (Energy) Ltd in exchange for an 18% overriding royalty on the Yasin block. The entire US work force was laid off and the current management team was brought in to rebuild AEGG. AEGG received a new trading symbol in late 2004 and began trading on the Over the Counter Bulletin Board at \$0.25/share.

<b>Company Timeline</b>	
1987	AEGG organized in Nevada as a subsidiary of Dimension, Inc
1989	SEC Registration Statement deemed effective
1991	Secured operating lease from Belize
1994	Acquired Simmons Oil Company, Inc and certain oil and gas leases
1995	Hycarbex (a 100% owned subsidiary) acquired an exploration license on the Jacobabad Block in Pakistan
1997	Acquired assets of Luck Petroleum
2002	Bankruptcy proceedings initiated
2003	Emerged from bankruptcy
2005	Hycarbex drills commercial well on lease, Haseeb No 1. Proved reserves estimated at 100-150 BCF by Government of Pakistan
2006	AEGG, Hycarbex and Management are sued by an attorney in Pakistan; settled later that year.
2006	\$3.95 million raised in private placement with 8 US institutional investors
2009	Reserve Report published showing proved reserves of 217 BCF on Haseeb Field alone



Drilling Activity in Region of Yasin Lease



**Yasin Block Drilling Track Record**

Company	Name	Result
Burmah Oil (predecessor to PPL)		2 wells in 1950's to 5,800 ft indicated hydrocarbons
Amoco		Drilled to 15,000 ft indicated gas and oil
Hycarbex		1997 262 km 2-D seismic
"	#1	1998 –indicated hydrocarbons, down hole problem, not completed
"	#2	Mechanical problems-did not reach target depth
"	#3	Low quality gas (high hydrogen sulfide and carbon dioxide content)
"	-	40 km new 2-D seismic shot
"	#4	2001 indicated hydrocarbon; not completed
"	Haseeb No. 1	March 2005. 100-150 BCF reserves indicated. 805 MMBTUMCF is acceptable. Depth 4,950 ft, 82 ft of pay.
"	"	November 2005 Schlumberger completed acidification study indicating 25-28 MMCF/d production is likely
"	Al-Ali No. 1	2006 Not commercial quantities of hydrocarbon

**Pakistan**

A developing country of 165 million population strategically located between India and Iran with ocean access. The World Bank ranks Pakistan as the 3<sup>rd</sup> fastest growing economy at 8.6%/yr. A staunch supporter of US efforts against terrorism and al Qaeda. Also a significant trade partner with China who have financed development of a new port at Gwadar on the western end of the country. They have also proposed building an oil pipeline from Gwadar to western China to transport crude oil from the Middle East to China. The planned Iran-India natural gas pipeline will pass through Pakistan and has received Government approvals

Oil and gas policies are favorable. The Country is a net importer of crude oil and is taking major steps to encourage exploration. Annual production is 69,000 barrels/day of oil and 4 BCF/day of gas. 620 exploratory and 709 development wells have been drilled; a net of one well per 374,000 acres. Licensing rounds are conducted privately in negotiation with the Government.

**Key Government Petroleum Policies**

Lease acreage	2,500 km <sup>2</sup>
Term:	5 years. Phase I is 3 years for pre-drilling, Phase II with at least one well drilled
Relinquishments	Phase I: 30% of initial acreage, Phase II; 20%
Royalty	12.5% at the gate
Local Partners	15%-20%

Tax Rate                    35-40%  
Production Bonus        \$0.5MM to \$5MM

The Government owns the key petroleum companies although they are in process of being privatized. Oil and Gas Development Company Ltd (OGDC) is the 2<sup>nd</sup> largest oil producer and 2<sup>nd</sup> largest natural gas producer. Pakistan Petroleum Limited (PPL) is the largest gas producer. 5% of OGDC was sold to the public in 2002 and another 9.5% in December 2006 with a very successful and over subscribed IPO on the London Stock Exchange. PPL is publicly traded and individuals and the World Bank hold 21%. A sale of an additional 51% by the Government is in process and 5 bidders have been qualified.

