

# GRASS ROOTS RESEARCH\* AND DISTRIBUTION, INC.

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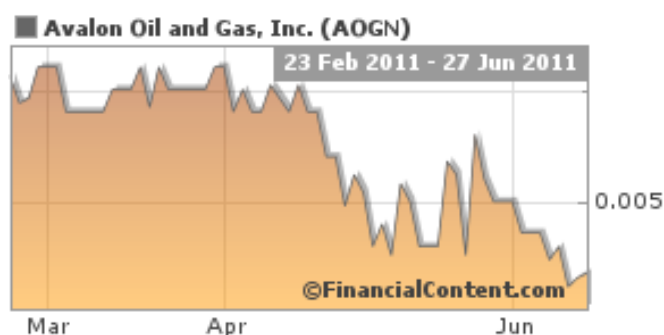
Telephone: 415.454.6985

June 28, 2011



## AVALON OIL & GAS, INC.

Symbol	AOGN
Exchange	OTCQB
Current Price	\$0.0034
52 Week High/ Low	\$0.015/0.0016
Avg. daily volume (3 mo.)	761,120
Shares Outstanding (in mil)	468.6
Current Market Cap (in mil)	\$1.55
Float As % of Shares Out.	22%



Cohen Price Index Target

**\$ 0.04**

### INVESTMENT THESIS & RECOMMENDATION

Avalon Oil and Gas, Inc. is a development stage oil and gas company focused on acquiring a portfolio of mature oil & gas producing properties. The Company's business strategies are based on acquiring shut-in or prematurely abandoned wells with proven reserves, and utilizing production enhancement technologies to complete work-overs and increase production rates. The Company has acquired an attractive and balanced portfolio of oil and gas producing properties with low risks. Avalon expands production within these proven oil and gas fields by utilizing cutting edge production and completion technologies. We believe this to be a compelling business model as it considerably reduces risk and allows the Company to diversify its asset base and expedite revenue growth.

Industry dynamics are favorable. The focus on development of domestic oil and gas with a mission to reduce dependence on foreign oil has never been so strong. At the micro-level, the importance of oil and gas investment companies that acquire mature wells and utilize technology to improve production rates is at its peak. We expect the current strength in oil and gas prices to continue. These factors bode well for the Company. In addition to oil and gas, Avalon's technology group, Oiltek, Inc., acquires and develops oil production enhancing technologies from early stage licensing partners. The pending listing of Oiltek will further enhance shareholder value.

Key Value drivers include: unique business model, strong asset portfolio, favorable industry dynamics and a strong management team. The Company will have to raise approximately \$4.0 million of capital to meet our forecasted top line growth assumptions. Recently received cash funding of \$450,000 is encouraging. Revenues are expected to grow from \$0.2 million in FYE March 31, 2011 to more than \$104.3 million by FYE 2015. Based on these projections and provided that the Company raises the required funds, AOGN common stock may have considerable upside on the short and long term. Our Cohen Target Price is 1162.1% higher than the current market price. This price target is higher than our normal price targets because this sub penny stock is so depressed, and we believe undervalued.

**SALES, EARNINGS MARGIN FORECAST – BASE CASE**

<b>all figures in \$ million; unless otherwise specified</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Revenues	0.3	0.2	3.8	43.4	86.9	104.3
<i>% growth</i>	-18.1%	-31.5%	2000.0%	1050.0%	100.0%	20.0%
EBITDA	0.6	(1.3)	0.9	14.4	33.6	41.9
<i>EBIT Margin</i>	215.9%	-698.6%	22.9%	33.1%	38.6%	40.2%
Net Profit	(2.3)	(1.7)	(0.1)	11.4	17.4	19.7
<i>Net Profit Margin</i>	-865.4%	-927.2%	-3.7%	26.3%	20.0%	18.9%
Earnings Per Share - Diluted	(0.01)	(0.00)	(0.00)	0.02	0.03	0.04
Free Cash Flow to Firm	(0.1)	(1.4)	(3.4)	3.5	4.0	8.5

**COHEN PRICE TARGET SUMMARY**

The Cohen Price Target is calculated by 25% equal weighting of four different valuation methodologies. We use an industry average PE, an industry average price/capital employed (P/CE), a Cohen Performance Index, and the fundamentally driven Cohen DCF.

**The Cohen Price Target™ Formula**

<b>Price-to-Earnings (P/E)</b>		<b>in US\$</b>
AOGN - Earnings Per Share (Avg. 2011 & 2012)	0.00	
Industry Average P/E Ratio	16.93	
<b>Price based on P/E Ratio</b>		<b>0.05</b>
<b>Price-to-Capital Employed (P/CE)</b>		<b>in US\$</b>
AOGN - Capital Employed	0.01	
Industry Average P/CE Ratio	5.25	
<b>Price based on P/CE Ratio</b>		<b>0.04</b>
<b>Cohen Discounted Cash Flow Model</b>		<b>in US\$</b>
<b>Cohen DCF Value - Base Case</b>		<b>0.06</b>
<b>Cohen Performance Index</b>		<b>in US\$</b>
Cohen Price Performance Index Value	96.0%	
AOGN - Current Stock Price	0.003	
<b>Price based on Cohen Performance Index</b>		<b>0.01</b>
<b>Cohen Price Index Target</b>		<b>0.04</b>
Current Price		0.003
<b>Upside/ (Downside) Potential</b>		<b>1162.1%</b>



## EXECUTIVE SUMMARY

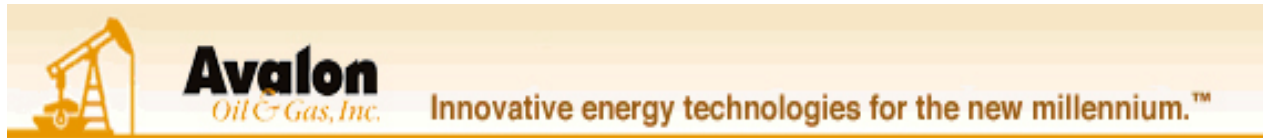
- Avalon Oil & Gas, Inc. is an oil and gas investment company engaged in the acquisition of oil and gas producing properties. The Company invests in underdeveloped properties with stable cash flows. In addition, Avalon's technology group acquires and develops energy production enhancing technologies.
- Avalon's strategy of acquiring mature producing wells and prematurely abandoned properties in proven oil and gas reserves is a well thought out long-term business model. This strategy allows the Company to expand production within a proven oil and gas field by utilizing cutting edge well stimulation and completion technologies. As a result, it reduces the risk associated with prospects and allows easy in-field re-entry.
- Avalon has assembled an excellent and diversified asset portfolio. The Company is acquiring interests in stable, mature production assets in prolific oil and gas producing regions in Louisiana, Texas, Arkansas, and Oklahoma. Avalon is also divesting assets that do not fit its overall business strategy.
- In addition to developing and commercializing the acquired properties, Avalon is actively considering acquiring additional prolific assets. The Company is close to acquiring certain Fossiltek, Inc. assets, and is also evaluating several other opportunities. Further, Avalon is also continuously looking at expanding its stakes or minority working interests in already acquired properties.
- The Company has completed the due diligence and is negotiating various agreements with Fossiltek, Inc. to purchase non-operating working interests in five (5) producing oil wells and thirty-three (33) producing gas wells, for a combination of cash and common stock.
- As of today, the Company's proven reserve base is approximately 7,400 barrels of oil and 92,000 MCF of gas. Estimated unproven reserves owned by Avalon total 300,000 barrels of oil and over 500 MCF of gas. These would be significantly increased with the acquisition of the Fossiltek Properties.
- Another strategy is to use technology to enhance production and thus increase long-term value. Avalon has licensed these technologies to Oiltek along with the rights to market its portfolio of energy technologies. The Company plans to spin-off Oiltek (OTCBB listing planned for Oiltek for August 2011) in order to allow it to focus independently on commercialization of existing technologies and expansion of its technology portfolio.
- Developments in emerging markets such as China and India, poor geopolitics in key oil producing areas, and economic slowdown in developed nations are all likely to place continued pressure on the demand and supply of oil and natural gas. The US government is interested in increasing domestic production of natural gas to break the dependence on foreign oil and reach clean energy goals.
- However, as with any small Company, capital access and competition from larger companies are risks associated with AOGN. Though Avalon recently received cash funding of \$450,000, the Company will require an additional \$4,000,000 USD in funding. Its inability to raise this additional capital may significantly impact its growth plans.
- Nevertheless, the recent merger and acquisition activities in the oil and gas industry prove the long-term value associated with energy investment companies such as Avalon.

### Financial Forecasts and Valuation

- We expect revenues of \$0.2 million for FYE March 31, 2011 and more than \$104.3 million by 2015. The Company is expected to efficiently manage operations and experience a steady rise in operating margins and net profit margins.
- The Cohen Price Index Target is calculated using 2012 Price-to-Earnings ratio (P/E), Cohen Price-to-Capital Employed ratio (P/CE), Cohen Discounted Cash Flow (DCF) method and Cohen Price Performance Index. The P/E and P/CE are based on market multiples and representative of the broader industry in which the Company operates. The Cohen Price Performance Index is a representative of the post coverage performance of all stocks covered by us. The Cohen Price Index Target is the value derived using the long-term DCF valuation approach.
- Based on an average of these methods, AOGN common stock is valued at \$0.04 per share, 1162.1% higher than current market price of \$0.0034. Its depressed price has created an abnormally high price target.
- We believe our valuation is conservative. Assuming the Company raises additional equity capital and is able to achieve its internal forecasts, the stock could trade at higher levels in the short term and long term.



