



KFG Resources Ltd.
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KFG Resources Ltd. Is Focused On Building A Mid-Sized Exploration Production Company, Developing Domestic Oil And Gas Reserves Within A 100-Mile Radius Of Natchez, Mississippi

Resources
Oil & Gas Exploration Production
(KFG-TSXV)

Robert A. Kadane
President, CEO and CFP

Company Profile:

KFG Resources Ltd. is an energy company engaged in the development of on-shore oil and gas reserves with activities concentrated in Concordia and Catahoula Parishes, Louisiana, Adams, Jefferson, and Wilkinson Counties, Mississippi and Comanche County, Kansas. The Company, through its wholly owned subsidiary, KFG Petroleum Corporation (KFG), is engaged in producing crude oil and natural gas in Mississippi, Louisiana and Kansas. The Company's primary producing oil and gas reserves are located in the Dale Lease, Concordia Parish, Louisiana, Board of Education wells, Franklin Co, Mississippi and the Galtney Wagner 1-1 and 50-10 wells as well as the Spring Hill #1, 2, 5, and 6 located in the Fayette Field, Jefferson County, Mississippi. The Company's gas reserves are primarily in the Smith #2 and Stewart #1 wells in Jefferson County, Mississippi (Fayette Field). During the fiscal year ended April 30, 2010, the Company produced 17.66 million cubic feet of gas per day and 64.7 barrels of oil per day.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Kadane, what is the vision at KFG Resources?

Mr. Kadane: Primarily we are a small exploration production firm that is headquartered in southwest Mississippi, specifically Natchez, Mississippi. We have

operated and developed domestic oil and gas reserves within a 100-mile radius of Natchez, I have been active down there since the mid-1960's and we went public a number of years ago to avail ourselves of more than the traditional sources of financing. The goal here is to build a mid-sized exploration production company. Currently, KFG has net production of about 140 BOPD.

CEOCFO: Do you have a preference for oil or gas?

Mr. Kadane: Yes Ma'am. I would say we are almost 96% oil oriented and we will basically stay that way. Gas is relatively cheap and for a number of years going forward the perception is there is quite a bit of natural gas being developed in the various shale plays around the country. The price should be fairly depressed going forward for some time, and my expertise in this area is oil anyway, so that is what we will concentrate on. If we do find significant natural gas we will put it back into the ground to produce the oil. Essentially, we will cycle it out and put it back in the ground to maintain reservoir pressure in the oil reservoir, until the price would improve. I don't anticipate much in the next two or three years.

CEOCFO: What do you like about the area that you decided to work in?

Mr. Kadane: It is the one area in my professional experience where I have had consistent success. I am pretty basic; in other words if it isn't broke you don't fix it. You stay in the area that has been good to you. There is not much competition right now in Natchez and the surrounding area and hasn't been for the last several years, simply because in most instances the new technologies are average

at best in the area. They don't particularly work very well, so most of the large companies and bigger outfits go where the technologies like horizontal drilling in shales and 3-D seismic work and improve your chance of exploration success. So that is why we stayed where we are. It is cheaper to operate, the acreage isn't anywhere near as expensive and it is cheaper to drill and explore. Add all that up and that is why we stayed there.

CEOCFO: Tell me about the properties you have now.

Mr. Kadane: The main property we are developing is about twenty miles northeast of Natchez, Mississippi in Jefferson County, which is in southwest Mississippi. It is an old field discovered by Humble (now Exxon) in 1945, and it contains twelve producing horizons from the shallowest depth of about 3400 feet; the deepest depths are close to 10,000 feet. It is a salt feature, and similar fields in the area have been redeveloped with seismic in the area. So we undertook a program a couple of years ago to shoot the area and redevelop the geology (incorporating 3-D seismic) and reopened the old field with brand-new oil reserves. As a little company like we are, it will probably keep us busy for the next two or three years developing the old field with the new reserves. It is primarily shallow, so it is relatively cheap and incredibly good economics. An example would be a 4000 foot hole put on production for less than \$300,000 and payout of the investment is less than six months time. Those are excellent returns and it is great for a small company giving us the reserves to grow into a larger company. The seismic revealed eight or nine areas next to and within the old field limits that have po-

tential and we are right now just developing the first one.

CEO CFO: What is happening on the ground today?

Mr. Kadane: Right now we just completed a fourth well, a new little field that we call Spring Hill. It is adjacent to the old Fayette Field, which is a field that was found in the mid-1940's by the old Humble Oil and Refining Company. They produced several million barrels of oil and gas shallow and deep. We have found brand new reserves within the oil field limits by the use of seismic technology and we will continue to develop that within our own cash flow. I don't believe in borrowing money and leveraging the company especially in times like this, so what we are doing is developing it as our free cash flow permits, which right now is a well about every three to four months. As we find more production, we will be able to accelerate that next year primarily in 2011. With the new well, just on production, that should pay out in probably December and we will go forward from there. We have fairly ambitious plans for next year. I am not really concerned about what the government does through taxes or anything like that; it is going to make it harder to raise money for new

projects, but I am not concerned about Fayette Field.

CEO CFO: So you have a good plan, it is working well and you are going to continue with what you have been doing!

Mr. Kadane: In times like this for the shareholders, it is best not to leverage it, even though a lot of people do. I don't think you can plan very far in advance in terms of the price of crude. I know what my costs are and the way we do it is if the

game. I hope to continue that in the next two or three years. We have the potential here of taking our reserve base and multiplying it by a factor of ten in just the immediate area of our acreage. We have patience, we will let the balance sheet and income statement, and reserves speak for themselves and I think ultimately the market will recognize that.

CEO CFO: In closing, why should potential shareholders pay attention to KFG?

Mr. Kadane: Right now as an example the stock is selling for around \$0.06 a share and we have a present worth of around \$0.17 or \$0.18 a share. As far as I am concerned if we keep improving that, the discount will be even steeper and historically the stock price will rise to a level much closer to the actual value of the concern. That has been historically true for resource companies. So what we are about is building assets and building a base, and

at this point, our assets are undervalued in the market versus the actual value of the assets. I have tried a lot of things like public relations, and most of that back-fired, and didn't work. I decided that the market will ultimately recognize the value that we are adding so that is what we are concentrating on.

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- Robert A. Kadane

price is \$80 or so, we will use a projection based on about \$60 a barrel, because anything in the world can change it either way. If the country goes into another recession, I don't know that we will be looking at \$33, which is what we saw a little over a year ago. So I designed this program to be economic based on a well head price of around \$50. So far it has worked very well and we are ahead of the

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