



Drilling has started at Tapia

Tapia Field steam simulation special

In mid-November drilling began on four new wells at Sefton's 100%-owned Tapia Canyon oil field which is part of the ongoing program to increase production from the Company's flagship asset. This comes at an opportune time as the average price that Sefton received for its Tapia 18°API crude in October was \$107 per barrel which represented a 24.4% premium to NYMEX. The good news is that the expected increase in oil production from each new well has been estimated at 28 barrels of oil per day (BOPD) or just over 100 BOPD for all four new wells combined. When these are all producing in early 2012, oil production is expected to rise by up to 75% to an estimated 240 BOPD, dramatically increasing monthly revenues.

Two of the new wells are being drilled on the Yule lease and two on the Hartje lease. One well from each lease will be cored to gain vital data about the reservoir and the rock structure. The surface layout at Tapia includes a series of well pads which each contain a number of producing wells and makes for a highly efficient field operation which is well illustrated by Sefton's low lifting costs. During the drilling these drill pads will be cleared and there will be a temporary halt to production but this will resume quickly once the drilling is complete.

Sefton is not the only oil company interested in this area. In the summer, Occidental, the US's fourth largest oil company through its subsidiary Vintage Production, drilled two wells on its Wayside Canyon oil field which is immediately adjacent to Tapia. These wells were located at the eastern end of their lease less than a mile away from Tapia. The well log and associated information is now available for all the world to see amongst the California's Division of Oil and Gas and Geothermal Resources (DOGGR) files. But to save readers the trouble, here are the juicy bits. Their first well (WCU #56H) produced 5,152 barrels of oil over a 13-day period (396 BOPD) ending 31 August. Less is known about the second well (WCU #58H) but now Vintage has permitted a third well. All these three wells included substantial horizontal sections which to our engineer suggest the possible use of a system called Steam Assisted Gravity Drainage (SAGD) to increase oil recovery. We will keep readers informed.

Southern Star agreement signed

Sefton has made a big leap forward towards flowing gas in Kansas with news in November that the Company has signed an agreement with Southern Star to connect into the interstate pipeline. This agreement will allow Sefton's gas and that of third parties in Leavenworth County to get to the national interstate markets. Constructing the tap together with the associated structure will probably take four to six months with completion expected in summer 2012, subject to any additional regulatory or weather delays. Once connected, the plan is to carry a significant volume of third party gas on a toll fee basis and discussions are in progress with several exploration and production companies that own significant acreage in the surrounding area about transporting their gas through Sefton's pipeline system.

On top of this, Sefton's LAGGS pipeline in Leavenworth County, Kansas has now been certified along its north and west parts. It is also expected that the Company's Vanguard pipeline will be operationally certified shortly. These are really important steps for the Company as they will allow Sefton to get gas to market and gain cash flow from its Kansas operations. Two types of natural gas will be carried, Sefton's own equity gas and gas produced by others. As always, Sefton is seeking to make the most of this opportunity, and is actively looking to acquire additional acreage and well bores with the idea of recompleting existing wells as well as drilling new wells along the LAGGS/Vanguard pipelines. The majority of this "early production" along the LAGGS system is expected to be reclassified from possible to proven reserves once the wells are activated and the pipeline is operational.



Dear Investors,

A message from the founder and Executive Chairman

Welcome to the second edition of our investors' newsletter.

Sefton has made some big advances over recent months which I believe set the scene for a highly positive 2012. The IR team has been out and about bringing the Sefton story to investors and we aim to do more such work in the coming year. A video of my presentation at the Mining Maven evening in October has been posted up both on Youtube and our own website.

I would like to thank all shareholders for their continuing support.

Many thanks,
Jim Ellerton



Further editions of the newsletter will be posted on the website. If you want to know when the latest edition hits the street, send your email address to info@seftonresources.com and my team will make sure you get sent an alert.



Steam Injection Study – the story so far

The Tapia Canyon field is located approximately 40 miles north of metropolitan Los Angeles, and has been producing oil since it was discovered in 1957. The field covers an area of something like 280 acres, and produces 18° API oil from the Pliocene Yule sand. The reservoir is fairly shallow lying at a depth between 1000 and 1300 feet. Since it was first discovered, the field has been producing through natural depletion and conventional pumping, with the assistance of a small natural water drive with recovery efficiency estimated at approximately 14% to date.

A previous operator, Tenneco Oil Company, studied the possibility of steam injection in early 1986, and found the reservoir to be suitable and the financials compelling. However such were the prevailing economic conditions that Tenneco decided to dispose of its interest later that same year without ever pursuing the opportunity any further. From then on, several small operators owned the field with only one (Crown Central) attempting to thermally stimulate the reservoir. Crown Central employed cyclic steaming on the Yule #5 well with apparently good results.