<b>International E&amp;P Companies Active In Pakistan</b>	
American Energy Group/Hycarbex	United States
BHP Billiton	Australia
Bow Energy	Canada
BP	United Kingdom
Eni	France
Jura Energy/Frontier Holdings	Canada
MND Exploration and Production	Czech Republic
MOL	Hungary
OMV AG	Austria
Petronas	Malaysia
Polish Oil and Gas Co.	Poland
Premier Oil	United Kingdom
Rally Energy	Canada
Shell Oil	Netherlands
Tullow Petroleum	United Kingdom
Source: Pakistan Petroleum Information Service, 2008	

### **Management and Directors**

R. Pierce Onthank is President, CEO, Secretary-Treasurer, and a Director. He has been a Director since 2003 and in his current capacity since 2004. He served as the investment banker for the Company from 1998 to 2001, and in that capacity he raised million of dollars for the Company. He has worked for a number of Wall Street firms starting with Merrill Lynch and subsequently employed by Bear Stearns in 1985 and became limited partner in 1987. He was later a Senior Vice President of Drexel Burnham Lambert and Smith Barney Shearson and managed private client and institutional investments. He was a founder in 1998 of Cray, Onthank & O'Neill, an investment banking firm, prior to joining American Energy Group. He has a BA Degree in Economics from Denison University. Mr. Onthank's Wall Street experience focused on raising capital for oil and gas properties, both public and private, including over \$20 million for American Energy Group, Ltd as well as expertise in international finance and deal structuring. He is a member of the Pakistan-American Business Council in Washington, DC.

Dr. Iftikar Zahid is a Director. Dr. Zahid joined the Pakistan Police Services in 1981 and resigned in 1988 as Superintendent of Police. He worked as an advisor and consultant to a variety of multi-national companies doing business in Pakistan from 1988 to 1996. In 1996, Dr. Zahid joined the Company as Resident Director/Country Manager for the Pakistan Office of Hycarbex-American Energy, Inc. In 2001 he was promoted to Vice President and Resident Director and also a Director of the Company. In 2004 he was elected President of Hycarbex-American Energy and in 2005 a Director. In this capacity he has recruited a number of experienced and highly skilled local engineers with expertise and knowledge of the petroleum industry. He has been managing the Company's 18 percent royalty interest in the Yasin Block since 2003. He received a BS Degree in Science from Murray College in Saikot, Pakistan and has a degree in medicine from Dow Medical College at Karachi University.

Karl Welser is a Director. He was employed at Bank J. Vontobel and specialized in financial management. He was later employed at Zurcher Kantonalbank, Bankinstitut and UBS in Zurich, Switzerland in analysis of securities. He is a graduate of Dr. Raeber/ZH and KV/ZH business school in Zurich, Switzerland.

## Risks

**Lack of Control.** The Company does not operate the Yasin Block and is dependent on Hycarbex to develop, fund and manage all operations. Failure to execute this plan means AEGG will not receive revenue or other assets.

**Exploration.** Despite seismic data and other indicia oil and gas exploration is a risky business. Seismic data is not conclusive that hydrocarbons exist. If present the hydrocarbons may be of low quality and BTU value due to presence of impurities like carbon dioxide, nitrogen, hydrogen sulfide, etc. The drilling operation may fail for mechanical reasons.

**Pakistan political issues.** The transition from a military run coup to an elected democracy has begun but a major roadblock emerged only a few months after the initial election. The coalition Government is being tested. The impact on AEGG, unfortunately, has been to delay their plans.

**Global Terrorism.** The US political issue of the war in Iraq and Afghanistan has recently broadened to include Pakistan. Technically this should not have any effect on the value of AEGG but in reality it reduces the number of US shareholders willing to own the stock.

**Lack of Diversification.** AEGG has no other assets to offset the delays and risk of the single exploration block in Pakistan.

**Production quality/pricing.** Oil and gas prices are set by the Government.

**Management.** AEGG is dependent on two key individuals: Pierce Onthank, President and CEO and Dr. Iftikar Zahid, Director and President of Hycarbex, the lease operator.

**Penny Stock Rules.** AEGG share price is less than \$5.00/share therefore subject to 'penny stock' rules which severely restricting how brokerage firms can promote the stock to clients.

## ABOUT

Mr. Mahaffey began his career with Exxon Chemical in engineering and technical assignments and later moved into sales and marketing. He conducted merger and acquisition services for The Sterling Group and led an LBO program targeting a segment of the specialty chemical industry for a Boston based financial service firm. He has worked with an SEC registered investment advisor and also as an independent equity analyst with Redchip and other research providers covering chemical and energy stocks. He received a "Five Star" rating from Yahoo Finance for performance results covering independent oil refiners. Mr. Mahaffey has a BS in Chemical Engineering from LSU and an MBA from The Wharton School, University of Pennsylvania. He holds the Chartered Financial Analyst (CFA) charter.

