

# BUSY YEAR AHEAD FOR SEFTON

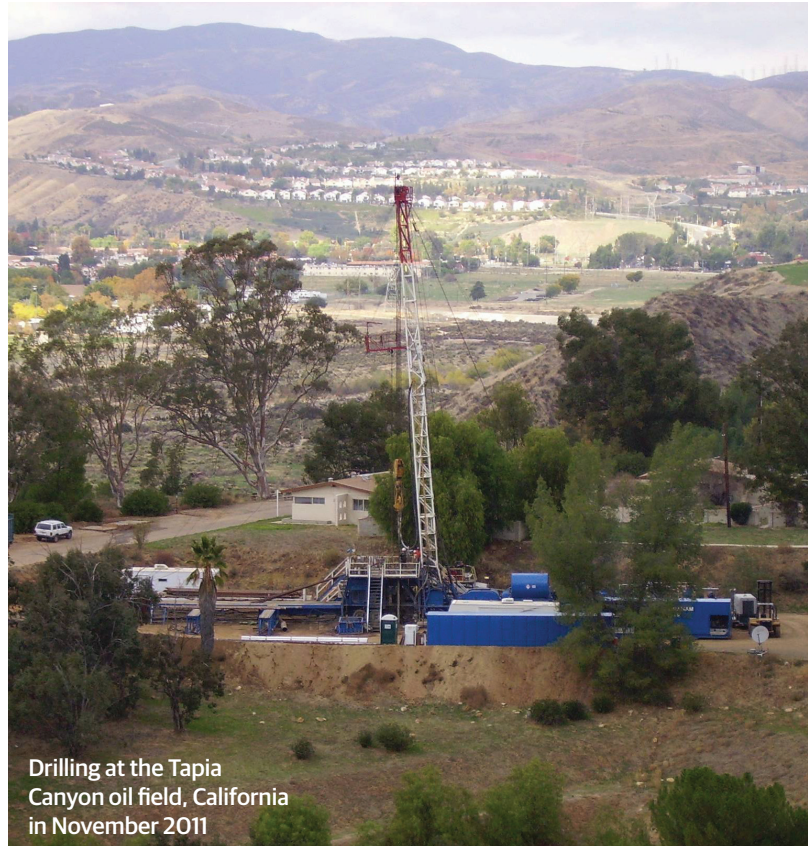
**S**efton Resources (SER:AIM) is a profitable US oil and gas producer that has big growth potential based on its current assets alone. Those assets have been independently valued at a net present value (NPV) of £144 million compared to a market capitalisation of just £8.8 million.

In California, Sefton owns 100% of two oil fields, Tapia Canyon (heavy gravity oil) and Eureka Canyon (medium gravity oil). Executive chairman and founder Jim Ellerton has been in heavy oil in Canada since 1990 but was attracted to California due to a year-round market for the product and a better price.

The company has recently been drilling four new wells at Tapia and in early 2012 production could rise as much as 75% to 240 barrels of oil per day (bopd). Proven reserves total 3.8 million barrels of oil, so there is scope to dramatically increase the level of production. Sefton Resources is a well-managed operation, as illustrated by its low lifting costs and success in winning the State Award for Operations Excellence for three successive years from the State of California.

## **VINTAGE DRILLING NEXT DOOR**

Immediately adjacent to Tapia lies Wayside Canyon where in the summer **Occidental Petroleum (OXY:NYSE)**, through its subsidiary Vintage Production LLC, drilled two horizontal wells with another permitted. The first well produced an average of 396 Bopd over a 13 day testing period to 31



Drilling at the Tapia Canyon oil field, California in November 2011

August. Less is yet known about the two others wells but they all have long horizontal sections, which possibly suggests the use of steam-assisted gravity drainage, a technique used in heavy oil fields to dramatically increase recovery.

At Tapia, Sefton has been using steam to heat the reservoir to improve recovery and production. Good results have been reported from both cyclical steam pilot and a continuous steaming pilot studies. Industry expert Dr. Farouq Ali of HOR-Heavy Oil Recovery Technologies Ltd was engaged to study and make recommendations on the potential of using thermal

stimulation methods.