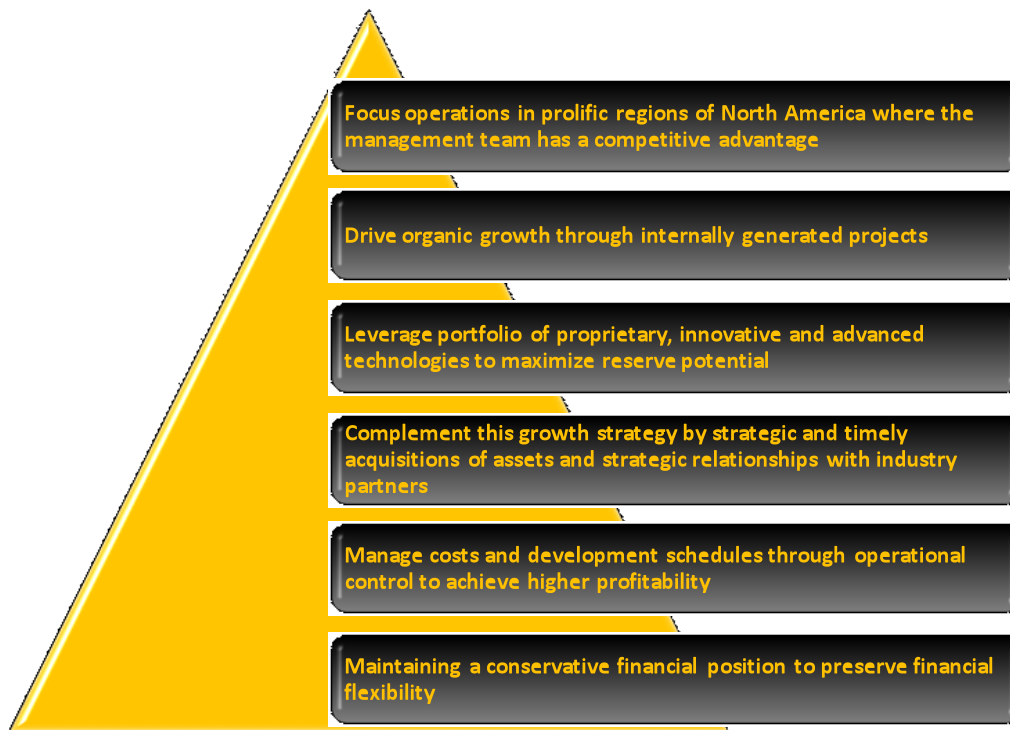
## INVESTMENT SUMMARY



Avalon Oil & Gas, Inc. (OTCQB: AOGN) is an oil and gas investment company focused on the acquisition of oil and gas producing properties in the United States. The Company's strategy is to acquire producing properties that have proven reserves with established in-field drilling locations. At the same time, Avalon plans to continue to build an impressive portfolio of innovative production enhancement and completion technologies for the oil and gas industry. Efficient property acquisition strategy coupled with commercializing its innovative technology portfolio will enable Avalon to generate significant cash flows and deliver high shareholder return.

Avalon owns a diversified portfolio of oil and gas producing properties. The Company's acquisition strategy is based on acquiring stable and mature properties located in prolific producing regions across the country. Avalon is targeting shut-in and prematurely abandoned wells which have proven oil and gas reserves. This reduces the risk associated with the projects and provides the Company with the opportunity to expand production by utilizing cutting edge well stimulation and completion technologies. Also, Avalon will continue to divest assets that do not fit its business strategy.

Figure 1: Avalon's Corporate Strategy



Source: Cohen Research



The Company's key strength is based on its management team and advisory board which have strong experience in the oil and gas industry. The Company plans to capitalize on management's strong industry expertise to continue organic growth by assembling an attractive portfolio of assets with lower risk and maximum reserve potential. The recent addition of René Haeusler to the Company's Board provides considerable expertise in international equity investment. This will help to improve the Company's ability to raise capital. In addition to organic growth, Avalon will also target exciting acquisition opportunities and strategic relationships with industry partners. With use of its proprietary current and advanced technologies in developing these assets, AOGN will focus on improving profitability and ensuring superior operating cash flows.

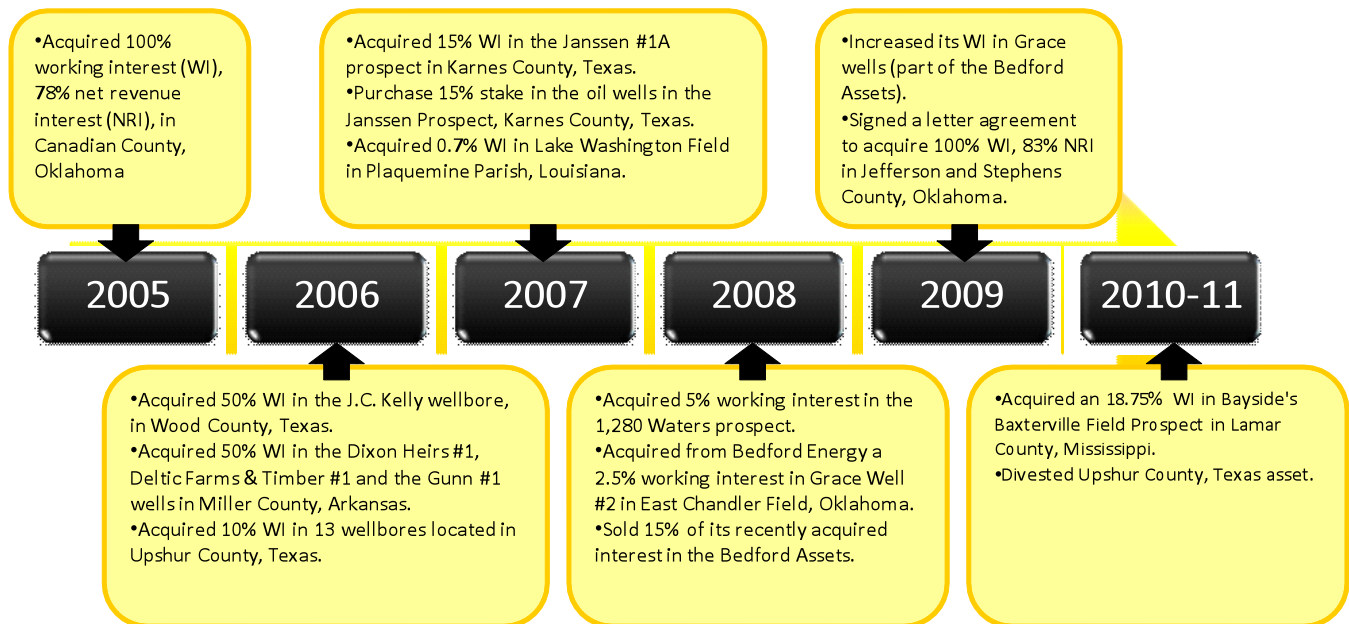
In the current year, we expect the Company to consolidate and enhance its oil and gas properties and acquire new acreage to expand its reserve base. Avalon will need to invest approximately \$4,000,000 USD to expand acreage and purchase additional oil and gas producing wells. We expect long term upside revenue opportunities from the Company's portfolio of assets, its highly scalable business model, and as its new acquisitions oil and natural gas continue to increase. Avalon is one of most exciting junior oil and gas investment companies and provides a compelling short-term and long-term investment opportunity for risk-averse investors.



## EVOLUTION OF THE COMPANY

Since its inception in 2005, the Company has acquired a number of lucrative assets in Louisiana, Texas, Arkansas, and Oklahoma.

**Figure 2: Evolution of Company's Property Portfolio**

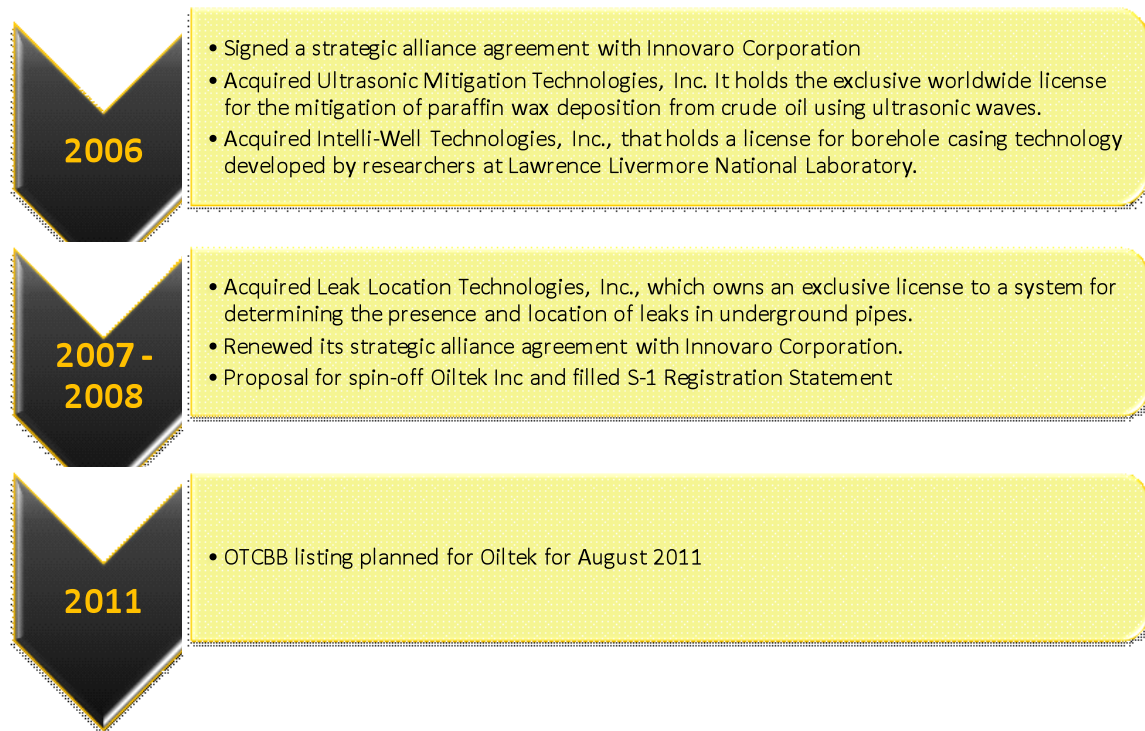


Source: Cohen Research

The Company has a strategic partnership with Innovaro Corporation to develop a portfolio of production enhancement technologies for the oil and gas industry. Avalon holds licenses for technology applications for the mitigation of paraffin wax deposition from crude oil using ultrasonic waves, licensed from the University of Wyoming Research Laboratory. The Company also has an exclusive license for the Smart Oil Well Borehole Casings Technology (Developed at Lawrence Livermore National Laboratory). This technology uses a densely spaced network of casing sensors to monitor critical parameters in a subsurface reservoir. Avalon also holds rights for a patented technology that provides reliable and continuous monitoring of buried pipelines to detect smaller leaks. The Company has acquired these promising technologies from Innovaro Corporation. Rights to market all of Avalon's intellectual property and patented technologies are held by Oiltek, Inc.



**Figure 3: Evolution of Company's Technology Portfolio**



Source: Cohen Research

In the long term, the Company's success depends upon its ability to generate revenues from acquired oil and gas producing properties to achieve profitability. The Company plans to raise and invest additional capital to acquire additional oil and gas producing properties.