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## CERTIFICATION AND DISCLOSURE

I, Clay Mahaffey, CFA certify this report reflects my true opinion

Venture Research, LLC agreed to provide 12 months of research coverage on the American Energy Group, Ltd Company (AEGG.OB OTC Bulletin Board) and has been compensated by an unrelated 3<sup>rd</sup> party with \$12,000 cash. This disclosure is made in compliance with SEC Rule 17b of the Securities Act of 1933.

## Appendix Figure 1 Karachi 100 Index





Source: bigcharts.com

### AEGG Price History



Source: bigcharts.com

**Table 1 AEGG Haseeb #1 SEC PV10 Calculations**

Original Gas In Place	217	
% Recovery	80%	
Recoverable Reserves, P10, BCF	174	80% recovery on 217 BCF (P90 basis) original gas in place
Initial Production/well, MMCF/d	25	Per reserve report 12-18MMCF/D optimum per well
Decline Rate	3.8%	Assumed decline rate
Total Production, BCF	0	Check
Sustainable total field production, MMCF/d	35	Additional wells drilled as needed to offset decline
Gas Price, wellhead, \$/MCF	\$2.45	Year 1 \$3.06/MCF x 80% BTU adjustment Year 2 +25% per schedule
Gas Price Inflation, %/yr	0%	schedule
Excise Tax	12.5%	Given
AEGG ORRI, %	18%	Applied on revenue net of excise tax

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Production, MMCF/d, Haseeb #1	25.0	24.1	23.1	22.3	21.4	20.6	19.8	19.1
Production, MMCF/d, Haseeb #2	10.0	11.0	11.9	12.7	13.6	14.4	15.2	15.9
Production, MMCF/d, Haseeb #3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Field Total Production, MMCF/d	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Total Production, MMCF/yr	12,775	12,775	12,775	12,775	12,775	12,775	12,775	12,775
Cumulative Production, BCF	13	26	38	51	64	77	89	102
Unit Price, \$/MCF, net	2.45	3.06	3.06	3.06	3.06	3.06	3.06	3.06
Revenue, \$mil	31.3	39.1	39.1	39.1	39.1	39.1	39.1	39.1
AEGG Royalty, \$ mil	4.9	7.0	7.0	7.0	7.0	7.0	7.0	7.0
AEGG Cash Flow	4.9	7.0	7.0	7.0	7.0	7.0	7.0	7.0
AEGG, PV10%, \$ mil	49.2							
# Common Shares Out	30.8							
Exercised Warrants	3.9							
Total # Shares fully diluted	34.7							
SEC PV10, \$/share	\$1.42							



**Table 2 Key Assumptions Yasin Block Economics**

	<b>Case- Floor</b>	<b>Case A</b>	<b>Case B</b>
Haseeb Structure, P50 est, BCF	230	230	230
Haseeb, % Yasin	100%	23%	11%
Original Gas In Place	P50 230	1008	2,010
% Recovery	77%	77%	77%
Recoverable Reserves, BCF	177	776	1,548
Well Production, MMCF/d			
Yr 1-5	18.0	Per GSM Report	
Yr 6-10	15.3	15% decline from prior	
Yr 11-15	12.2	20% decline from prior	
# Wells Yr1	2.0		
# Wells Yr2	1.0	Assume 3 yr drilling plan and # wells as needed to meet recoverable reserve	
# Wells Yr3	1.0	estimates given productivity and decline rates	
CapEx/well	4.0	Includes geologic, drill, infrastructure, decommissioning	
Operating Costs, \$/MCF	\$ 0.02		
Total Production, BCF	182	Check	
Gas Price, wellhead, \$/MCF	\$ 2.45	Year 1 \$3.06 x 80% (BTU adjustment)	
Gas Price, wellhead, Yr2, \$/MCF	40% \$ 3.43	Assume price increase per IMF commitment and increased production bonus (+25%)	
Gas Price Inflation, %/yr	2%	assumed inflation yr 3 on	
SG&A, Inflation	3%	assumed	
Pakistan Tax Rate, %	25%	Estimated net of credits; credited to US per Tax Treaty	
Excise Tax	12.5%	Given	
AEGG ORRI, %	18%	Applied on revenue net of excise tax	
Hycarbex SG&A, \$ mil/yr	1.0		
AEGG, PE	12		
AEGG, NIBT Yield %	15%		