Enter Sefton

In the late 1980s, Sefton along with two other partners acquired an interest in Tapia Canyon following a thorough review of Tenneco analysis coupled with that of its own engineering associates. In particular, the three partners focused on the technology of thermally stimulating such heavy oil reservoirs which was proving very successful in western Canada, California, and other parts of the world. Those engineering studies projected 50% recovery rates from these stimulation practices and indicated the possibility of higher recovery rates, if such techniques were applied to Tapia.

Since then, the Company was able to acquire all other working interests in the field plus some royalty interests. On the ground, Sefton has drilled 15 more wells, re-equipped the field by replacing almost all the surface equipment, improved the water disposal system and installed new heated tanks for storing oil. The Company also built its own steam generator so that it could investigate the potential for heating the reservoir and discover the benefit this would bring.

Testing thermal stimulation started in 2008 with a cyclic steam pilot test which produced good results before it was ended in mid-2010. There followed a permitting process for a continuous steam pilot to be undertaken and this proved to be a fairly long drawn out affair which was started in July 2010 and it was not until spring 2011 before steaming could finally begin.

Good results were also obtained from this continuous steam pilot which ended in November 2011 just prior to the new wells being drilled. Once the current drilling program is completed, the cyclic steaming process will be restarted which will act as an intermediate step ahead of the full steaming of the field. It's expected that to implement the full steam flood will take some additional time and during that period it's possible that a further three more wells may be drilled on the Snow lease and the field unitized.

Getting the best results

The Tapia field has always been an enhanced recovery project and our engineers have built in reserves based on conservative (50%) recovery via steam flood. Dr Ali's report will provide credence to improve this conservative recovery factor, while also based on his vast experience help us outline how best to develop the field for maximum results.

To put matters into perspective, the Tapia field has a fifty year life; and the Company has a fifteen year involvement at Tapia and will soon have drilled close on 20 wells and completed two steaming pilots. The full steam flood to take production to the optimum level is a major step which will require investment plus additional expertise. The board is intent on not rushing the proper analysis of this far bigger project because the benefit of Dr Ali's report will be maximised as his final analysis will be carried out on the upgraded model. As Jim Ellerton neatly puts it "Results will be best if we take the time to do things right."

Dr Farouq Ali engaged

In early October 2010 Dr. Farouq Ali, an expert in steamflood design and President of Edmonton Alberta-based HOR Heavy Oil Recovery Technologies Ltd, was engaged to evaluate the field for thermal stimulation. The Board of Sefton learnt about Dr Ali Farouq from his work at a heavy oil field at Round House in California where he helped improve the field production by several thousand barrels a day.

His initial study for a steam injection development of the Tapia Canyon reservoir was very positive. The key conclusions were that a final recovery factor of 51 – 78% was possible. Even at the bottom end of this scale given that there was 11.5 million barrels of Original Oil in Place it implied that a further substantial amount of oil could be recovered in a two part development strategy. Certainly Dr Ali was enthusiastic about the potential for Tapia and felt that a full steam flood over an eighteen month period would maximise production.

Dr Ali recommended that the field should be developed in a systematic manner to bring it up to a production level of up to 1,750 BOPD. His recommendations did include the comment that "...Given the extremely promising results of the simulations, it is advisable to carry out simulations using a detailed geological model of the entire reservoir...". In addition, he advised laboratory measurements of the rock and fluid properties which would increase the value of this work; and also that the previous limited cyclic steaming data should be history matched to see how well the field results agree with simulations.

Geological model

In January 2011, Petrel Robertson Consulting (Calgary) was engaged by Sefton to construct a static geo-cellular model of Tapia Canyon. This model was to serve two distinct purposes. Firstly to provide a geologically reasonable basis for the reservoir simulation studies being performed by Dr. Ali. Secondly, as input to an engineering review of Tapia Canyon field development options. As it turned out this has proved to be significantly more complex than anticipated in order to achieve the necessary degree of accuracy.

The final model was completed in September 2011, and highlighted that there were still a number of uncertainties concerning the structure, the oil/water contact and petrophysics. As a result, Petrel indicated that the lack of reliable core information and a dated log data meant that there was an increased level of uncertainty associated with a number of aspects of the modeling.

Petrel also recommended that seismic data, preferably 3D, should be acquired over the field; and also that the planned development wells needed to be cored. It wasn't that easy in the past coring unconsolidated sands, in fact it was near impossible. Only with modern technology such as wireline drilling using aluminum core barrels and the freezing of samples on site which have been pioneered elsewhere can such unconsolidated material be cored. Petrel was able to illustrate how these techniques could be used as they had been successfully employed in the tar sands of Alberta. This would allow reliable, routine core analysis measurements of porosity and permeability of the Tapia reservoir to help improve property modeling. As well, they suggested that the slabbed core should be logged and interpreted from the environment of depositions that would be a great help in populating the model in areas away from the well-bores.



The simulation study

This model was then submitted to Dr. Ali for analysis. He initiated the simulation runs on the geologic model of Tapia to match not just the existing production history but also the results of the cyclic and continuous steam injection pilot results. In his Interim Report, Dr. Ali pointed out that: "My previous comment still holds that Tapia Canyon is a good reservoir for steamflooding, notably because of the relatively low oil viscosity vis-à-vis SJV [San Joaquin Valley] reservoirs."

