



Production rising at Tapia

Kansas pipeline infrastructure special

Sefton Resources ended 2011 with the drilling of three more wells at its 100%-owned Tapia Canyon oil field in California. All these new wells are operational and producing oil. Our Tapia team has been working hard over the past few months to make sure that all the oil flow lines and production manifolds were already built and in place on the Yule and Hartje well pads to make sure that the new wells could be put into production as soon as they were completed. Sefton's pre-close trading update in late-January reported that initial flows were improving as expected which should stabilise within the next 30 days. So we probably need to wait until the end of February for reliable data to become available once production has stabilised.

Workovers are to be arranged on two or three wells that were shut-in pending down-hole repairs. The corroded liners in Hartje #14 and #17 need replacing with stainless steel and Hartje #16 requires recompleting. Certainly returning Hartje #14 and #17 wells to production will not only provide additional primary oil production but also make two additional wells available for steaming. Previously neither of these two wells has been steamed even though adjacent wells have demonstrated an excellent response in the cyclic steaming pilot undertaken last year. The cyclic steaming program is due to begin again shortly with the first candidates being the Yule #5 and the Hartje #12 wells.

The recent drilling really had two main aims. Apart from boosting production, Sefton needed to collect core samples from the Yule oil sand to provide vital information to refine the geological model of Tapia field. In the past it was near impossible to take core samples of such unconsolidated material but technical advances in drilling have allowed core to be successfully collected from the Yule #12 well and the Hartje #19 well. These samples are being analysed to determine the porosity, permeability and oil saturation; with the findings used by Calgary-based consultants Petrel Robertson Consulting to update the geological model which is expected to be completed in March 2012. After which Dr Ali Farouq will be able to complete his simulation studies.

The Board had hoped to drill a total of four wells but in the end the last well Hartje #20 has to be added to the next drilling program. Although the Company had a permit in place from the California Division of Oil, Gas & Geothermal Resources (CA DOGGR) for Hartje #20, it is still waiting final permit clearance from the Los Angeles County Department of Planning which had previously raised concerns in connection with the proximity of the well to nearby oak trees and the impact of the drilling to significant ridgelines in the area. Sefton believe that they have addressed all the issues but even so the permitting timeline for this well is now more than six months compared to the normal 90 days. However, the Directors are confident that the Hartje #20 well will receive final approval from the County once all our support documentation has been reviewed.



Oxy carry on drilling

In the last edition, we mentioned that Occidental, the US's fourth largest oil company through its subsidiary Vintage Production, had been drilling on its Wayside Canyon oil field which is right next door to Tapia. In the second half of 2011, Vintage drilled a total of three horizontal wells at their field and now has permitted a fourth well. The rig has now arrived on site. Data posted up on CA DOGGR's website shows Vintage reporting production for November with the first well (#56H) producing 107 barrels of oil per day (BOPD) having produced a total of 17,000 barrels over the course of a two and half month period. The second well (#58H) produced 60 BOPD up from 45 BOPD in the previous month. There is no data from the third well as it was not spudded until early November.



Dear Investors,

A message from the founder and Executive Chairman

Welcome to the third edition of our investors' newsletter.

Sefton took some giant strides last year which I believe have laid the foundations for a successful 2012. This year a lot of the pieces are expected to come together with increased oil production and cash flow starting from Kansas; as well as a clear road map of how to develop Tapia to its optimum production capacity. With a larger management team, we can focus on the M&A strategy which I believe will help propel the Company to the next level.

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.

Directors up their stake

Just ahead of the close period, the Directors acquired a total of 7.13 million shares by way of a private transaction. These purchase take Executive Chairman Jim Ellerton's holding to 29.99 million shares (7.54%), CEO Karl Arleth's stake to 7.68 million shares (1.93%) and Non-Executive Director Mark Smith's shareholding to 4.63 million shares (1.16%).

Kansas Pipeline Infrastructure

Sefton came to Kansas in search of diversification of both commodity and geographical area. Oil can be trucked to market, but gas needs infrastructure and so the Company has been acquiring pipelines. Executive Chairman and founder Jim Ellerton knew an area in Leavenworth County in the eastern corner of Kansas that held abundant shut in oil and gas and which was bisected by an interstate gas pipeline providing access to market.

This oil and gas play really fits Sefton's criteria for acquisition. The backbone of the Company's acquisition strategy is to acquire long life, partially developed reserves with controlling interest. The Directors favour shallow reserves with good access to market and infrastructure. The plan is always to acquire core assets towards the bottom of the commodity price cycle and then develop these assets with our own funds and operate so as to retain a high percentage working interest. Moving ahead now that the Company has control of key infrastructure assets, the plan is to leverage the remaining growth potential using third party capital when the timing is appropriate and accelerate growth through acquisitions.