**COHEN GROWTH DRIVERS**

Figure 4: Cohen Growth Driver Analysis – Base Case

<b>Annual Revenues, Margins, Assets, Turns</b>						
<b>all figures in \$ million</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Net Revenue	0.3	0.2	3.8	43.4	86.9	104.3
Operating Margin	-298.2%	-765.0%	9.7%	29.7%	34.7%	34.7%
Net Margin	-865.4%	-927.2%	-3.7%	26.3%	20.0%	18.9%
EPS - Diluted	(0.01)	(0.00)	(0.00)	0.02	0.03	0.04
EBITDA	0.6	(1.3)	0.9	14.4	33.6	41.9
Free Cash Flow	(0.1)	(1.4)	(3.4)	3.5	4.0	8.5
Cash and Equivalents	0.0	0.0	0.6	4.2	8.2	16.7
Working Capital	(1.4)	(1.4)	0.3	3.1	6.8	8.2
Long Term Debt	0.1	0.1	-	-	-	-
Total Debt	0.1	0.1	-	-	-	-
Total Assets	2.5	2.4	5.3	20.7	42.0	63.4
DSO	15.8	15.8	73.0	54.8	54.8	54.8

<b>Percentage Change in Annual Revenues, Margins, Assets, Turns</b>						
	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Revenues	-18.1%	-31.5%	2000.0%	1050.0%	100.0%	20.0%
Operating Margin	-38.3%	156.5%	774.7%	20.0%	5.0%	0.0%
Net Margin	16.6%	7.1%	923.5%	29.9%	-6.3%	-1.0%
EPS - Diluted	-43.0%	-75.2%	-92.3%	-8362.6%	52.0%	13.8%
EBITDA	-172.6%	-321.6%	-168.7%	1563.7%	133.6%	24.9%
Free Cash Flow	-97.4%	2365.1%	138.4%	-203.6%	13.9%	111.4%
Cash	76.2%	-43.7%	2148.9%	604.5%	97.6%	104.1%
Working Capital	22.1%	-1.1%	-119.4%	1028.7%	119.5%	20.0%
Total Debt	8.5%	5.9%	NM	NM	NM	NM
Total Assets	-37.4%	-3.6%	122.3%	290.3%	102.7%	51.1%
DSO	-66.1%	-3.6%	363.2%	-25.0%	0.0%	0.0%

Source: Cohen Research

The Cohen Growth Drivers Model is an intelligent road map used by many securities analysts to analyze the forecasted growth of a given company. Avalon Oil and Gas is an exciting oil and gas investment company. The Company has an interesting and unique business model. Unlike oil and gas exploration companies, Avalon is an oil and gas investment company. They invest in existing oil and gas producing properties. Avalon is expected to generate significant revenues from its equity interest in various producing properties. Demand for oil and gas is expected to continue its growth momentum and domestic oil producers are expected to attract considerable interest. The Company needs to spend approximately \$4.00 million in addition to recently acquired funding of \$0.45 million in the next 18 months to meet our financial projections. These investments will increase Avalon's portfolio of producing oil and gas properties.

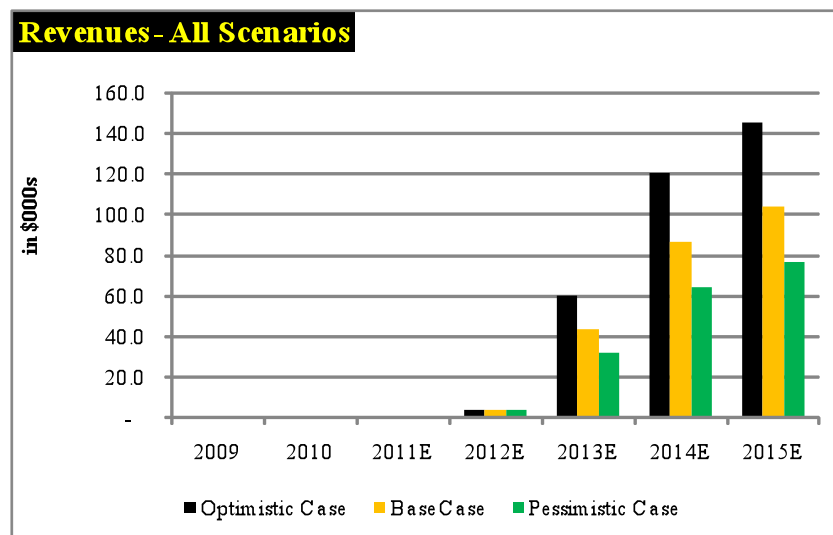
We expect significant growth in revenues as the Company continues to expand its portfolio of producing oil and gas properties. Based on its business model, the Company is expected to have multiple revenue streams. The primary source of revenues is from its interest in producing prolific oil and gas properties. Commercialization of



its innovative technology products and services through its spin-off of Oiltek is also expected to add to the Company's top line. We expect demand for oil and gas properties to rise significantly.

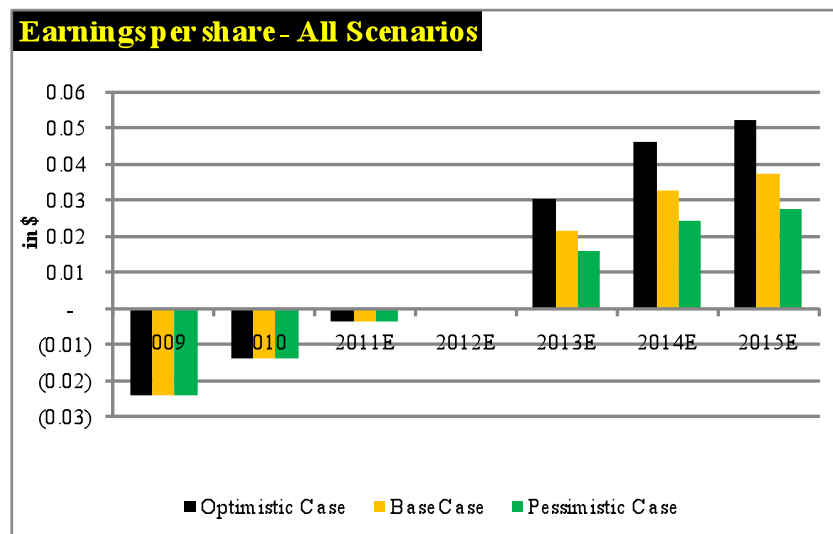
We had earlier expected Avalon to record revenues of over \$4.0 million for FYE 2011, we have revised them to \$0.3 million. This is mainly due to certain delays in commercialization of production assets. Going forward, we expect the Company to report revenues of \$3.8 million for FYE 2012 and \$104.3 million for FYE 2015. The key driver for this growth will be expansion of Company's property portfolio, in-production of its acquired portfolio and expected rise in demand for oil and gas. There are very few oil and gas investment companies in the industry, resulting in modest competition. AOGN is likely to improve its operating margins throughout our forecast period. We have forecasted two additional scenarios; Optimistic Case and Pessimistic Case in addition to our Base Case forecasts.

Figure 5: Revenues - All Scenarios



Source: Cohen Research

Figure 6: Earnings per Share – All Scenarios



Source: Cohen Research



The Company's management team has the required knowledge, skill sets and experience to market, develop and implement its unique business model. Kent Rodriguez is the CEO of the Company. Kent has over 30 years of experience in the oil and gas industry. He is well supported by Jill Allison, Vice President, and a strong advisory board and board of directors. We believe AOGN is a well managed company.

The robust industry dynamics together with a focus on investing in mature and prolific oil and gas properties will reduce the risk associated with its acquisition of assets. This coupled with its expertise in key production technologies will help the Company add significant value to its acquired asset base. In addition, Avalon will benefit from existing long term business relationships and a strong management team.

Our estimates are conservative as we assume minimum growth. Additional investment in acquiring oil producing assets will expand the Company's top-line and expedite growth. Any significant growth in prices for oil and gas will further strengthen the Company's top-line and enhance shareholder value. Growth prospects are impressive. We believe management will be able to achieve our forecasts, provided it is able to successfully raise equity capital of \$4,000,000 USD.



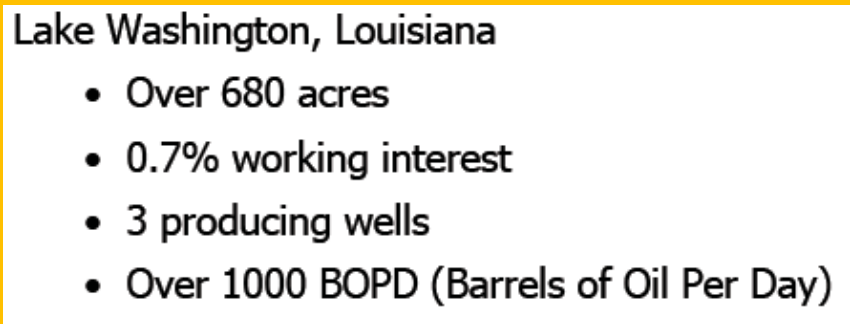
## COMPANY ASSET DESCRIPTION

The Company has assembled an attractive portfolio of oil and gas producing properties spread across prolific regions of the United States. In addition to buying additional properties, Avalon has restructured its asset portfolio by disposing of assets that do not form part of the Company's long-term growth strategy. The cash flows on sale of these assets enable the Company to increase its working interest in existing properties or acquire additional properties. We like the way the Avalon's asset portfolio has evolved during the past few years. A short profile<sup>1</sup> of each of the Company's prospects is given below.

### ***Lake Washington Field - Plaquemines Parish, Louisiana***

Avalon owns a 0.7% working interest in the Lake Washington Field, Louisiana, comprised of three producing units spread across 680 acres. This field is operated by Swift Energy Company (NYSE:SFY) and currently produces over 1,000 barrels of oil per day.

Figure 7: Overview of Lake Washington Field Property



Source: Company Presentation

Lake Washington was discovered in the 1930's and is located around a shallow piercement salt feature. Since discovery almost 80 years ago, the field has produced approximately 350 million barrels of oil, placing it among the largest oil and gas fields in the United States.

### ***E.A. Chance #1 - Camp County, Texas***

Avalon Oil & Gas owns a fifty percent working interest in the E.A. Chance #1 lease, in Camp County, Texas. This is a mature well that was drilled in 1954, is currently producing 8 BOPD.

<sup>1</sup> Some portions of the description of Company's oil and gas properties have been taken directly from its website.



Figure 8: Overview of E.A. Chance #1 & #2 Property

### Camp County, Texas

- 40 acres, 50% working interest
- One producing well; 8 BOPD

Source: Company Presentation

### **Janssen #1A - Karnes County, Texas**

Avalon owns a 7.25% working interest in the Janssen #1A, Karnes County, Texas. The well has been flowing at an average rate of 250 million cubic feet of gas per day and producing 5 barrels of high grade condensate. Avalon received the initial revenue distribution from this property in July 2009 and expects revenue to continue for the next several years.

Figure 9: Overview of E.A. Chance #1 & #2 Property

### Karnes County, Texas

- 7.25% working interest
- Averaging 250 MCF per day; with 5 barrels high grade condensate

Source: Company Presentation

It is estimated that this property holds reserves of 75,000 to 100,000 barrels of condensate and 3 to 4 BCF of gas (billion cubic feet of gas). The well is located in the prolific oil and gas production area that has been very active. PROEX Energy Management (TSX: PXE) (PXEYF.PK) is the operator of the well.