**Appendix Table 3 Yasin Block Economics- Floor Case**

	2009	2010	2011	2012	2013	2014	2015	2016
Production, MMCF/d, Yr 1 wells	36.0	36.0	36.0	36.0	36.0	30.6	30.6	30.6
Production, MMCF/d, Yr 2 wells		18.0	18.0	18.0	18.0	18.0	15.3	15.3
Production, MMCF/d, Yr 3 wells			18.0	18.0	18.0	18.0	18.0	15.3
Field Total Production,MMCF/d	36.0	54.0	72.0	72.0	72.0	66.6	63.9	61.2
Total Production, MMCF/yr	13,140	19,710	26,280	26,280	26,280	24,309	23,324	22,338
Cumulative Production, BCF	13	33	59	85	112	136	159	182
Unit Price, \$/MCF, net	2.45	3.43	3.50	3.57	3.64	3.71	3.78	3.86
Well Head Revenue,\$mil	32.2	67.6	91.9	93.7	95.6	90.2	88.3	86.2
Excise Tax, \$mil	4.0	8.4	11.5	11.7	11.9	11.3	11.0	10.8
ORRI (AEGG), \$mil	5.1	10.6	14.5	14.8	15.1	14.2	13.9	13.6
Operating Costs	2.6	3.9	5.3	5.3	5.3	4.9	4.7	4.5
SG&A	1.0	1.0	1.1	1.1	1.1	1.2	1.2	1.2
Ex penses	12.7	24.1	32.3	32.8	33.4	31.5	30.8	30.1
Net Income Before Tax	19.5	43.5	59.6	60.9	62.2	58.7	57.5	56.2
Pakistan Income tax es	(4.9)	(10.9)	(14.9)	(15.2)	(15.5)	(14.7)	(14.4)	(14.0)
Net Income	14.6	32.6	44.7	45.7	46.6	44.0	43.1	42.1
<b>Yasin Block Cash Flow</b>								
Net Income	14.6	32.6	44.7	45.7	46.6	44.0	43.1	42.1
CapEx	(8.0)	(4.0)	(4.0)	0.0	0.0	0.0		
Cash Flow	6.6	28.6	40.7	45.7	46.6	44.0	43.1	42.1
(A) Net Present Value @%	10%	\$187						
Yasin Block Cash Flow ex ORRI	11.7	39.3	55.2	60.4	61.7	58.2	57.0	55.7
(B) Net Present Value @%	10%	\$252						
<b>AEGG Cash Flows</b>								
ORRI, \$mil	5.1	10.6	14.5	14.8	15.1	14.2	13.9	13.6
Pakistan Income Tax	25%	(1.3)	(2.7)	(3.6)	(3.7)	(3.8)	(3.6)	(3.4)
SG&A	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.9
Net Income Before Tax	3.1	7.3	10.1	10.3	10.5	9.8	9.6	9.3
US Tax Loss Carry Forward	45.0	37.7	27.6	17.3	6.8	0.0	0.0	0.0
US and State Income tax , net	35%	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	3.1	7.3	10.1	10.3	10.5	9.8	9.6	9.3
EPS	\$0.09	\$0.21	\$0.29	\$0.30	\$0.30	\$0.28	\$0.28	\$0.27
Present Value, \$mil	10%	44.8						
NAV, \$/sh	34.7	\$1.29						
Share Price @ P/E Ratio	12.0	\$1.07	\$2.51	\$3.50	\$3.56	\$3.63	\$3.40	\$3.32
Share Price NIBT@ Dividend Yield	15%	\$0.60	\$1.39	\$1.94	\$1.98	\$2.02	\$1.89	\$1.84