Great place to do business

The additional benefits of the Kansas projects to Sefton include allowing the Company to develop a balanced portfolio of oil and gas production, as well as assembling an operational team of professionals to match those at our California operations. Certainly the Directors believe that good operations are the key to successful economic returns. Kansas is an attractive place to do business as it has a favorable economic, political and fiscal climate for oil and gas exploration and production. Maybe it's all part of the flight from risk but there is currently a good sentiment in the City towards US oil and gas assets.

There are two general sources of gas to be sold. Firstly, equity gas where the Company is seeking to recomplete its own existing gas wells and bring them back into production. ReCompleting existing wells can be achieved at a fraction of the cost of drilling new wells and really helps with the economics at low gas prices (while awaiting higher gas prices to fully develop the remaining leases). Secondly, third

party gas where discussions are continuing with a number of potential natural gas producers.

Adjacent to an interstate pipeline

Today, Sefton controls more than 7,000 gross and net acres in Leavenworth County where there is conventional oil and gas potential as well as coal bed methane (CBM). Here there are shallow horizons which are shut-in due to an inactive pipeline system. The Company has a 100% Working Interest in its leases with an 87.5% Net Revenue Interest. Between the Vanguard and LAGGS (also known as Cholla) pipelines, the Company controls more than 50 miles of pipelines which were bought for \$214,000 in 2009/10 which will provide a gathering and transportation for third party gas and Sefton's own equity gas.

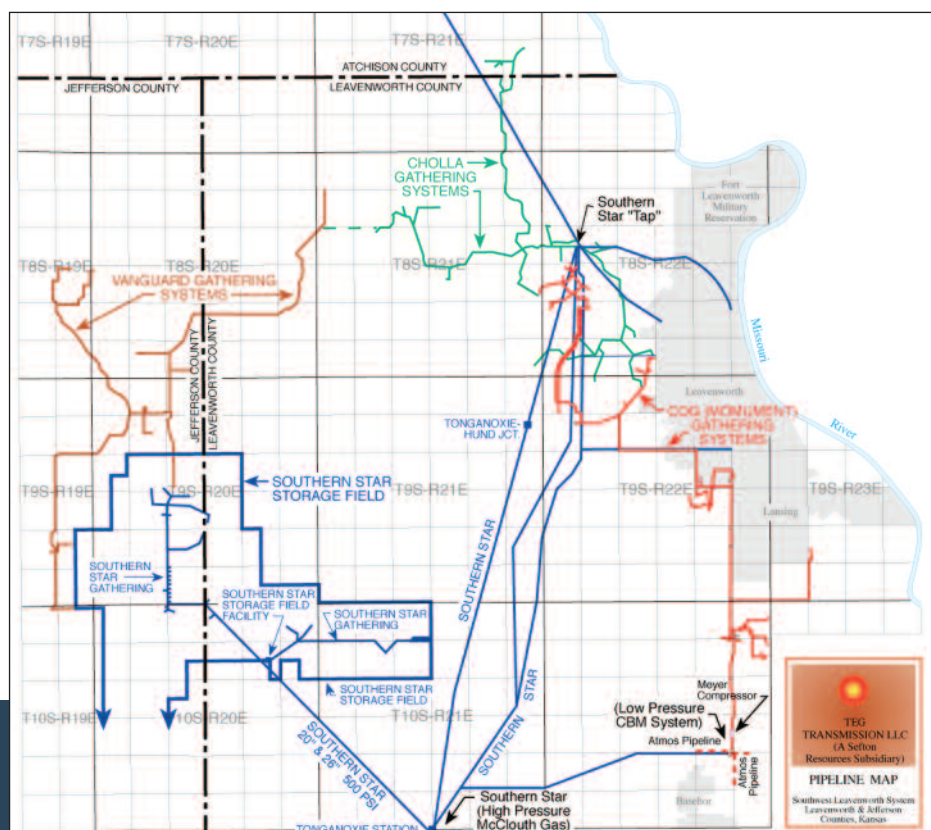
The board is focusing on targeted acquisition potential to get the maximum

benefit from Kansas. The LAGGS pipeline is 25 miles long and adjacent wells are being acquired to provide Sefton's equity gas. A deal has been agreed that will allow the LAGGS pipeline to be connected with Southern Star's Interstate Pipeline System and the natural gas markets. The Vanguard pipeline is 26 miles in length and also offers the potential for gas storage in the future which is a secondary objective. The plan is to join the LAGGS and Vanguard pipelines together which would not only allow third party gas and equity gas to get to market but also throws up the opportunity of "storage hedging" whereby Sefton may be able to stockpile gas in the summer and sell it in the winter when prices are higher.