### **Dixon Heirs #1, Deltic Farms & Timber #1, the Gunn #1 - Miller County, Arkansas**

The Company owns a 50.0% working interest in the Dixon Heirs #1, Deltic Farms & Timber #1, and Gunn #1 wells, and associated units and leases. These wells, located in Miller County, Arkansas, are mature wells with stable production (averaging 10 BOPD), and were originally drilled in the early 1980's. Through workovers and production optimization, Avalon and its operating partner have doubled the property's production rate since its acquisition in July, 2006.

Figure 10: Overview of Dixon Heirs #1, Deltic Farms & Timber #1, the Gunn #1

### Miller County, Arkansas

- 50% working interest
- Mature wells with stable production; averaging 10 BOPD

Source: Company Presentation



### **Lipscomb County, Texas**

Avalon owns a 5.0% working interest in the Lipscomb County prospect. This property is spread across 1280 acres and is currently producing 600 MCF of gas per day. The Company plans to dig 4 to 5 offset wells at this site.

**Figure 11: Overview of Lipscomb County Property**

#### **Lipscomb County, Texas**

- 1,280 acres ; 5.0% working interest
- Production of 600 MCF / Day
- 4 to 5 potential offset wells

*Source: Company Presentation*

### **Lincoln County, Oklahoma**

In December 2009, Avalon acquired oil and gas the interests owned by Bedford Energy in the Grace Field, Lincoln County, Oklahoma. At the time of acquisition, Avalon owned a 58.50% working interest in the Grace # 1, a 49.50% working interest in the Grace # 2, a 53.50% working interest in the Grace # 3, a 47.50% working interest in the Grace # 5A, and a 54.50% working interest in the Grace #6. However, over the years the Company has increased its holding in the Grace Wells and currently owns a 76.75% working interest in the Grace #2; a 75.00% working interest in the Grace #5A and 70.0% working interest in each of the other three wells. In addition, Avalon also owns a 50% interest in a salt water disposal well and a 50% interest in two re-entry locations. The Grace #2 and the Grace #5A are producing a total of 400 mcf per day and 5 BOPD. The Grace #1, Grace #3 and Grace #6, are currently shut-in, waiting for workovers to be recompleted. The production rate is expected to increase significantly as soon as the workovers on each well are completed.

**Figure 12: Overview of Lincoln County Property**

#### **Lincoln County, Oklahoma**

- 70% working interest
- 1,040 acres
- Initial production 400 MCF / day ; 5 BOPD
- 5 wells
- Workovers in progress on each well
- 50% working interest in salt water disposal well

*Source: Company Presentation*



### ***Future Properties***

Avalon continues to evaluate various additional properties for possible acquisition. Currently the Company is reviewing the possibility to acquire certain assets from Fossiltek, Inc. Avalon has completed the due diligence on the Fossiltek, Inc. assets and is currently negotiating a Purchase Agreement and a Joint Operating Agreement. Avalon plans to purchase non-operating working interests in five producing oil wells and 33 producing gas wells. Located in the Anadarko Basin of Western Oklahoma, these Fossiltek assets are currently producing six barrels of oil and three hundred thousand MCF of gas per day. These assets are estimated to hold proven reserves of approximately 550,000 MCF of natural gas and over 10,000 BBL of oil. Avalon plans to fund this acquisition with a combination of cash and newly issued equity.

In addition to Fossiltek, Avalon is also reviewing additional acquisitions. All of the properties which it is reviewing have proven reserves, generate immediate cash flow, and provide low risk, in-field drilling locations with additional productive zones in the same well bore.



## COMPANY TECHNOLOGY PORTFOLIO DESCRIPTION

Avalon owns an 80.0% stake in Oiltek, Inc., a technology commercialization company which acquires and develops oil production enhancing technologies from early stage licensing partners. Oiltek is building an exciting portfolio of oil related technologies. Avalon currently has licenses for the following technologies as described below: Paraffin Wax Mitigation Technology, developed at the University of Wyoming; and Smart Borehole Casing Technology, developed at the Lawrence Livermore National Laboratory. The Company is actively considering expanding its technology portfolio of new technologies for the oil and gas industry which have been identified through its partner Innovaro.

### ***Paraffin Wax Mitigation Technology<sup>2</sup>***

The paraffin wax removal technology for improving oil production efficiency utilizes ultrasonic waves to mitigate deposits of paraffin wax from crude oil production equipment. In this process, a series of varying ultrasonic frequency generating devices are positioned in production tubing walls as a means to inhibit the wax from attaching to the pipes. This technology helps prevent precipitate from forming on the pipes and breaks wax bonds, helping operators to maintain optimal oil viscosity thereby increasing flow rates and production efficiency.

### ***Borehole Casing Technology***

The second technology license acquired by Avalon involves smart oil well borehole casings for oil recovery. This technology uses a densely spaced network of casing sensors to monitor critical parameters in a subsurface oil reservoir. Data from a range of sensor types are combined with data fusion technology to yield real-time knowledge of the reservoir and processes such as primary and secondary oil recovery. This technology helps in real-time mapping and monitoring of subsurface fluid composition and distribution in deep oil reservoirs to maximize oil recovery without interfering with normal well operations. It further helps in hydrocarbon recovery and optimizes well locations. Bypassed oil and fluid-flow barriers can be identified; and fluid saturation changes can be effectively mapped.

### ***Leak Detection in Gas Pipelines***

In 2007, the Company purchased a non-exclusive license in the United States for a leak detection and location technology developed by the Rensselaer Polytechnic Institute ("Rensselaer") through its researcher Michael Savic. Transport pipelines carrying hazardous gases are prone to leaks that can create dangerous situations quickly. Current methods for monitoring gas-carrying underground pipelines are limited to detecting relatively large leaks. Avalon's patented technology provides reliable and continuous monitoring of buried pipelines to detect smaller leaks. The system uses a series of acoustic sensors to monitor emission changes in pipelines. This technology has been proven in a natural gas pipeline environment by a major oil and gas company.

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<sup>2</sup> Technology description taken from the Company's website.



## VALUE PROPOSITION

Figure 13: Avalon's Growth and Value Drivers

### Attractive Portfolio of Assets

- Avalon's acquired assets are located in areas which are highly prolific and produce large quantities of oil and gas.
- The Company's business model of being an energy investment company by acquiring interests in oil and gas producing properties is attractive.

### Favorable Industry Economics

- Demand for oil & gas is likely to grow significantly driven by demand from developing nations
- Existing experience and technology allows Avalon to add significant value.

## Avalon Oil and Gas

### Use of Modern Technology

- Avalon has licensed an impressive portfolio of technology assets related to oil and gas production.
- Spin-off of Oiltek will allow it to focus on commercialization of its technologies and further expand its portfolio.

### Strong Management Team

- Avalon has a strong and exciting business model and management is equipped with ability to drive growth and rapidly evolve the Company through its start-up phase.

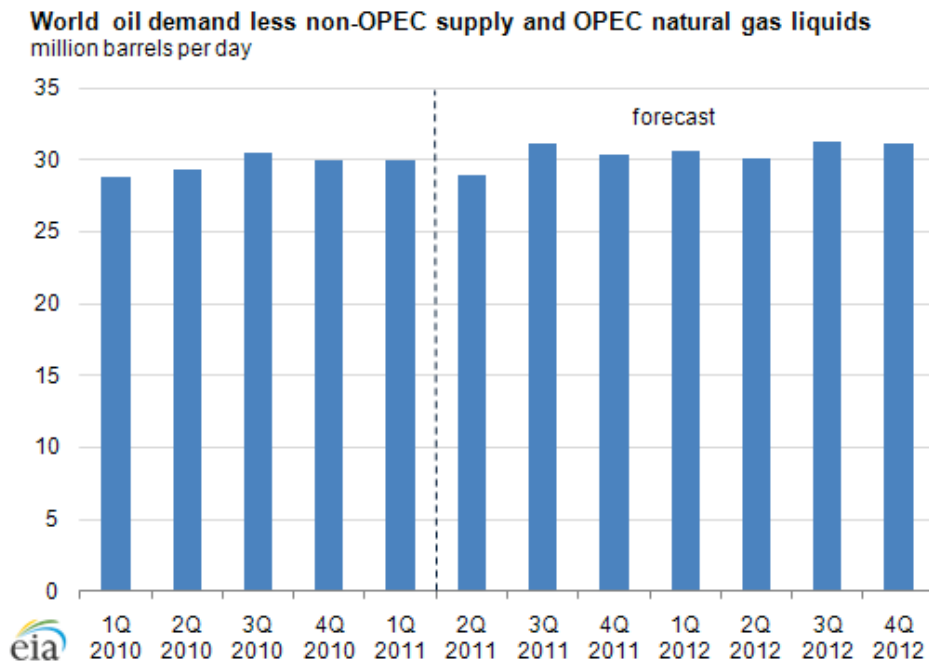
Source: Cohen Research



## INDUSTRY OVERVIEW AND COMPETITION

Increasing unrest in Middle East, rising exploration and production costs, and the increasing imbalance between demand and supply are the primary drivers for the volatility in oil prices. After a stable price scenario during the recessionary period, oil prices have rebounded to trade at highs of \$115.0 per barrel and are currently trading at over \$95.0 per barrel. In the short-term, the U.S. Energy Information Administration (EIA) expects the world demand for oil to increase by at least 1.7 million barrels per day. The main drivers for this growth in oil demand are expected increase in oil demand by Japan to fulfill its electricity demand post the recent tsunami, electricity shortage in China and expected rise in cooling demand in the Middle East. However, with no signs of increase in per day production from OPEC countries and disruption of Libyan oil supply, we expect prices of oil to further rise from these levels.

Figure 14: Short-term Oil Demand Outlook

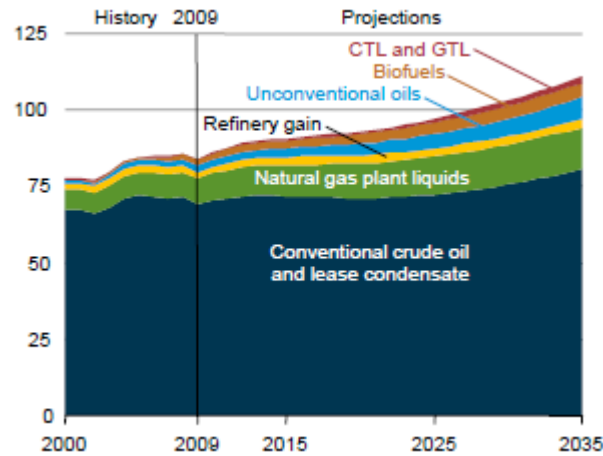


In the long run, the inability of oil companies to replace their reserves and the ongoing depletion of the proven reserves will always provide some sort of supply constraints. Thus, oil and gas prices are expected to remain at high levels. Existing reserves are depleting due to rising energy needs of growing economies such as China, India and Brazil. OPEC does not have spare capacity to increase supply substantially. It is also increasingly difficult for companies to find new oil fields. Iran's nuclear standoff, growing civil unrest in Middle East, nationalization of production by Venezuela, Ecuador, and Bolivia and maturing fields in the U.S. and Europe further constrain supplies. Increases in oil supply are dependent upon technological advancements or price increases in order to make unviable oil resources profitable. Speculative market activities are increasing the demand for oil. The limited supply of drilling and exploration equipment and the growing cost of steel and other raw materials are driving costs higher. A solution is to use previously abandoned land for profitable oil production and use new



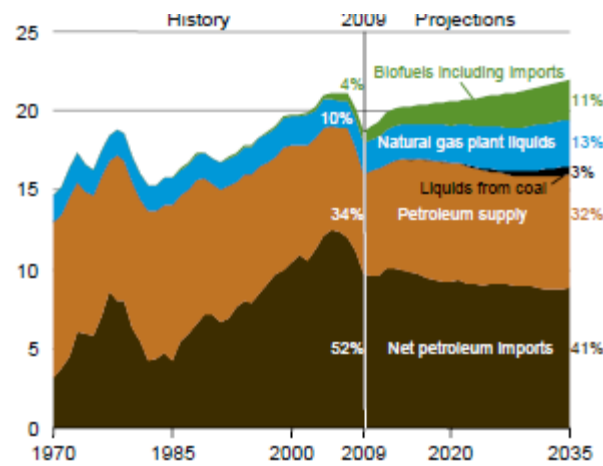
technology in order to meet the growing demand-supply imbalance. Exploration of oil sands is another important solution.