<b>Appendix Table 4 Yasin Block Economics- Case A</b>																
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	
Production, MMCF/d, Yr 1 wells	63.0	63.0	63.0	63.0	63.0	53.6	53.6	53.6	53.6	53.6	42.8	42.8	42.8	42.8	42.8	
Production, MMCF/d, Yr 2 wells		54.0	54.0	54.0	54.0	54.0	45.9	45.9	45.9	45.9	45.9	36.7	36.7	36.7	36.7	
Production, MMCF/d, Yr 3 wells			54.0	54.0	54.0	54.0	54.0	45.9	45.9	45.9	45.9	45.9	36.7	36.7	36.7	
Field Total Production,MMCF/d	63.0	117.0	171.0	171.0	171.0	161.6	153.5	145.4	145.4	145.4	134.6	125.5	116.3	116.3	116.3	
Total Production, MMCF/yr	22,995	42,705	62,415	62,415	62,415	58,966	56,009	53,053	53,053	53,053	49,144	45,793	42,442	42,442	42,442	
Cumulative Production, BCF	23	66	128	191	253	312	368	421	474	527	576	622	664	707	749	
Unit Price, \$/MCF, net	3.67	5.14	5.24	5.35	5.46	5.56	5.68	5.79	5.91	6.02	6.14	6.27	6.39	6.52	6.65	
Well Head Revenue,\$mil	84.4	219.5	327.3	333.8	340.5	328.1	317.9	307.1	313.3	319.6	301.9	287.0	271.3	276.7	282.2	
Excise Tax, \$mil	10.6	27.4	40.9	41.7	42.6	41.0	39.7	38.4	39.2	39.9	37.7	35.9	33.9	34.6	35.3	
ORRI (AEGG), \$mil	13.3	34.6	51.5	52.6	53.6	51.7	50.1	48.4	49.3	50.3	47.6	45.2	42.7	43.6	44.5	
Operating Costs	4.6	8.5	12.5	12.5	12.5	11.8	11.2	10.6	10.6	10.6	9.8	9.2	8.5	8.5	8.5	
SG&A	1.0	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.4	1.4	1.5	1.5	
Ex penses	29.5	71.6	106.0	107.9	109.8	105.6	102.2	98.6	100.4	102.2	96.5	91.6	86.6	88.1	89.7	
Net Income Before Tax	55.0	147.9	221.3	225.9	230.7	222.5	215.7	208.5	212.9	217.4	205.5	195.4	184.7	188.6	192.5	
Pakistan Income tax es	(13.7)	(37.0)	(55.3)	(56.5)	(57.7)	(55.6)	(53.9)	(52.1)	(53.2)	(54.3)	(51.4)	(48.8)	(46.2)	(47.1)	(48.1)	
Net Income	41.2	111.0	166.0	169.5	173.0	166.9	161.8	156.4	159.7	163.0	154.1	146.5	138.6	141.4	144.4	
<b>Yasin Block Cash Flow</b>																
Net Income	41.2	111.0	166.0	169.5	173.0	166.9	161.8	156.4	159.7	163.0	154.1	146.5	138.6	141.4	144.4	
CapEx	(14.0)	(12.0)	(12.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Cash Flow	27.2	99.0	154.0	169.5	173.0	166.9	161.8	156.4	159.7	163.0	154.1	146.5	138.6	141.4	144.4	
Net Present Value @%	10%	\$1,039														
<b>AEGG Cash Flows</b>																
ORRI, \$mil		13.3	34.6	51.5	52.6	53.6	51.7	50.1	48.4	49.3	50.3	47.6	45.2	42.7	43.6	44.5
Pakistan Income Tax	25%	(3.3)	(8.6)	(12.9)	(13.1)	(13.4)	(12.9)	(12.5)	(12.1)	(12.3)	(12.6)	(11.9)	(11.3)	(10.7)	(10.9)	(11.1)
SG&A		0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.0	1.0	1.1	
Net Income Before Tax		9.3	25.2	37.9	38.7	39.4	37.9	36.7	35.4	36.1	36.8	34.7	32.9	31.0	31.7	32.3
US Tax Loss Carry Forward		45.0	35.7	10.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
US and State Income tax	35%	0.0	0.0	0.0	(0.4)	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	
Net Income After Tax		9.3	25.2	37.9	38.3	39.0	37.6	36.4	35.1	35.8	36.5	32.7	30.9	31.5	32.1	
EPS		\$0.27	\$0.73	\$1.09	\$1.10	\$1.13	\$1.08	\$1.05	\$1.01	\$1.03	\$1.05	\$0.99	\$0.94	\$0.89	\$0.91	\$0.92
Present Value, \$mil	10%	241.1														
NAV, \$/sh	34.7	\$6.95														
Share Price @ P/E Ratio	12.0	\$3.21	\$8.72	\$13.11	\$13.24	\$13.50	\$13.00	\$12.58	\$12.14	\$12.39	\$12.63	\$11.92	\$11.31	\$10.67	\$10.88	\$11.10
Share Price NIBT@ Dividend Yield	15%	\$1.92	\$4.98	\$7.43	\$7.58	\$7.73	\$7.45	\$7.21	\$6.97	\$7.11	\$7.25	\$6.85	\$6.51	\$6.16	\$6.28	\$6.41