CBM represents the bailout zone

In addition to conventional oil and associated gas plays, over the past fifteen years while the pipelines have been inactive, CBM plays have come to fruition. The conventional oil and gas lies in the traditional McClouth formation, with the CBM lying above. Coal seams cover the whole area and the CBM represents the bailout zone – as if you miss the McClouth, you can move uphole and access the CBM. This is because all wells within the area (dry or productive) pass through the coals and are capable of CBM production.

In these moves, Sefton has gained partially developed reserves in an area which has access to one of the largest gas transportation networks in the mid-west of





America with a pipeline that runs from San Francisco to Chicago. This is a real contrarian play that fits right in with the acquisition strategy of getting in at the bottom of the cycle as gas prices are on the floor. Even though these assets have been bought at low gas prices, the board did not acquire them to lose money but is looking to make money even at the bottom of the cycle. There is little doubt that the pipeline systems acquired represent critical gas gathering infrastructure that gives Sefton control over an area of some 200 square miles. In essence, no one will be able to get their gas to market in this area without doing a deal with Sefton.

Infrastructure controls the play

The real key to future success in this area is its position adjacent to an interstate pipeline into which access has been agreed. It has to be said that these pipelines have not been productive since the late 1990's. Karl Arleth, Sefton's Chief Executive Office, reckons that this means that 60% of the development that should have taken place over the past 15 years just has not occurred. So this corner of Kansas can be seen as a time capsule which has lain under-developed over the intervening years. The team sees an attractive opportunity here with reasonable well control plus plenty of recompletions, infill and extension of existing fields and exploration looking for new fields

There is little commodity price risk with the pipeline, it's rather a volume risk as pipeline operators need to maximize the rate at which gas is being flowed to ensure a profit. Kinder Morgan's \$38 billion acquisition of a rival pipeline operator saw plenty of comment that transportation fees per Mcf (1,000 cubic feet) of natural gas have remained robust even though gas prices in the US are low. Sefton sees that they can make good money out of third party gas transmission which means transporting other people's gas. This includes transporting associated gas from oil wells that will improve oil production once gas is transported to market as this gas cannot be flared.

This diversification into gas really works in the Company's favour. It has been spotted by a number of astute shareholders that Sefton uses natural gas in Tapia for the steamflood. As gas prices rise, the Company is in the enviable position of having its own gas in Kansas which would mitigate any rising price. First gas sales will be a key milestone on the road to Sefton generating a healthy cash flow from Kansas. As Sefton increases its own exploration and production in the area, the Company will have more gas to transport which will serve to make the pipeline system more cost effective and profitable.

First gas sales on track for mid-2012

Sefton is preparing to construct the interconnect, metering facilities and sales lines which is needed to put gas into Southern Star's interstate pipeline system. This work is expected to begin in Spring 2012 because Kansas does experience harsh winters to say the least.

At present, the operational team is confirming right of way and easement requirements for the interconnect and meter run construction. The approval of easements, landowners' notification and Federal Energy regulatory Commission (FERC) approval is expected to occur at the end of January and February 2012.

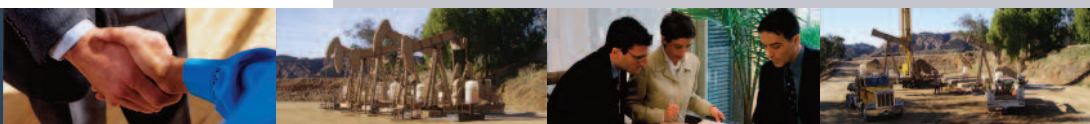
Already the north LAGGS and west LAGGS portions of the pipeline system have been operationally certified with ongoing certification work on the Vanguard pipeline now 50% completed. Discussions are continuing with potential third party gas providers and this pipeline project remains on track for completion and first gas sales by mid-2012. At the same time, the acreage acquisition and exploration programs are continuing with the priority of acquiring oil leases as well as acquiring leases with gas wells that can be brought back into production economically by a low cost workover program. In May 2011, the share price soared on the announcement of the results of a Competent Person's Report (CPR) produced by Dr Nafi Onat on the reserves in Kansas. Dr Onat is updating the CPR as at the 31 December 2011, which is expected to be published in Q1 2012.

US Natural Gas – a countercyclical play

Sefton Resources took advantage of the slump in NYMEX gas prices to get involved in this market. The Company has been acquiring very low cost reserves, land and infrastructure in long life gas plays so is less dependent on the current market price.