The oil recovery potential is excellent, and recovery of at least one-half of the oil in place should be possible. The matter of permeability and water saturation will be resolved shortly by a history match – it would show whether the current geological model needs to be revisited."

Although Dr. Ali could make some educated assumptions on certain parameters based on similar heavy oil fields in California and adjust the model in a limited fashion, it became clear that the added data from the current drilling program would be needed to allow the model to be refined. As a result, out of the four wells currently being drilled, the two wells that lie in the centre of the field will be cored as they are expected to provide the best representation of the reservoir.

Measurements from these core samples will allow Petrel to refine their model and via laboratory testing give permeability measurements in both the horizontal (Kh) and vertical (Kv) directions, in addition to Kmax (the permeability in the horizontal direction through the core with the highest permeability) and generate a better representation of permeability in 3D. In addition to the conventional core analysis, Dr Ali has asked that some SCAL (special core analysis) be also carried out to improve both the interpretation of the wireline logs.

Dr Ali will then be able to carry out simulation studies on the improved geological model to make sure that the final study accurately reflects the expected specific steamflood performance of the Tapia field.





Q&A Executive Chairman Jim Ellerton answers questions from investors.

Good Morning to all Board Members,

I must say that I am glad to see the attention you are giving to letting the world know about the company and it's potential. I think that it would be a good idea, and give the company more gravity, if you put together and published a financial forecast even if it was just for the next financial year. It's great to hear about all the opportunities and but at the end of the day it has to turn into revenue, profit and cash flow. Long time shareholder,
Regards

Jim Ellerton – I whole heartedly agree about the need for financial forecasts. We have recently changed brokers to Northland Capital which has a respected resources analyst called Andrew McCreary who is currently working on his financial forecasts. Ahead of that report hitting the streets, independent research house GEGR has published forecasts in its reports that can be found at www.gecr.co.uk

Sir who is on the remuneration committee. Please advise, thanks

Jim Ellerton – The Remuneration Committee comprises of Karl Arleth (Chairman) along with Mark Smith and myself. Over the coming twelve months it is planned that further Non-Executive Directors will be appointed who will be able to assist in the Company's growth strategy. Once the board is larger, it means that the current three directors will no longer have to sit on all the various committees.

Dear Mr. Jim Ellerton

As a long term holder, I'd like to know about Dr. Ali Farouq 's report. ...Could you clarify it to me. Is it going Dr. Ali Farouq 's report to be something like Dr Nafi Onat's report, giving the value of the Californian assets, like Mr. Onat did for Kansas assets. Thank you so much. Sincerely,

Jim Ellerton – Dr Ali Farouq's report will provide a route map of how to develop the Tapia oil field in the future based on the expected increase in recovery factor and production using steaming across the whole field. Based on that information Reed W. Ferrill & Associates Inc can independently estimate proved and possible reserves; and go on to calculate the present value of the estimated future net cash flows from estimated proved reserves. The last such Independent Engineering study was carried out at the mid-year stage and showed proved reserves of 3.77 million barrels of oil with a PV10 value of US\$136.76 million (£85 million) based on 50% recovery. The Competent Persons Report published by Dr Nafi Onat in May 2011 placed a PV10 value of US\$100.1 million (£62 million) on the East Kansas assets. These two figures added together gave a PV10 valuation on Sefton's reserves and resources of US\$236.86 (£147 million).

In the market

Looking at the performance of Sefton's shares in the market over recent months and comparing its performance to a year ago.

	Average daily trading value	Average number of shares traded daily	Closing price end of October
Three months to 31 October 2011	£64,804	2,480,504	3.48
Three months to 31 October 2010	£1,308	95,354	1.38
Change	+4800%	+2500%	+152%

	Bargains	Trading value	Shares traded	Closing price
2011				
August 2011	417	£668,350	24,519,580	2.90p
September 2011	524	£1,158,344	49,059,016	2.00p
October 2011	1,148	£2,385,598	87,654,183	3.48p
Total	2,089	£4,212,292	161,232,779	
Average daily trading	32.1	£64,804	2,480,504	
2010				
August 2010	44	£31,822	2,035,881	1.50p
September 2010	24	£19,095	1,459,337	1.38p
October 2010	47	£34,143	2,702,794	1.38p
Total	115	£85,060	6,198,012	
Average daily trading	1.7	£1,308	95,354	

"...It's great to hear about all the opportunities and but at the end of the day it has to turn into revenue, profit and cash flow"

Any questions

If you want to know about Sefton, please send your questions to info@seftonresources.com and we will put them to Jim and the board and try to cover some of the subjects in the forthcoming edition of this newsletter.

Read more about us

www.seftonresource.com
– company website

www.miningmaven.com
– independent research

www.gecr.co.uk
– independent research

www.oilbarrel.com
– informed comment

www.iii.co.uk – share price, news and announcement

www.tradersown.co.uk – share price and chat room

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