Dr. Ali's preliminary findings were extremely encouraging and identified total recoveries for the Tapia oil field in the range of 51% to 78% original oil in place. He suggested a steam flood based on a nine five-spot pattern could generate oil production of up to 1,750 bopd. Dr. Ali's work involves performing simulation studies on a geological model of this oil field. This model is to be refined using core data from the recent drilling which will provide greater accuracy to his final results.

Original oil in place at Tapia is more than 11 million barrels of oil although

the primary production to date is less than two million barrels. The current proven reserves of 3.8 million barrels of oil are based on independent engineering studies using an estimated 50% the recovery rate. As at 30 June 2011, these oil interests were assigned a NPV of \$136.7 million, or £83 million, discounted at 10%.

### MANAGEMENT SKILLS

Sefton has a highly experienced board headed by Jim Ellerton who began his career at Texaco and has thirty years' experience in developing oil and gas prospects in the major basins of North America. Chief executive officer Karl Arleth has thirty years' experience both of US and international oil and gas including twenty years at Amoco and **BP (BP.)**.

Sefton has a history of buying assets at low prices. The company began in 1994 when Jim Ellerton acquired the Tapia Canyon field for a \$100,000 loan note in a joint venture with two other companies which were subsequently bought out. This was when the oil price was under \$20 a barrel. In recent years while gas prices have been low, the board looked for opportunity to diversify the portfolio and chose Kansas.

### GAS PIPELINE ONSTREAM

Today Sefton's gas interests in East Kansas cover more than 45,000 acres in the Forest City Basin. Sefton has a 100% interest in these licences where coal bed methane (CBM) as well as conventional oil and gas deposits are the targets. In addition, the company has acquired three gas pipelines, two of which form the route to market from a gas-rich area that covers 200 square miles. This corner of Kansas

has been chosen because it is crossed by a couple of interstate gas pipelines which will allow Sefton to sell gas nationally in the US. This area also has shut-in oil which cannot be produced due to associated gas as that cannot be flared and so the management see the chance of developing an oil play.

Maps of this area of East Kansas are peppered with gas wells that were shut-in due when the pipelines became inactive as a result of low gas prices in the mid-1980s. Dr. Nafi Onat conducted a competent persons report (CPR) in 2011 on the Kansas assets, which calculated a net present value of \$100.1 million, or £60 million, discounted at 10%. In November, Sefton was able to announce an agreement to connect its pipelines to Southern Star's interstate pipeline. This deal allows the Sefton to gather and sell its gas and that of others to the major markets throughout the USA.

### HEALTHY NEWSFLOW

Healthy newsflow is developing in both California and Kansas. In California, increased oil production at Tapia is expected from early in 2012, ahead of the final report from Dr. Ali which is expected to provide a roadmap of how to develop Tapia in the future, using a full-field steam flood. If he is able to demonstrate a higher recovery this will result in an increase in the proven reserves. As an intermediate stage before the full steam flood, cyclical steaming is recommencing following the drilling of the current wells.

In Kansas, the Southern Star tap is expected to become operational in summer 2012 and allow Sefton to transport between 360mcf and 10

million cubic feet of gas per day to market. With that deal in place and the pipelines operational, reserves and resources can climb up the value chain as the gas will be marketable. Dr. Onat's CPR report will be updated as of 31 December 2011 to reflect this. News is also expected about the acquisition of more acreage and well bores close to their pipelines as the plan is to recompleat existing wells along with drilling new wells.

Sefton has a sound financial base and now a highly visible recurring revenue stream is being established, the board is seeking to pursue bolt-on acquisition opportunities for further growth.



## SEFTON RESOURCES (SER:AIM)

Sector:	Oil & Gas Producers
Sub-sector:	Exploration & Producers
Share price:	2.2p
• VITAL STATS	
Market cap:	£8.8 million
Prospective PE 2012:	n/a
Prospective PE 2013:	n/a
1-month price change:	-32.8%
12-month price change:	+60.0%
Yield:	n/a
Spread:	4.4%