**Figure 15: World Liquid Production (in million barrels)**

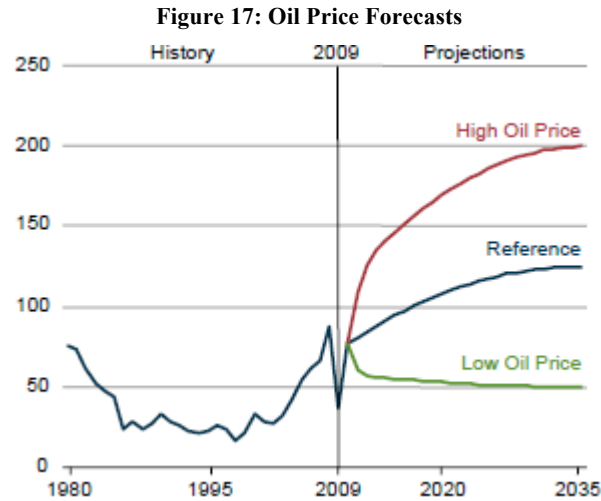


Source: U.S. Energy Information Administration

**Figure 16: U.S. liquids fuel consumption, 1970-2035 (million barrels per day)**



Source: U.S. Energy Information Administration



Source: U.S. Energy Information Administration

## COMPETITION

The global oil and gas industry is highly competitive with competition between numerous individuals, smaller companies, and major oil and gas companies. Avalon, like other oil and gas companies, faces competition for investing in or acquiring interest in producing assets. Factors that affect its ability to acquire producing properties include available funds, available information about the property, and standards established for minimum projected return on investment. Competition is also presented by alternative fuel sources, including heating oil, imported liquefied natural gas and other fossil fuels. However, we believe that there are significant competitive advantages that shall allow the Company to grow its business model. Because of the long-lived, high margin nature of oil and gas reserves and management's experience and expertise in exploiting these reserves, management believes that it effectively competes in the market.



## MANAGEMENT BIOS

Top management at Avalon provides a competitive advantage. Their experience in the field of Oil and Gas, exploration and production includes capitalizing on industry cycles, making opportunistic acquisitions, and significantly ramping-up production bodes well for the Company. Management's capability to source funds for acquisition in current uncertain markets provides liquidity for the Company required to stay afloat in tough commodity cycle conditions.

### ***Chief Executive Officer: Kent Rodriguez***

Mr. Rodriguez joined the Company as President, and Chief Executive Officer in January, 1997. Since 1995, he has been the Managing Partner of Weyer Capital Partners, a Minneapolis-based venture capital corporation. From 1985 to 1995, he was employed by the First National Bank of Elmore, Elmore, Minnesota, in various capacities. He has a B.A. degree in geology from Carleton College, and an Executive MBA from the Harvard Business School.

### ***Vice President: Jill Allison***

In leading Avalon's new technology initiatives, Ms. Allison brings over 25 years of diversified management experience in business development and technology commercialization. Prior to joining Avalon, she managed a strategy consulting practice with focus in enterprise risk management. Her venture development background includes leadership positions with Monsanto, Iridian Technologies, Pinkerton and Cylink Corporation. She holds a B.A. in Economics from Gustavus Adolphus College; a Master's in International Management (MIM) in Marketing from the American Graduate School of International Management, Glendale, AZ; and an MBA in Strategic and Entrepreneurial Management from the Wharton School of the University of Pennsylvania, where she focused on strategic alliances and management of technology.

### ***Director: Douglas Barton***

Mr. Barton has served as a Director of the Company since December 2005. He was a Director of XDOGS.COM from 1998 to February 2005. From 1987 to the present, he has been the President and sole owner of Venture Communications, Inc., a private promotion, and marketing consulting firm. He has a B.S. degree in Economics/History from the University of Minnesota.

### ***Director: René Haeusler***

Mr. Haeusler recently joined Avalon's Board, and brings considerable expertise in international equity investment, covering a wide range of public company and private equity markets for commodities, mineral exploration, biotechnology, and software.

Currently, Mr. Haeusler is Chairman of the Board and Managing Director of the L'Avenir Group (a Swiss investment company comprised of L'Avenir Finanz AG and Lawewa International Ltd.) He also serves as Chairman of the Board of Bowl Construction AG, Member of the Board of ProgressNow!invest AG, a SIX-listed



private equity investment company; Member of the Board of ThaiSwiss SME-Industrial Center Ltd., Prانبuri, Thailand, and of Sempre-Automaten AG and Theracon AG.

Since 1997, Mr. Häusler has successfully raised funds for private equity and PIPE's, in conjunction with various investment funds for biotechnology and precious metals. His background includes Assistant to the Managerial Committee and Head of several departments for Bank Sogenal. He also served as a member of the military-diplomatic Swiss delegation to the Neutral Nations Supervisory Commission (NNSC) in Korea, as liaison officer to the UN High Command and the Government of South Korea.

Mr. Häusler has a Master's degree in history, political science and constitutional law from the University of Zurich. Based in Switzerland, he has published two books on political psychology and numerous articles about the new Chinese economy and politics.

***Advisor: Gordon H. Johnson***

Mr. Johnson is the Chairman and President of Bayside Petroleum BYSD: OTC. Mr. Johnson has decades of experience in oil and gas development and is a third generation oilman. He has worked for Conoco, Pennzoil, Mitchell Energy and additional companies where he received experience in Texas, New Mexico, Oklahoma, Montana, North Dakota and Louisiana. In 1972 he became an independent oil operator. During his career he has been responsible for generating geological prospects, acquiring oil and gas leases and producing properties, generating drilling funds, supervising the drilling and completion of numerous oil and gas wells and coordinating several mergers. From 2004 to present, Mr. Johnson is Chairman of American Gold Resources Corporation, a public company. He has served since 1999 as President of Venture Oil & Gas, Inc., which is currently an inactive company. He also serves as a director of Empiric Energy, Inc. Mr. Johnson attended the University of Texas in Austin, Texas majoring in geology and petroleum land management. He is a member of Texas Independent Producers & Royalty Owners (TIPRO), the Independent Petroleum Association of America (IPAA), Louisiana Oil & Gas Association (LOGA), and the Society of Petroleum Engineers (SPE).

***Advisor: Menno Wiebe***

Mr. Wiebe is as Advisor to Avalon for Latin American petroleum development projects. He has 36 years of energy industry experience as a geologist and manager in international exploration and development projects.

He was, until recently, based in Bogota as Vice President of Exploration for Solana Petroleum Exploration, a very active exploration and production company in Colombia. He is currently involved in Surge Global Energy, a US based Heavy Oil Acreage Aggregator which holds a large land position in the Canadian Oil Sands sector. He also previously served as an officer and director of Deep Well Oil and Gas, as the owner of Jacobean Resources and as the CEO and a director of Pertacal Energy Inc., of Calgary, Canada. Mr. Wiebe was the Vice President and General Manager of Hall-Houston Oil Company in Kuala Lumpur, Malaysia for 8 years and General Manager of Husky Oil in Jakarta, Indonesia for 4 years. He held senior geologist positions with Bow Valley Industries (Indonesia), Occidental Petroleum (Libya, Scotland, USA, India, and Australia) and Hudsons Bay Oil and Gas (CONOCO) in Canada. His educational background includes a BSc (Honours) in Geology from the University of Manitoba, Canada and an MBA from the University of Warwick, England.



***Advisor: Orrie Lee Tawes***

An Advisor to Avalon, Orrie Lee Tawes, III has served as a member of the Board of Directors of GSE Systems, Inc. since August, 2006. Mr. Tawes is the Executive Vice President and Head of Investment Banking and a member of the Board at Northeast Securities, Inc. From 2000 to 2001, he was a Managing Director for C.E. Unterberg, Towbin, an investment and merchant banking firm specializing in high growth technology companies. Mr. Tawes spent 20 years at Oppenheimer & Co. Inc. and CIBC World Markets, where he was Director of Equity Research from 1991 to 1999. He was also Chairman of the Stock Selection Committee at Oppenheimer & Co., a member of its Executive Committee and a member of its Commitment Committee. From 1972 to 1990, Mr. Tawes was an analyst covering the food and diversified industries at Goldman Sachs & Co. and Oppenheimer & Co. As food analyst, he was named to the Institutional Investor All America Research Team five times from 1979 through 1984. Mr. Tawes is a graduate of Princeton University and received his MBA from Darden School at the University of Virginia. He serves as a director for Houston America Energy Corp., Baywood International, Inc. and 100 Wall Energy Partners.

***Advisor: Foy Streetman***

Mr. Streetman has served as a Manager of Carbon Economy, LLC (“Carbon”) and its predecessor APPS Energy since 1986. Mr. Streetman also has been President of Fossiltek, Inc. since October 2001 and Metha Mae Inc. since April 1997 and as Managing Member of Thunder Energy LLC since October 2004, Access I 40 LLC since March 2004, Storage 7000, LLC since July 2003 and Royal Rose LLC since May 2001, which companies own oil and gas interests and real estate holdings. Additionally Mr. Streetman is the President of Strategic Energy Investments Inc., an employment services company, and has served in that capacity since November, 1996. Mr. Streetman served as a director of the Oklahoma Independents Producers Association in 2003 and 2004. Mr. Streetman also served as director of the Oklahoma Oil and Gas Marginal Well Commission from 1992 to 1994.



## LATEST PRESS RELEASE

### *Avalon Provides Shareholder Update on Grace Field Production and the Fossiltek Acquisition*

Press Release

Source: Avalon Oil & Gas, Inc.

