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Analyst: Jon Levinson
 Email: jon.levinson@gecr.co.uk
 Tel: 020 7562 3357

Sefton Resources* - First Quarter Report Sets Out the Potential for the Value Building News Flow; Speculative Buy with a 5p Target

The first quarter report showed that the value proposition at Sefton Resources is developing. The pilot steam flood operations will be increased from 35% capacity up to 80% over the coming weeks and should increase production from the baseline of 130 bpd (barrels per day). This likely production increase is at a time when local California oil is priced at a 4% premium to NYMEX futures at just over \$107/bbl when it is typically at 7% -9% discounts. The steam flood sensitivity geologic modelling will be completed in early April ready for Dr Farouk Ali to commence his steam flood modelling work, which will last several weeks and is expected to be completed by June 2011 and should indicate the extent of the permanent production increase.

Repairs are completed and the Vanguard pipeline is being tested on a critical segment and first volumes should be going through this year and producing initial revenues. Tests on the second pipeline, LAGGS, have begun and three areas of repair have been identified and will be made in order of operational importance. The two systems Vanguard and LAGGS will be connected later in 2011 so it will be possible to move additional gas to market. The last of the gas assets is the Waverly facility in the Anderson County consisting of over 10 miles of pipeline, fifteen well bores, two salt water disposal wells and a dehydration facility capable of processing 10 million cubic feet of gas per day. There is an inactive tap and reactivation of the tap is expected to take place in early 2012.

Over the last 10 years, Sefton have on a tight budget accumulated 100% interests in oil producing licences in California. Its proven reserves have a present value (PV10) of £50m, which should be worth more than 5p a share. Sefton has also slowly built, at depressed prices, gas and infrastructure assets in three areas. Sefton is cash generative and profitable and the immediate strategy is to increase production, reserves and the investor profile. Production at Tapia Canyon, its biggest asset is running at 130 bpd and is set to increase after the implementation of an enhanced recovery technology called cyclic steam. After positive results in 2008 the pilot is to be re-started and with the next phase will be testing with a continuous steam flood process. This is expected to demonstrate that oil recovery can be improved by heating the oilfield with steam to increase the flow of the viscous (heavy) oil. This is a proven recovery method and the data gathered from the pilot is to be studied by Dr Farouq Ali, a leading expert, and implementing his findings should lead to a stepped increase in production.

The more recently acquired Kansas gas assets, which include conventional gas, Coal Bed Methane (CBM) and gas

Key Data	
EPIC	SER
Share Price	1.625p
Spread	1.5p - 1.75p
NMS	15,000
12 Month Range	0.5p – 2.375p
Total no of Shares	280,031,959
Market Cap	£4.6 million
Net Debt	\$6.7 million (estimated)
Market	AIM
Website	www.seftonresources.com
Sector	Oil & Gas
Contact	Jim Ellerton Acting Chairman and CEO Tel: +1 (303) 759 2700

pipelines are planned to be activated during 2011. These assets were accumulated as a contrarian play when prices were low and could well add up to a significant play in NE Kansas as the pipelines provide the route to market for gas reserves and wells that are being brought back on stream. Sefton is planning to link both pipelines which will also serve other producers, and generate additional cash and profits.

Jim Ellerton, the CEO, Acting Chairman and 9.5% shareholder commented, 'We continue to focus on developing cash flow and profits while building the reserves. Sefton made an operating profit each year since 2007 and achieved positive cash flow from operations between 2006 and 2008. The results to the six months to June 2010 showed an operating profit of approximately \$527,154 and a net profit of \$334,793'.

Sefton's Tapia Canyon assets should more than double output from the base line of 130 bopd to approximately 300 bopd through the drilling of a further 6 wells at Tapia and the continued implementation of steam flooding. The work could cost around \$3.5million and funding options include cash flow, debt facility, joint ventures and share placings. The Dr Farouq Ali study is due for delivery before June and could show the feasibility of a significant potential production uplift in excess of 1,000 bopd.

The shorter-term growth comes from the roll-out of steam flooding in California and the monetisation of its gas assets in Kansas. Sefton's management have shown the ability to operate profitably and generate cash flow and have ambitions to acquire and develop other North American assets.

Sefton Resources is benefitting from the buoyant oil prices at its oil wells in California. Progress is being made on it gas pipeline infrastructure projects in Kansas. The funded repair and maintenance programme allows Sefton control of the route to market for a substantial area of gas resources. Progress has been such that it looks as though the company will be gaining cash flow from these operations before the year end. In the quarterly announcement it was mentioned that the board are looking to do deals in the area with other gas producers. Certainly as more news emerges on the gas; it looks as though we will have to up our 5p target price as this was based only on the oil production in California. The risk seems firmly on the upside Speculative Buy. Sefton Resources is benefitting from the buoyant oil prices at its oil wells in California. Progress is being made on it gas pipeline infrastructure projects in Kansas. The funded repair and maintenance programme allows Sefton control of the route to market for a substantial area of gas resources. Progress has been such that it looks as though the company will be gaining cash flow from these operations before the year end. In the quarterly announcement it was mentioned that the board are looking to do deals in the area with other gas producers. Certainly as more news comes out on the gas; it looks as though we will have to up our 5p target price as this was based only on the oil production in California. The risk seems firmly on the upside **Speculative Buy**.

Forecast Table:

Year to 31st December	Turnover (US\$ Million)	Pre-tax Profit (US\$ Million)	Earnings Per Share (cents)	Price Earnings Ratio	Dividends Per Share (cents)	Dividend Yield (%)
2008A	4.69	0.33	0.29	11.9	0.0	0.0
2009A	2.74	(0.29)	(0.25)	NA	0.0	0.0
2010E	4.10	0.50	0.20	17.3	0.0	0.0
2011E	5.20	1.20	0.47	7.4	0.0	0.0

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email philip.morrish@gecr.co.uk - fax 020 7628 3815 tel 0207 562 3371