**Venture Research, LLC**  
*Independent Research*

**Appendix Table 5 Yasin Block Economics- Case B**

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Production, MMCF/d, Yr 1 wells		108.0	108.0	108.0	108.0	108.0	91.8	91.8	91.8	91.8	91.8	73.4	73.4	73.4	73.4	73.4
Production, MMCF/d, Yr 2 wells			108.0	108.0	108.0	108.0	108.0	91.8	91.8	91.8	91.8	91.8	73.4	73.4	73.4	73.4
Production, MMCF/d, Yr 3 wells				126.0	126.0	126.0	126.0	126.0	107.1	107.1	107.1	107.1	107.1	85.7	85.7	85.7
Field Total Production,MMCF/d		108.0	216.0	342.0	342.0	342.0	325.8	309.6	290.7	290.7	290.7	272.3	254.0	232.6	232.6	232.6
Total Production, MMCF/yr		39,420	78,840	124,830	124,830	124,830	118,917	113,004	106,106	106,106	106,106	99,404	92,703	84,884	84,884	84,884
Cumulative Production, BCF		39	118	243	368	493	612	725	831	937	1,043	1,142	1,235	1,320	1,405	1,490
Unit Price, \$/MCF, net		2.45	3.43	3.50	3.57	3.64	3.71	3.78	3.86	3.94	4.02	4.10	4.18	4.26	4.35	4.43
Well Head Revenue,\$mil		96.5	270.2	436.4	445.1	454.0	441.1	427.6	409.5	417.7	426.1	407.1	387.3	361.7	369.0	376.3
Excise Tax,\$mil		12.1	33.8	54.5	55.6	56.8	55.1	53.4	51.2	52.2	53.3	50.9	48.4	45.2	46.1	47.0
ORRI (AEGG), \$mil		15.2	42.6	68.7	70.1	71.5	69.5	67.3	64.5	65.8	67.1	64.1	61.0	57.0	58.1	59.3
Operating Costs		7.9	15.8	25.0	25.0	25.0	23.8	22.6	21.2	21.2	21.2	19.9	18.5	17.0	17.0	17.0
SG&A		1.0	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.4	1.4	1.5	1.5
Expenses		36.1	93.1	149.3	151.8	154.3	149.6	144.6	138.1	140.5	142.9	136.2	129.3	120.6	122.7	124.8
Net Income Before Tax		60.4	177.1	287.1	293.3	299.7	291.6	283.0	271.4	277.2	283.2	270.9	258.0	241.1	246.3	251.5
Pakistan Income taxes		(15.1)	(44.3)	(71.8)	(73.3)	(74.9)	(72.9)	(70.8)	(67.8)	(69.3)	(70.8)	(67.7)	(64.5)	(60.3)	(61.6)	(62.9)
Net Income		45.3	132.8	215.3	220.0	224.7	218.7	212.3	203.5	207.9	212.4	203.2	193.5	180.8	184.7	188.6
Yasin Block CashFlow																
Net Income		45.3	132.8	215.3	220.0	224.7	218.7	212.3	203.5	207.9	212.4	203.2	193.5	180.8	184.7	188.6
CapEx		(24.0)	(24.0)	(28.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow		21.3	108.8	187.3	220.0	224.7	218.7	212.3	203.5	207.9	212.4	203.2	193.5	180.8	184.7	188.6
Net Present Value @%	10%	\$1,316														
<b>AEGG Cash Flows</b>		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
ORRI, \$mil		15.2	42.6	68.7	70.1	71.5	69.5	67.3	64.5	65.8	67.1	64.1	61.0	57.0	58.1	59.3
Pakistan Income Tax	25%	(3.8)	(10.6)	(17.2)	(17.5)	(17.9)	(17.4)	(16.8)	(16.1)	(16.4)	(16.8)	(16.0)	(15.2)	(14.2)	(14.5)	(14.8)
SG&A		0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.1
Net Income Before Tax		10.7	31.2	50.8	51.8	52.8	51.3	49.7	47.5	48.5	49.4	47.2	44.8	41.7	42.6	43.4
US Tax Loss Carry Forward		45.0	34.3	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
US and State Income tax	35%	0.0	0.0	(16.7)	(18.1)	(18.5)	(18.0)	(17.4)	(16.6)	(17.0)	(17.3)	(16.5)	(15.7)	(14.6)	(14.9)	(15.2)
Net Income After Tax		10.7	31.2	34.1	33.7	34.3	33.3	32.3	30.9	31.5	32.1	30.6	29.1	27.1	27.7	28.2
EPS		\$0.31	\$0.90	\$0.98	\$0.97	\$0.99	\$0.96	\$0.93	\$0.89	\$0.91	\$0.93	\$0.88	\$0.84	\$0.78	\$0.80	\$0.81
Present Value, \$mil	10%	222.9														
NAV, \$/sh	34.7	\$6.42														
Share Price @ P/E Ratio	12.0	\$3.70	\$10.79	\$11.80	\$11.65	\$11.88	\$11.53	\$11.17	\$10.68	\$10.89	\$11.11	\$10.60	\$10.07	\$9.38	\$9.57	\$9.75
Share Price NIBT@ Dividend Yield	15%	\$2.19	\$6.13	\$9.90	\$10.10	\$10.30	\$10.01	\$9.70	\$9.29	\$9.48	\$9.67	\$9.24	\$8.79	\$8.21	\$8.37	\$8.54