MINNEAPOLIS, MN, March 8, 2011 – Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN, Frankfurt: A3MA) provided an update on operations in the East Chandler Field, Lincoln County, Oklahoma, and the acquisition of the Fossiltek, Inc., assets.

“We are pleased to report that the Grace #2 and the Grace #5A wells have been put back into production. Avalon began selling gas from the Grace #2 in August 2010, and oil and gas from the Grace #5A in January,” said Avalon’s CEO, Kent Rodriguez. “We are excited to have these wells producing again. With the increase in oil and natural prices and our low lifting costs, the production from the Grace Wells will have a measurable effect on Avalon’s revenue stream going forward,” he added. Avalon owns a 76.75% working interest and a 52.67% net revenue interest in the Grace #2; and a 75.00% working interest and 51.45% net revenue interest in the Grace #5A. The wells are producing two hundred mcf of gas and one barrel of oil per day. Avalon is continuing to acquire additional fractional working interests in each well, and is reviewing a plan to re-establish commercial production on the Grace #6.

Avalon has completed the due diligence on the Fossiltek, Inc. assets. “We are currently negotiating a Purchase Agreement and Sale Agreement and a Joint Operating Agreement to purchase non-operating working interests in five (5) producing oil wells and thirty-three (33) producing gas wells, for a combination of cash and newly issued common stock,” said Avalon’s CEO, Kent Rodriguez. The properties are located in the Anadarko Basin of Western Oklahoma, in the counties of Roger Mills, Grady, Caddo, Custer, Blaine, and Beckman, and are currently producing six barrels of oil and 300,000 mcf of gas per day. “We hope to close this acquisition in the next thirty (30) days,” added Rodriguez.

#### ***About Avalon Oil & Gas, Inc.:***

Avalon Oil & Gas, Inc., is an oil and gas company engaged in the acquisition and development of producing oil and gas properties. In addition, Avalon’s technology group acquires and develops energy production enhancing technologies. Through Oiltek, Inc., Avalon’s majority-owned subsidiary, Avalon is building an asset portfolio of innovative technologies in the energy industry to maximize enhancement opportunities. To learn more about Avalon, please visit: [www.avalonoil.com](http://www.avalonoil.com).



## VALUATION

### THE COHEN PRICE TARGET™ - \$0.04

The Cohen Price Target™ is a dynamic and logical valuation approach as it combines market-based approaches and intrinsic value methodologies. Capital raising and cash are the life blood of any micro cap/small cap company. Hence, the Cohen Price Target™ includes four components, 25% equal weighted that together reflect and are based on the Company's ability to raise capital for growth. The four components used in our price index are: Price-to-Earnings ratio (P/E), Cohen Price-to-Capital Employed ratio (P/CE) (Both Market based valuation approaches), Cohen Discounted Cash Flow (DCF) method (Theoretically an Intrinsic Value based approach) and Cohen Price Performance Index. Our formula for The Cohen Price Target™ is shown below.

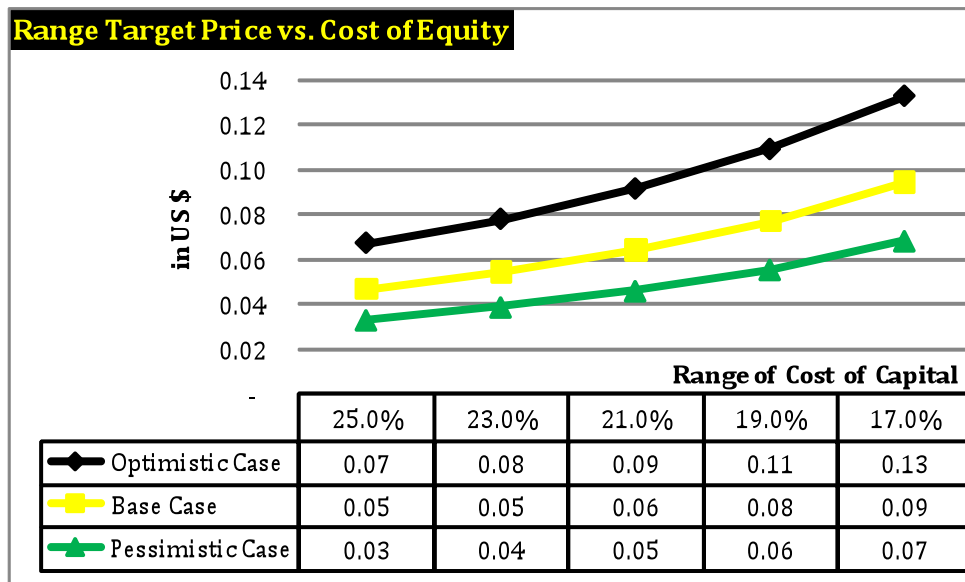
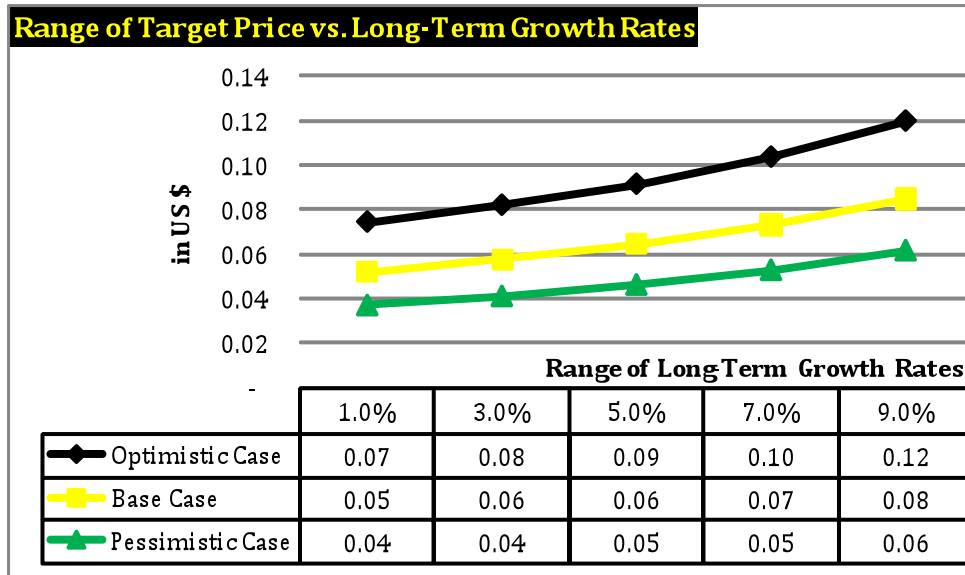
Figure 18: The Cohen Price Target™ Formula

Price-to-Earnings (P/E)	in US\$
AOGN - Earnings Per Share (Avg. 2011 & 2012)	0.00
Industry Average P/E Ratio	16.93
<b>Price based on P/E Ratio</b>	<b>0.05</b>
Price-to-Capital Employed (P/CE)	in US\$
AOGN - Capital Employed	0.01
Industry Average P/CE Ratio	5.25
<b>Price based on P/CE Ratio</b>	<b>0.04</b>
Cohen Discounted Cash Flow Model	in US\$
<b>Cohen DCF Value - Base Case</b>	<b>0.06</b>
Cohen Performance Index	in US\$
Cohen Price Performance Index Value	96.0%
AOGN - Current Stock Price	0.003
<b>Price based on Cohen Performance Index</b>	<b>0.01</b>
Cohen Price Index Target	0.04
Current Price	0.003
<b>Upside/ (Downside) Potential</b>	<b>1162.1%</b>

Source: Cohen Research



Figure 19: Cohen Discounted Cash Flow™



Source: Cohen Research



## CONCLUSION

Avalon Oil and Gas has an exciting business model. Avalon is an energy investment company focused on acquiring a portfolio of oil and gas producing properties. Avalon's strategy of acquiring mature producing wells and properties which were prematurely abandoned in proven oil and gas reserves is a long-term winner. This acquisition strategy, coupled with Avalon's technology expertise, enables the Company to successfully complete workovers; thus increasing production rates at its acquired properties. We believe that continued industry growth through the development and exploration of conventional domestic oil and gas reserves will provide essential near-term growth drivers.

We expect significant growth potential from Avalon's oil and gas producing properties across the prolific producing regions within the United States. Through Oiltek, the expansion and commercialization of oil production related technologies will add to the Company's top-line in the future. This will expedite revenue growth thereby increasing free cash flows. Revenues are expected to grow from \$0.2 million for Fiscal Year End (FYE) March 31, 2011 to more than \$104.3 million by FYE 2015. Note: We assume that the Company will be able to achieve our forecasted targets, provided it raises an additional \$4,000,000 USD in funding.

The quality of the portfolio assembled by the Company is excellent. We believe this quality, together with the experience and proven track record of its management team, will enable enhanced returns on investment. The Company intends to become an intermediate level oil and gas property owner. It will achieve this level by acquiring and developing high quality projects with existing production and expansion potential. Provided the Company raises the necessary capital, Avalon Oil and Gas provides an exciting short and long term investment opportunity.

RS/Grass Roots Distribution Research



## **HISTORICAL HEADLINES**

### ***Avalon Provides Shareholder Update on Grace Field Production and the Fossiltek Acquisition***

March 08, 2011 Avalon Oil & Gas, Inc., (“Avalon”) (OTCBB: AOGN / FWB: A3MA.F) provided an update on operations in the East Chandler Field, Lincoln County, Oklahoma, and the acquisition of the Fossiltek, Inc., assets.

### ***Avalon Files Amended S-1 Registration***

October 20, 2010 Avalon Oil & Gas, Inc., (“Avalon”) (OTCBB: AOGN / FWB: A3MA.F) announced today that its majority-owned subsidiary, Oiltek, Inc., has filed a seventh amendment to the Form S-1, in which it responded to comments received from the Securities and Exchange Commission (SEC).

### ***Avalon Acquires a Portfolio of Oil and Gas Producing Properties in Western Oklahoma***

September 16, 2010 Avalon Oil & Gas, Inc., (“Avalon”) (OTCBB: AOGN / FWB: A3MA.F) is pleased to announce that it has entered into a Letter of Intent with Fossiltec, Inc., to purchase non-operating working interests in five (5) producing oil wells and thirty-three (33) producing gas wells, for a combination of cash and newly issued common stock.

### ***Avalon Oil & Gas, Inc. Announces that René Haeusler has joined its Board of Directors***

August 19, 2010 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN) is pleased to announce the addition of lic. phil. René Haeusler to its Board of Directors.

### ***Avalon Oil and Gas, Inc. Acquires Leasehold In Prolific Lamar County Mississippi Field***

Avalon Oil and Gas, Inc. announced that it has entered into an agreement with Bayside Petroleum Company, Inc., (Bayside) to purchase an 18.75% working interest in Bayside's Baxterville Field Prospect in Lamar County, Mississippi. The two hundred (200) acre leasehold contains three wellbores; two are equipped for production.

