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Sefton Resources Inc – Trading update. Three new wells at Tapia are now operational, progression with Kansas gas pipeline

Sefton Resources, the US oil and gas exploration company, released a trading update on its operations in California and Kansas on 25th January. Highlights included the announcement that three new wells on the Tapia Canyon oil field are now in production, and the Kansas pipeline project is on track to complete first gas sales in mid-2012.

Three new wells at the Tapia Canyon oil field in California were completed during November and December 2011. These new wells are now in operation and are producing oil, however the level of production is fluctuating strongly as these wells have not yet stabilised. Stabilisation is expected to occur within the next 30 days, at which point the company will release revised production data.

Three other wells have been shut down awaiting down-hole repairs, and as such the company is currently meeting with service companies to arrange workovers at these locations. This will include replacing corroded liners at two wells – Hartje #14 and #17 – and the recompletion of well Hartje #6 in order to access the oil reserves below. Once new stainless steel liners have been constructed, wells Hartje #14 and #17 will be available for cyclic steaming. The management expects this to boost production after observing positive results on adjacent wells, and for the recommencement of cyclic steaming to take place at two other wells; Yule #5 and Hartje #12.

Cores have been collected from the Yule oil sand in two wells – Yule #12 and Hartje #19 – which have been sent for analysis to determine their porosity, permeability and oil saturation. Once these have been analysed, the results will be given to Petrel Robertson Consulting (Calgary) in order to update the current geological model of the Tapia oil field. This is expected to be completed in March 2012. The results will also be presented to Dr. Farouq Ali along with the updated geological model, allowing him to complete his simulation studies. It is also expected that Reed W. Ferrill & Associates Inc. will publish their independent estimation of proved and possible oil reserves as at 31st December 2011 in the first quarter of 2012.

Key Data	
EPIC	SER
Share Price	2.2p
Spread	2.15p - 2.25p
Total no of Shares	397.65 million
Market Cap	£8.75 million
NMS	15,000
12 Month Range	1.45p - 6.125p
Website	www.seftonresources.com
Market	AIM
Sector	Oil & Gas
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The company has taken further steps to get the Kansas gas pipeline on line and revenue generating as soon as possible. In our previous note we highlighted “the company has executed the Construction, Ownership and Operating Agreement with Southern Star to construct a gas interconnect with their pipeline”. The management now expect the construction of the interconnect, metering facilities and sales lines to commence in the Spring of 2012, following the approval of easements, landowners’ notification and Federal Energy Regulatory Commission approval expected at the end of March 2012. Operational Certification has already been granted to the North LAGGS and West LAGGS sections of the Kansas pipeline, and the certification of the Vanguard section is now 50% completed. The company expects the pipeline to be fully operational and to have completed first sales of gas by the middle of this year. Additionally, the updated Competent Person’s Report valuing the company’s Kansas gas assets as at 31st December 2011, being produced by Dr. Nafi Onat, is expected to be published in the first quarter of 2012.

Finally, on the 25th January 2012, three directors – Jim Ellerton, Karl Arleth and Mark Smith – purchased a total of 7,132,546 shares of Sefton Resources in a private transaction at a price of \$0.02 per share. The total percentage of shares now owned by these directors stands at 10.63%.

Valuation

Our previous valuation model gave a total asset value of £25.2 million, of which £12.7 million was attributable to the Oil Assets in California. The remaining £12.5 million was based on just 20% of Dr. Onat’s total independent valuation of the company’s Kansas gas assets of \$100.1 million. Following the recent share dilution due to an equity raise, this suggested a share price of 6.3p; however we are currently in the process of reviewing our valuation ahead of the company’s publication of revised production data expected once oil production has stabilised. We feel the company is delivering against its business plan, having successfully completed a significant amount of its drilling program with new wells now producing oil, and continues to reinforce this with a strong asset base that has received highly encouraging independent valuations.

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	11.8	0.0	0.0
2009A	2.74	(0.29)	(0.25)	N/A	0.0	0.0
2010A	3.85	0.40	0.31	11.1	0.0	0.0
2011E	4.50	0.70	0.18	19.1	0.0	0.0

Source: Company and Growth Equities & Company Research

Notes: * P/E ratio calculated using an exchange rate £1 = \$1.5607



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