**Venture Research, LLC**  
*Independent Research*

**Table 6 Income Statements**

	Actual FY 6/30/2006	Actual FY 6/30/2007	Actual FY 6/30/2008	Actual Q1 9/30/2008	Est. Q2 '09FY 12/31/2008	Est. Q3 '09FY 3/31/2009	Est. Q4 '09FY 6/30/2009	Est. FY '09 6/30/2009
Total Revenue	0	0	0	0	0	0	3,324,732	3,324,732
Cost of Revenue	-	-	-	-	0	0	0	0
Gross Profit	0	0	0	0	0	0	3,324,732	3,324,732
Operating Ex penses								0
Selling General and Administrative	902,346	1,321,481	923,050	178,385	160,000	170,000	180,000	688,385
Depreciation	720	4,649	6,755	1,743	1,743	1,743	1,743	6,972
Total Operating Ex penses	903,066	1,326,130	929,805	180,128	161,743	171,743	181,743	695,357
<b>Operating Income or Loss</b>	(903,066)	(1,326,130)	(929,805)	(180,128)	(161,743)	(171,743)	3,142,989	2,629,375
Total Other Income/Ex penses Net	(1,487,841)	(102,786)	(3,048)	(1,505)	0	0	0	(1,505)
Earnings Before Interest And Taxes	(2,390,907)	(1,428,916)	(932,853)	(181,633)	(161,743)	(171,743)	3,142,989	2,627,870
Income Tax Expense	0	0	0	0	0	0	(831,183)	(831,183)
<b>Net Income</b>	(2,390,907)	(1,428,916)	(932,853)	(181,633)	(161,743)	(171,743)	2,311,806	1,796,687
Common Shares Out	29,867,705	30,158,934	30,605,335	30,736,758	30,786,758	30,786,758	30,786,758	30,774,258
Common Shares Out, fully diluted	33,809,941	34,101,170	34,547,571	34,678,994	34,728,994	34,728,994	34,728,994	34,716,494
Earnings per Share fully diluted	\$ (0.07)	\$ (0.04)	(0.03)	(0.01)	(0.00)	(0.00)	0.07	\$ 0.05