### ***Avalon Acquires Leasehold in Jefferson and Stephens County, Oklahoma***

September 30, 2009 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN) announced it has signed a letter agreement to acquire a one hundred percent (100%) working interest, eighty-three percent (83%) net revenue interest in 1,500 net mineral acres in Jefferson and Stephens County, Oklahoma.

### ***Avalon Files Amended S-1 Registration***

August 12, 2009 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN) announced today that its majority-owned subsidiary, Oiltek, Inc., has filed a sixth amendment to the Form S-1 Registration Statement originally filed October 22, 2007. Avalon plans for Oiltek's shares to be listed on the OTC Bulletin Board. The Company will



distribute the shares which it owns in Oiltek to Avalon's shareholders on a date determined by its Board of Directors.

***Avalon Receives Initial Revenues from Scissortail Energy for the Grace #2 and Grace #5A Wells***

May 07, 2009 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN) provided an update on workover operations in the East Chandler Field, Lincoln County, Oklahoma, and reported that the company has received the first check for gas revenues from Scissortail Energy LLC, since Avalon consolidated its recent acquisition of fractional working interests in the Grace Wells.

***Avalon Completes Work-over on the Grace #6 Well***

April 30, 2009 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN) updated shareholders on its workover operations in the East Chandler Field, Lincoln County, Oklahoma, and reported that gas production from the Grace #6 well has increased to 205 MCF per day, and continues to increase each day.

***Avalon Increases Production on the Grace #2 Well***

March 19, 2009 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN) provided an update on workover operations in the East Chandler Field, Lincoln County, Oklahoma, and reported that gas production from the Grace #2 well has averaged 230 MCF per day for the past 30 days.

***Avalon Increases Ownership in the East Chandler Field***

March 16, 2009 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN) announced that it has increased its working interests in the five well East Chandler Field, Lincoln County, Oklahoma. Avalon has increased its working interest in the Grace wells as follows: in the Grace #1 to 42.125%; in the Grace # 2 to 30.5%; in the Grace #3 to 39.0%, in the Grace #5A to 40.0%, and in the Grace #6 to 34.0%. "We are excited to have completed the purchase of these fractional working interests with a combination of cash and stock, and are actively seeking to increase our ownership in these wells over the next 30 days", said Kent Rodriguez, Avalon's CEO.

***Avalon Files Amended S-1 Registration***

February 26, 2009 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN) announced today that its majority-owned subsidiary, Oiltek, Inc., has filed a fourth amendment to the Form S-1 Registration Statement originally filed October 22, 2007. Avalon plans for Oiltek's shares to be listed on the OTC Bulletin Board.

***Avalon Completes Workover on Grace # 5A Well***

January 30, 2009 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN) provided an update on workover operations in the East Chandler Field, Lincoln County, Oklahoma, and reported that the workover of the Grace # 5A Well has been completed.



***Avalon Closes Acquisition of Bedford Energy Assets Increasing Revenues Nearly Three-Fold***

December 22, 2008 Avalon Oil and Gas (OTCBB: AOGN) announced it has signed a letter of agreement to acquire all of the oil and gas producing assets owned by Bedford Energy, Inc. in the East Chandler Field, Lincoln County, Oklahoma.

***Avalon Oil And Gas CEO Kent Rodriguez Discusses Company's Oil and Gas Technology And Strategy With CEORoadshow.com in Exclusive Online Audio Interview***

December 04, 2008 Avalon Oil and Gas (OTCBB: AOGN) today announced that the Company is presently featured in an online audio interview at [www.CEORoadshow.com](http://www.CEORoadshow.com)

***Avalon Oil & Gas Reports Record Revenues for the Six Month Period Ending September 30, 2008***

December 04, 2008 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN) has reported its financial results for the six months ending September 30, 2008. In the Form 10-QSB the Company filed with the Securities and Exchange Commission (SEC), Avalon reported revenues for the six month period of \$247,865, a 147% increase over the comparable period in 2007.

***Avalon Acquires a Leasehold Position in Rice County, Kansas***

September 25, 2008 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN / FWB: A3MA.F) announced that the company has acquired an undivided 100% working interest, 85% net revenue interest in an 80 acre lease, and a 50% working interest, 40% net revenue interest in a 240 acre lease in Rice County, Kansas. The Rice County leasehold has seven wellbores and a salt water disposal well.

***Avalon Announces Waters #3 Gas Well On Line***

September 03, 2008 Avalon Oil & Gas, Inc., (Avalon) (OTCBB: AOGN / FWB: A3MA.F) announced that the pipeline spur to the Waters #3-328, Lipscomb County, Texas, has been completed. This well produces from the Lower Morrow sand, a highly charged hydrocarbon reservoir with several producing gas wells in the immediate vicinity.



## APPENDIX

### The Cohen Price Target™

The Cohen Price Target™ is derived using a combination of academic and market-based valuation approaches. The following four equal weighted (25%) components used in calculating our target price, include the assumption of capital raised:

1. The first 25% equal weighted component: is the market multiple based valuation methodology. This method uses the industry average 2011E Price-to-Earnings ratio to calculate the potential stock price (and/or price to Book if an asset based company). We take the average Price-to-Earnings multiple of a given industry. This means that, on an average, stocks in this industry should currently trade at a multiple times their 2011 expected earnings. These earnings are usually only generated by a small company raising cash to meet its master budget. The index, therefore, reflects capital invested in any micro/small cap company.
2. The second 25% equal weighted component: Cohen Capital Employed based valuation. Most start-up and micro/small cap companies require significant capital to meet our projections. Our Cohen Price Target™ reflects the Company's ability to raise additional capital. Based on our capital projection and long-term price target from our Cohen DCF™ valuation model, we derive a Price-to-Capital Employed ratio. We then multiply this ratio with our capital employed per share assumption to derive this target price.
3. Our third 25% equal weighted component is our use of the Cohen Price Performance Index™, which calculates the average price increase of all the stocks covered by Grass Roots Research and Distribution Inc. and Cohen Research after their release. Currently, for the period ending May, 2011 the Cohen Price Performance Index™ is up by 96.0%, meaning that we expect the stock to follow the same trend and rise by 96.0%. To date, since May 2009, 95.8% of all of our stocks post report release have traded above the price of our initiate coverage report within 24 days. The Index assumes that all of its companies had capital employed in each company. In general, almost 100% of our researched stocks went up close to 100%.
4. Our fourth 25% equal weighted component is our Cohen Discounted Cash Flow (DCF) method of valuation. Our Cohen DCF™ valuation includes a complex trademarked formula proprietary to our firm, which includes an assumed long-term sustainable growth rate, cost of capital and assumed capital invested in a given company. Our DCF price target values a company today, based on projections of how much future cash will be generated from a given company. We assume that a company is worth all of the cash it can make available to investors in the future. It is called 'discounted' cash flow because cash in the future is worth less than cash today, and therefore must be discounted to today. We forecast various line items including assuming a given amount of capital is raised, to calculate the free cash flow we project a company to generate during our 5 year forecasted time period. If a company does not raise our estimated cash requirements, it is highly unlikely to reach our forecasts and can go out of business. After using a formula to discount free cash flow, we divide the total forecasted equity of the company by the shares of stock outstanding to calculate our Cohen DCF™ valuation, or theoretical price per share target. We believe the Cohen DCF™ formula is a more accurate measurement of operating cash than the traditional DCF used by most Wall Street research analysts. A DCF, or 5 year forecasted free cash flow projection, cannot be calculated without forecasting the three statements (IS,BS,CF) for 5 years. We are the only



firm in the investor awareness industry that forecasts all of our companies for 5 years in three assumed cases. We believe this in depth level of securities analysis is a must for all of our companies, and is a foundation of the Cohen Research Method™.

Capital raising and cash are the life blood of any micro cap/small company. Our Cohen Price Target™ includes 4 components, 25% equal weighted, that together reflect capital is raised in our client companies. Our components are trademarked and proprietary to our firm, as is the Cohen Performance Index™.

Most micro/small cap companies have difficulty raising sufficient funds to reach our theoretical forecasts; hence there is considerable risk for any investor. While we do not give investment advice, any company that cannot raise adequate capital to finance its business model is a highly risky investment, short term or long term. Investment awareness campaigns also affect our price targets. Do not rely on our price targets because they are based on academic theory. Do your own research or consult with your investment professional.

### **Price Targets**

Price targets can be heavily influenced by investor awareness campaigns. In general, we observe the more money spent on such campaigns, the greater the probability for short term price increases post report release. Our price targets assume capital raising and forecast 5 year Income Statement, Balance Sheet and Cash Flow statements. In a perfect world, these assumptions may be realized. We do not give investment advice. However, in the practical/real world, it is very difficult for a small company to reach our theoretical 5 year projections. We are not aware of any research firm that forecasts the three statements (IS, BS, CF) in 3 cases for 5 years. We believe our price targets are unique to the body of knowledge in the field of securities analysis.

### **Note: How we calculate our Price Targets**

We further explain our Cohen DCF, which is an important 25% component of The Cohen Price Target. The Cohen Discounted Cash Flow Analysis (DCF) creates a price target and values a company today, based on projections of how much future cash will be generated from a Company. Our DCF analysis assumes that a Company is worth all of the cash that it can make available to investors in the future. It is called "discounted" cash flow because cash in the future is worth less than cash today, and therefore must be discounted to today. We forecast various line items including assuming capital is raised, to calculate the free cash flow we expect a company to generate during our 5 year forecasted time period. After using a formula to discount free cash flow, we divide the total forecasted equity of the Company by the shares of stock outstanding to calculate our Cohen DCF (Discounted Cash Flow) valuation, or theoretical price per share target. We believe our Cohen DCF is a more accurate method of calculating operating cash. We forecast three assumed price targets because companies change during 5 years, Base Case, Optimistic Case, and Pessimistic Case.

### **Note: What is our formula used to calculate our DCF, the Cohen Price Target?**

Some line items include free cash flow to the firm, the weighted average cost of capital, assumption of capital raised and capital spent, and the total enterprise value of the business less its debt, total equity value, total shares outstanding, and our projected price per share. A DCF cannot be academically calculated without projecting the 5 year cash flow statement.



### **Risks of the Cohen Price Target**

Our Price Targets assume capital will be raised in our four components, or 100% of the Cohen Price Target. The majority of micro cap/small cap companies need capital to reach our 5 year sales and cash flow projections. In the academic world, The Gordon Growth Model justifies an analyst's decision to forecast for 5 years. We forecast the three statements for 5 years in 3 cases. However, in the practical/real world, buying a micro-cap stock based on 5 year forecasting is highly risky.

If smaller companies are able to raise capital, our theoretical price targets in a perfect world might be justified, providing the Company executes on its business model. If an investor believes that a given Company cannot raise the necessary capital to reach our projections, then any investment becomes highly risky.

