

13th May 2011

Analyst: Thomas Jones

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## Sefton Resources\* – Kansas Assets Valued at \$100 million. Speculative Buy with 9p Target (up from 5p)

On the 12<sup>th</sup> of May, Sefton announced that Dr Nafi Onat had valued the majority of its Kansas assets at \$100.1 million. The Independent Competent Persons Report was commissioned last year and provides transparency and an evaluation of the potential of the existing and newly acquired assets.

Dr Onat's geotechnical review and economic evaluation covered both conventional (sandstone, limestone and dolomite) and unconventional (coalbed methane gas) prospects in Anderson, Franklin and Leavenworth counties, Kansas. The oil price and operating costs were kept constant throughout, but the gas price began at \$4 per mcf and increased by 10% pa until reaching a ceiling of \$6.50 per mcf.

Excluded from the report were the McLouth and Burgess formations in Leavenworth County, together with the transportation of 3<sup>rd</sup> party gas through TEG Mid-Continent's (100% owned subsidiary of Sefton) pipeline. TEG is commissioning a geologic study on McLouth and Burgess to allow for the inclusion of these prolific formations in any future updated economic assessment.

So on to the results and the Anderson County Squirrel / Bartlesville oil (prospective) resources were estimated at 1,747,897 barrels, producing cumulative cash flows of \$73.2 million during its life and a NPV10 (net present value, 10% annual discount rate) of \$48.4 million.

The Anderson County Warner Sand (prospective) gas resources were estimated at 15.7 Bcf (billion cubic feet), producing cumulative cash flows of \$32.9 million and a NPV10 of \$20.5 million.

The Anderson & Franklin Counties coalbed methane (contingent) gas resources were estimated at 32.5 Bcf, producing cumulative cash flows of \$105.9 million and a NPV10 of \$28.1 million.

The Leavenworth County Cholla coalbed methane (possible) gas resources were estimated at 0.53 Bcf, producing cumulative cash flows of \$2.2 million and a NPV10 of \$1.2 million.

The remaining coalbed methane (contingent) gas resources in Leavenworth County were estimated at 2.3 Bcf, producing cumulative cash flows of \$6.2 million and a NPV10 of \$1.9 million.

Combining these results, total oil resources stand at 1.75 million barrels, gas resources at 51.03 Bcf, cumulative cash flows at \$220.4 million and NPV10 at \$100.1 million. As the resource classifications confirm, confidence in these quantities is low (contingent, prospective, possible), but given this is only the first assessment, we would expect Sefton to lift its classification over time.

Key Data	
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Market	AIM
Website	<a href="http://www.seftonresources.com">www.seftonresources.com</a>
Sector	Oil & Gas
Contact	Jim Ellerton Acting Chairman & CEO +1 (303) 759 2700

The two other pieces of news released on the 12<sup>th</sup> were the receipt of an Outstanding Oil Field Lease and Facility Award for Sefton's 2010 operation of the Tapia oil field (California) and the partial completion of its acquisition of acreage (leases, wellbores, equipment and technical data) proximate to the LAGGS pipeline. Of the \$200,000 purchase price for the acreage, due diligence has been completed on \$108,681 worth, and this partial acquisition was completed on the 29<sup>th</sup> of April. In a separate acquisition, TEG Mid-Continent paid Cholla \$35,000 for a computerised database of proprietary well data and shallow gas prospects in the Leavenworth area, print maps, cross sections and a proprietary report detailing all prospects, geology, and engineering in the area.

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Having already valued Sefton's Californian assets at £12.7 million, even if we attribute only 20% of Dr Onat's Kansas valuation (\$100.1 million) to our analysis, this adds another £12.5 million to our valuation and lifts our target price from 5p to 9p after factoring in the dilution from the equity issue on the 28<sup>th</sup> of March. Further upside remains in the enhanced recovery techniques being evaluated in California and of course the monetisation of its Kansas pipeline infrastructure and further resource finds.

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Source: Company and Growth Equities & Company Research

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13th May 2011

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Combining these results, total oil resources stand at 1.75 million barrels, gas resources at 51.03 Bcf, cumulative cash flows at \$220.4 million and NPV10 at \$100.1 million. As the resource classifications confirm, confidence in these quantities is low (contingent, prospective, possible), but given this is only the first assessment, we would expect Sefton to lift its classification over time.

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13th May 2011

Analyst: Thomas Jones

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Combining these results, total oil resources stand at 1.75 million barrels, gas resources at 51.03 Bcf, cumulative cash flows at \$220.4 million and NPV10 at \$100.1 million. As the resource classifications confirm, confidence in these quantities is low (contingent, prospective, possible), but given this is only the first assessment, we would expect Sefton to lift its classification over time.