In the US, natural gas prices have slumped due to the advance of shale gas plays in the US, which have taken advantage of Frac Technology that has allowed a vast amount of gas to be liberated from within low permeability shale formations. It could well be that the market remains over supplied for the next 2-3 years. Storage facilities are full and so much of this shale gas has to come straight on to the market which has led to the price becoming depressed. All this could change if the US was to adopt a natural gas strategy for vehicles or if the US begins exporting natural gas. It certainly seems that the US is cut off from the high prices being paid for natural gas elsewhere in the world. But that might just be about to change as last summer Cheniere Energy Partners won federal approval to export up to 800 billion cubic feet of gas annually from its Sabine Pass LNG terminal in Louisiana. These facilities had been built to import natural gas but are now being transformed to allow gas to be exported.

Shale gas is well-known for producing a high initial production in year one but that seems to come with a 80% decline in production by year two followed by a steady annual decline of around 6-8%. It would seem that a lot of the drilling carried out in the Marcellus, Barnett and Fayetteville is needed for held-by production leasehold where drilling is taking place to purely hold on to the lease rather than for economic reasons. Having held the lease with one well, there is no need to drill any more wells afterwards if the gas price is not that good and for this reason it may be that the current avalanche of gas coming on to the market might subside in a year or two. It has to be pointed out that there is a quantum cost to developing such vogue gas plays which may produce 4-5 billion cubic feet per well and cost between \$2 – 4 million. That corresponds with Sefton's projected cost of \$150,000 to 200,000 per well and about 80% less for a workover or recompletion.





SEFTON RESOURCES, INC.

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

"...the board has wanted to wait until we can run the best model and hopefully get the best and most accurate report..."

Dear Jim

Just a schoolboy question. Dr Ali is quoted as saying " ...The oil recovery potential is excellent, and recovery of at least one-half of the oil in place should be possible" But weren't we hoping for much more than that? Earlier in the announcement we already mentioned recovery rate of 50% of Original Oil in Place (OOIP).

Jim Ellerton - We hope to get much more than 50% (other fields of this type in different parts of the US and Canada have resulted in up to 80% in some instances). At this juncture our "local" engineer (Reed Ferrill) has given us additional reserves based on steam flood of 50% of the OOIP (from both primary recovery and secondary recovery, the sand grains have heavy oil attached to them and getting more oil away from the sand needs stimuli such as heat to loosen things up).

This is a conservative number until we have demonstrated that this particular reservoir will perform better than their original estimate. We have demonstrated that thermal simulation of the reservoir (using steaming) will work with the results of the cyclic steaming but additional evidence is required to move it to the next level of being greater than 50%. By and large, with this type of field you get 10-15% recovery of oil in place from primary methods (ordinary drilling and pumping) and another 5-10% from secondary recovery. However if the reservoir is capable of being effectively steam flooded then the recovery factor can be substantially higher.

Sefton engaged Dr. Farouq Ali, who has experience in these types of fields all over the world, to demonstrate to our local engineers by highly technical but acceptable studies what the Tapia Canyon oil field is capable of doing. Certainly these types of studies are sensitive to inaccurate assumptions which is why we have waited for these new cores to improve the data, prior to Dr. Ali performing his final simulation computer runs on our geologic model.

This is a bit of an understatement but trying to get core information in the past from "unconsolidated" sands, was tough and therefore unreliable. The good news is that new technology is better for these situations, which will allow us to obtain critical data that has not really been available until now. This is the reason why the board has wanted to wait until we can run the best model and hopefully get the best and most accurate report from Dr. Ali.

The main objective of his work is to design the optimum way of getting what amount of oil he thinks can be recovered from this reservoir by this thermal method. Newswise how it will go is that, our engineers will incorporate Dr Ali's findings into their reserve estimates.

We do not want to rush things, as our goal is to get as much oil out in the most cost effective and efficient way.

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.mrgonline.com - Mining and Resources Quarterly featured Sefton in edition 3

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

Sefton has engaged both Edison Investment Research and Hardman & Co to provide independent investment research which we intend to post up on the website in the coming months.

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 December
Three months to 31 December 2011	£98,416	3,535,327	2.33p
Three months to 31 December 2010	£9,347	625,505	1.40p
Change	+953%	+465%	+66%

	Bargains	Trading value	Shares traded	Closing price
2011				
October 2011	1,148	£2,385,598	87,654,183	3.48p
November 2011	1,449	£2,906,563	94,964,436	2.78p
December 2011	562	£1,104,881	47,177,653	2.33p
Total	3,159	£6,397,042	229,796,272	
Average daily trading	48.6	£98,416	3,535,327	
2010				
October 2010	47	£34,143	2,702,794	1.38p
November 2010	164	£191,946	11,930,460	1.88p
December 2010	228	£381,471	26,024,614	1.40p
Total	439	£607,560	40,657,868	
Average daily trading	6.8	£9,347	625,505	

Source: AIM Market Statistics

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