**Table 7 Cash Flow Statements**

	Actual FY 6/30/2006	Actual FY 6/30/2007	Actual FY 6/30/2008	Actual Q1 9/30/2008	Est. Q2 '09FY 12/31/2008	Est. Q3 '09FY 3/31/2009	Est. Q4 '09FY 6/30/2009	Est. FY '09 6/30/2009
<b>Cash Flow Statements</b>								
Net Income	(2,390,907)	(1,428,916)	(932,853)	(181,633)	(161,743)	(171,743)	2,311,806	1,796,687
Operating Activities								
Depreciation	720	4,649	6,755	1,743	1,743	1,743	1,743	6,972
Common stock issued for debt and services	1,655,710	692,819	133,500	19,500	50,000	0	0	69,500
Changes In Accounts Receivables	-	-	0	0	0	0	0	0
Changes In Liabilities	104,959	126,215	246,807	35,556	22,888	10,000	(40,000)	28,444
Changes In Other Operating Activities	0	(284,086)	24,923	0	0	0	0	0
Total Cash Flow From Operating Activities	(629,518)	(889,319)	(520,868)	(124,834)	(87,112)	(160,000)	2,273,549	1,901,603
Investing Activities								
Funds Reserved for Acquisitions	(2,000,000)	(100,000)	446,055	123,300	75,000	0	0	198,300
Capital Ex penditures	(3,500)	(35,933)	(11,160)	0	0	0	0	0
Investments	-	-	-	-	-	-	-	0
Other Cash flows from Investing Activities	0	0	0	0	0	0	0	0
Total Cash Flows From Investing Activities	(2,003,500)	(135,933)	434,895	123,300	75,000	0	0	198,300

**Venture Research, LLC**  
*Independent Research*

**Table 8 Balance Sheets**

	Actual FY 6/30/2006	Actual FY 6/30/2007	Actual FY 6/30/2008	Actual Q1 9/30/2008	Est. Q2 '09FY 12/31/2008	Est. Q3 '09FY 3/31/2009	EstQ4 '09FY 6/30/2009	Est. FY '09 6/30/2009
<b>Assets</b>								
<b>Current Assets</b>								
Cash And Cash Equivalents	1,138,209	112,957	26,984	25,450	13,338	(146,662)	2,126,887	
Funds Reserved for Acquisition	2,000,000	2,100,000	1,653,945	1,530,645	1,455,645	1,455,645	1,455,645	
Other Current Assets	39,318	-	-					
<b>Total Current Assets</b>	<b>3,177,527</b>	<b>2,212,957</b>	<b>1,680,929</b>	<b>1,556,095</b>	<b>1,468,983</b>	<b>1,308,983</b>	<b>3,582,532</b>	
Property Plant and Equipment	5,820	37,104	41,509	39,766	38,023	36,280	34,537	
Other Assets	22,209	26,209	26,209	26,209	26,209	26,209	26,209	
<b>Total Assets</b>	<b>3,205,556</b>	<b>2,276,270</b>	<b>1,748,647</b>	<b>1,622,070</b>	<b>1,533,215</b>	<b>1,371,472</b>	<b>3,643,278</b>	
<b>Liabilities</b>								
<b>Current Liabilities</b>								
Accounts Payable	61,030	41,650	112,782	107,112	130,000	140,000	100,000	
Other Current Liabilities	0	145,595	321,270	362,496	362,496	362,496	362,496	
<b>Total Current Liabilities</b>	<b>61,030</b>	<b>187,245</b>	<b>434,052</b>	<b>469,608</b>	<b>492,496</b>	<b>502,496</b>	<b>462,496</b>	
Long Term Debt	0	-	0	0	0	0	0	
Other Liabilities	342,468	-	0	0	0	0	0	
<b>Total Liabilities</b>	<b>403,498</b>	<b>187,245</b>	<b>434,052</b>	<b>469,608</b>	<b>492,496</b>	<b>502,496</b>	<b>462,496</b>	
<b>Stockholders' Equity</b>								
Common Stock	29,868	30,512	30,719	30,741	30,791	30,791	30,791	
Retained Earnings	(4,838,373)	(6,267,289)	(7,200,142)	(7,381,775)	(7,543,518)	(7,715,261)	(5,403,455)	
Capital Surplus	7,610,563	8,325,802	8,484,018	8,503,496	8,553,446	8,553,446	8,553,446	
<b>Total Stockholder Equity</b>	<b>2,802,058</b>	<b>2,089,025</b>	<b>1,314,595</b>	<b>1,152,462</b>	<b>1,040,719</b>	<b>868,976</b>	<b>3,180,782</b>	
<b>Equity and Liabilities</b>	<b>3,205,556</b>	<b>2,276,270</b>	<b>1,748,647</b>	<b>1,622,070</b>	<b>1,533,215</b>	<b>1,371,472</b>	<b>3,643,278</b>	

Pakistan Exploration View and History: AEGG Yasin Block is in the central Indus Basin in the area marked below as the 'red', 'mainly gas' reserves. This is a rural area quite distant from the borders and major cities that have experienced most of the violence.