The investor should consider the possibilities of a given company being able to raise capital and execute over 5 years. Few micro/small cap companies are able to raise enough capital and execute over an extended period of time, primarily due to competition, management competence, access to capital, and execution of their master budget. Our price targets are academic theory and should not be relied upon. Investors should do their own research and consult with their financial consultants.

## **Oil and Natural Gas Measurement Abbreviations**

### **Oil, Natural Gas Liquids and Natural Gas**

Bbl	barrel	Mcf	thousand cubic feet
Bbls	barrels	Mmcf	million cubic feet
Mbbls	thousand barrels	Mcf/d	thousand cubic feet per day
Mmbbls	million barrels	Mmcf/d	million cubic feet per day
Mstb	1,000 stock tank barrels	MMBTU	million British Thermal Units
Bbls/d	barrels per day	Bcf	billion cubic feet
BOPD	barrels of oil per day	GJ	gigajoule
STB	standard tank barrels		
NGLs	natural gas liquids		

**FINANCIAL EXHIBITS****Income Statement – Base Case**

<b>all figures in \$ million</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Revenues</b>	<b>0.3</b>	<b>0.2</b>	<b>3.8</b>	<b>43.4</b>	<b>86.9</b>	<b>104.3</b>
Total Cost of Goods Sold	0.1	0.1	1.9	21.9	43.7	52.5
<b>Gross Profit</b>	<b>0.1</b>	<b>0.0</b>	<b>1.9</b>	<b>21.6</b>	<b>43.2</b>	<b>51.8</b>
<b>Expenses</b>						
Selling, General and Admin Expenses	0.9	1.4	1.5	8.7	13.0	15.6
<b>Total Expenses</b>	<b>0.9</b>	<b>1.4</b>	<b>1.5</b>	<b>8.7</b>	<b>13.0</b>	<b>15.6</b>
<b>Operating Profit/ EBITDA</b>	<b>(0.8)</b>	<b>(1.4)</b>	<b>0.4</b>	<b>12.9</b>	<b>30.1</b>	<b>36.2</b>
Depreciation and Amortization	0.9	0.1	0.5	1.5	3.4	5.8
<b>Earnings Before Interest and Tax/</b>	<b>(1.7)</b>	<b>(1.5)</b>	<b>(0.1)</b>	<b>11.4</b>	<b>26.7</b>	<b>30.4</b>
Interest Expense, Net	0.6	0.2	0.0	-	-	-
<b>Earnings Before Tax/ EBT</b>	<b>(2.3)</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>11.4</b>	<b>26.7</b>	<b>30.4</b>
Taxation	-	-	-	-	9.3	10.6
<b>Net Profit/Loss for the period</b>	<b>(2.3)</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>11.4</b>	<b>17.4</b>	<b>19.7</b>
Shares Outstanding - Basic	164.7	487.5	527.5	527.5	527.5	527.5
Shares Outstanding - Diluted	164.7	487.5	527.5	527.5	527.5	527.5
EPS - Basic	(0.01)	(0.00)	(0.00)	0.02	0.03	0.04
EPS - Diluted	(0.01)	(0.00)	(0.00)	0.02	0.03	0.04

**Balance Sheet – Base Case**

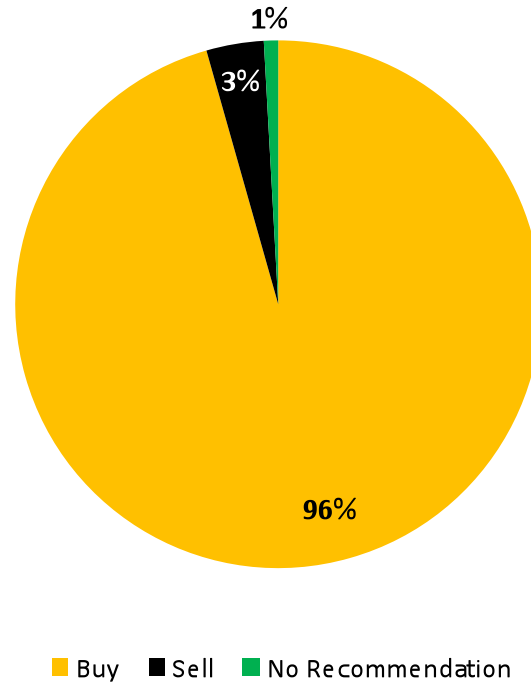
<b>all figures in \$ million</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>ASSETS</b>						
Cash and Cash Equivalents	0.0	0.0	0.6	4.2	8.2	16.7
Accounts Receivable	0.0	0.0	0.8	6.5	13.0	15.6
Deposits and other prepaid expenses	0.0	0.0	0.1	1.1	2.2	2.6
Other Assets	-	0.0	0.0	0.1	0.1	0.2
<b>Total Current Assets</b>	<b>0.1</b>	<b>0.1</b>	<b>1.5</b>	<b>11.8</b>	<b>23.5</b>	<b>35.2</b>
Property, Plant and Equipment, Gross	1.2	1.2	3.3	9.8	22.9	38.5
Capital Expenditure	0.0	0.0	2.1	6.5	13.0	15.6
Depreciation for the year	0.2	0.1	0.5	1.5	3.4	5.8
Accumulated Depreciation	0.9	1.0	1.5	3.0	6.4	12.2
Property, Plant and Equipment, Net	0.3	0.2	1.8	6.8	16.4	26.3
Unproven Oil & Gas Properties	1.9	1.9	1.9	1.9	1.9	1.9
Intangible Assets	0.3	0.2	0.2	0.2	0.2	0.1
Other Long-term Assets	-	0.0	-	-	-	-
<b>Total Assets</b>	<b>2.5</b>	<b>2.4</b>	<b>5.3</b>	<b>20.7</b>	<b>42.0</b>	<b>63.4</b>
<b>LIABILITIES</b>						
Accounts Payable	0.8	0.7	0.3	3.3	6.6	7.9
Other Current Liab. and Accrued Liab.	0.2	0.2	0.2	1.3	2.0	2.3
Current portion of LT Debt and Short-	0.4	0.5	0.1	-	-	-
<b>Total Current Liabilities</b>	<b>1.5</b>	<b>1.5</b>	<b>0.6</b>	<b>4.6</b>	<b>8.5</b>	<b>10.2</b>
Long-term Loan	0.1	0.1	-	-	-	-
<b>Total Liabilities</b>	<b>1.5</b>	<b>1.5</b>	<b>0.6</b>	<b>4.6</b>	<b>8.5</b>	<b>10.2</b>
Preferred Stock	0.5	0.5	0.5	0.5	0.5	0.5
Common Stock	0.2	0.5	0.5	0.5	0.5	0.5
Additional paid-in capital	27.5	28.7	32.7	32.7	32.7	32.7
Retained Earnings	(27.2)	(28.8)	(29.0)	(17.6)	(0.2)	19.5
<b>Total Shareholders Equity</b>	<b>0.9</b>	<b>0.9</b>	<b>4.7</b>	<b>16.1</b>	<b>33.5</b>	<b>53.2</b>
<b>Total Liabilities, Shareholders Equ</b>	<b>2.5</b>	<b>2.4</b>	<b>5.3</b>	<b>20.7</b>	<b>42.0</b>	<b>63.4</b>

**Cash Flow Statement – Base Case**

<b>all figures in \$ million</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>Operating Activity</b>						
Net Income	(2.3)	(1.7)	(0.1)	11.4	17.4	19.7
<b>Adjustments to Reconcile Cash Flows</b>						
Depreciation and Amortization	1.4	0.1	0.5	1.5	3.4	5.8
Other Adjustments	0.4	-	-	-	-	-
<b>Changes in operating assets and liabilities:</b>						
Accounts receivable	0.0	0.0	(0.7)	(5.8)	(6.5)	(2.6)
Deposits	0.0	(0.0)	(0.1)	(1.0)	(1.1)	(0.4)
Other assets	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)
Accounts payable	0.3	(0.0)	(0.5)	3.0	3.3	1.3
Accrued liabilities	0.0	(0.0)	0.0	1.1	0.7	0.4
Other liabilities	0.1	0.1	(0.4)	(0.1)	-	-
Change in Working Capital	0.5	(0.0)	(1.7)	(2.8)	(3.7)	(1.4)
<b>Cash Flow from Operating Activities</b>	<b>(0.0)</b>	<b>(1.6)</b>	<b>(1.3)</b>	<b>10.1</b>	<b>17.1</b>	<b>24.2</b>
<b>Investing Activity</b>						
Expenditures for property, plant and equipment	(0.0)	(0.0)	(2.1)	(6.5)	(13.0)	(15.6)
Other Long-term assets	-	0.0	0.1	0.0	0.0	0.0
<b>Cash Flow from Investing Activities</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(2.0)</b>	<b>(6.5)</b>	<b>(13.0)</b>	<b>(15.6)</b>
<b>Financing Activity</b>						
Proceeds from or repayment of debt	0.1	0.0	(0.1)	-	-	-
Proceeds from issuance of common stock	-	1.6	4.0	-	-	-
<b>Cash Flow from Financing Activities</b>	<b>0.1</b>	<b>1.6</b>	<b>3.9</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Effect of Foreign Exchange</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Cash</b>	<b>0.0</b>	<b>(0.0)</b>	<b>0.6</b>	<b>3.6</b>	<b>4.0</b>	<b>8.5</b>
<b>Opening Cash Balance</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.6</b>	<b>4.2</b>	<b>8.2</b>
<b>Ending Cash Balance</b>	<b>0.0</b>	<b>0.0</b>	<b>0.6</b>	<b>4.2</b>	<b>8.2</b>	<b>16.7</b>



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#### *Neutral*

NO RECOMMENDATION - FOR INFORMATIONAL PURPOSES. We do not recommend the stock depending ON certain developments.

#### *Sell*

OUT ANALYST'S VIEW IS that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable. There is a very high level of investment risk relative to reward.



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The academic world justifies an analyst's decision to forecast the three statements (Income Statement, Balance Sheet and Cash Flow Statements) for 5 years. We normally do so in three cases: Optimistic Case, Base Case and Pessimistic Case. However, in the practical/real world, buying a micro cap stock based on 5 year forecasting is highly risky. If smaller companies are able to raise capital, our theoretical price targets in a perfect world might be justified, providing the Company executes on its business model.

At times our price targets may be significantly higher than the current price of a stock. This can happen in theory only if the company's assets, with assumed capital raised, could theoretically create large sales and cash flow volumes over time. In the practical world, these price targets may appear to be unrealistic. However, we believe the academics of our calculations support the theory of these assumed price targets. While we do not give investment advice, the investor should consider the possibilities of a given company being able to raise capital to execute its business model over 5 years. Few micro/small cap companies are able to raise enough capital and execute their master budget over an extended period of time. Our price targets are academic theory only and should not be relied upon. Investors should do their own research and consult with their financial consultants.