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12 Month Range	0.5p – 9.75p
Market	AIM
Website	<a href="http://www.seftonresources.com">www.seftonresources.com</a>
Sector	Oil & Gas
Contact	Jim Ellerton Acting Chairman & CEO +1 (303) 759 2700

The two other pieces of news released on the 12<sup>th</sup> were the receipt of an Outstanding Oil Field Lease and Facility Award for Sefton's 2010 operation of the Tapia oil field (California) and the partial completion of its acquisition of acreage (leases, wellbores, equipment and technical data) proximate to the LAGGS pipeline. Of the \$200,000 purchase price for the acreage, due diligence has been completed on \$108,681 worth, and this partial acquisition was completed on the 29<sup>th</sup> of April. In a separate acquisition, TEG Mid-Continent paid Cholla \$35,000 for a computerised database of proprietary well data and shallow gas prospects in the Leavenworth area, print maps, cross sections and a proprietary report detailing all prospects, geology, and engineering in the area.

Without the existence of any previous third party analysis of Sefton's Kansas assets, few would have attributed any value to them. However, as the spike in Sefton's share price demonstrates, Dr Onat's work has been well received and while the current resource classifications are on the speculative side, there is undoubted value in quantifying what has been found.

Having already valued Sefton's Californian assets at £12.7 million, even if we attribute only 20% of Dr Onat's Kansas valuation (\$100.1 million) to our analysis, this adds another £12.5 million to our valuation and lifts our target price from 5p to 9p after factoring in the dilution from the equity issue on the 28<sup>th</sup> of March. Further upside remains in the enhanced recovery techniques being evaluated in California and of course the monetisation of its Kansas pipeline infrastructure and further resource finds.

## Forecast Table

Year to 31st December	Turnover (US\$ million)	Pre-tax Profit (US\$ million)	Earnings Per Share (cents)	Price Earnings Ratio (x)	Dividend (cents)	Yield (%)
2008A	4.69	0.33	0.29	8.8	0.0	0.0
2009A	2.74	(0.29)	(0.25)	NA	0.0	0.0
2010E	4.1	0.5	0.20	12.7	0.0	0.0
2011E	5.2	1.2	0.47	5.4	0.0	0.0

Source: Company and Growth Equities & Company Research

\*This company is a corporate client of Rivington Street Corporate Finance which, in Rivington Street Holdings, share a common ultimate owner with Growth Equities & Company Research.



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13th May 2011

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Tel: 020 7562 5422

## Sefton Resources\* – Kansas Assets Valued at \$100 million. Speculative Buy with 9p Target (up from 5p)

On the 12<sup>th</sup> of May, Sefton announced that Dr Nafi Onat had valued the majority of its Kansas assets at \$100.1 million. The Independent Competent Persons Report was commissioned last year and provides transparency and an evaluation of the potential of the existing and newly acquired assets.

Dr Onat's geotechnical review and economic evaluation covered both conventional (sandstone, limestone and dolomite) and unconventional (coalbed methane gas) prospects in Anderson, Franklin and Leavenworth counties, Kansas. The oil price and operating costs were kept constant throughout, but the gas price began at \$4 per mcf and increased by 10% pa until reaching a ceiling of \$6.50 per mcf.

Excluded from the report were the McLouth and Burgess formations in Leavenworth County, together with the transportation of 3<sup>rd</sup> party gas through TEG Mid-Continent's (100% owned subsidiary of Sefton) pipeline. TEG is commissioning a geologic study on McLouth and Burgess to allow for the inclusion of these prolific formations in any future updated economic assessment.

So on to the results and the Anderson County Squirrel / Bartlesville oil (prospective) resources were estimated at 1,747,897 barrels, producing cumulative cash flows of \$73.2 million during its life and a NPV10 (net present value, 10% annual discount rate) of \$48.4 million.

The Anderson County Warner Sand (prospective) gas resources were estimated at 15.7 Bcf (billion cubic feet), producing cumulative cash flows of \$32.9 million and a NPV10 of \$20.5 million.

The Anderson & Franklin Counties coalbed methane (contingent) gas resources were estimated at 32.5 Bcf, producing cumulative cash flows of \$105.9 million and a NPV10 of \$28.1 million.

The Leavenworth County Cholla coalbed methane (possible) gas resources were estimated at 0.53 Bcf, producing cumulative cash flows of \$2.2 million and a NPV10 of \$1.2 million.

The remaining coalbed methane (contingent) gas resources in Leavenworth County were estimated at 2.3 Bcf, producing cumulative cash flows of \$6.2 million and a NPV10 of \$1.9 million.

Combining these results, total oil resources stand at 1.75 million barrels, gas resources at 51.03 Bcf, cumulative cash flows at \$220.4 million and NPV10 at \$100.1 million. As the resource classifications confirm, confidence in these quantities is low (contingent, prospective, possible), but given this is only the first assessment, we would expect Sefton to lift its classification over time.

Key Data	
EPIC	SER
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Spread	7.25p – 7.5p
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