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## Sefton Resources, Inc - Drilling Started at Tapia Oil Field and Kansas Gas Update

Sefton Resources, the US oil and gas exploration company, released an update on its operations in Tapia and Kansas on 23rd November 2011. The company has started drilling four new wells at the Tapia Canyon oil field, which are expected to bring oil production up to 240 barrels of oil per day (BOPD) when operational. Additionally, Dr. Farouq Ali's interim report on steamflood modelling reconfirmed the potential of steaming the entire oil field at Tapia Canyon. It was disclosed that in his preliminary work, Dr Ali had suggested that Tapia had the potential to produce up to 1,750 barrels of oil per day using such a technique. In Kansas, the Southern Star gas interconnect agreement was executed on 21st November 2011, and will connect the company's pipeline to the Interstate Pipeline System, providing access to major US gas markets.

On 16th November 2011 drilling began on the first of four new wells at Tapia Canyon, California. The company's plan is to drill and core the initial well, Yule #14, before moving on to an adjacent well, Yule #9, which has already been drilled to 600 feet. Sefton will continue drilling Yule #9 to an optimal level at a vertical depth of 1,140 feet. The drilling operation will then move on to the Hartje lease location, and commence drilling on the third well, Hartje #19, located in an up-dip location. Finally the fourth well, Hartje #20, located in a down-dip location, will be drilled. It is comforting to note that a subsidiary of Occidental Petroleum Corporation, Vintage Production LLC, has successfully drilled to horizontal wells at an adjacent oil field.

Once drilling at Tapia is completed and production commences, which is expected to be in early 2012, a significant increase in oil production of up to 75% to circa 240 BOPD is expected. The only downside to the drilling, however, is while drilling is taking place the wells must be taken offline, which will result in a loss of production estimated at 88 BOPD. This downside is limited though, as the company expects this downtime to be staggered throughout the drilling schedule, with production offline for approximately 14 days in total.

Sefton recently received an interim report from Dr. Farouq Ali regarding the simulation of the Tapia Canyon Steam Injection Project. The Original Oil in Place (OOIP) at Tapia Canyon is in excess of 11 million barrels, but at present less than 2 million barrels have been produced. Preliminary findings identified by Dr. Ali indicate that total recoveries could be in the range of 51%-78% of OOIP with the application of steaming. This morning's announcement states that " At that stage in his overall evaluation, Dr Ali suggested a steamflood based on nine 5-spot pattern that would generate oil production potentially of up to 1,750 barrels of oil per day (BOPD) " .

A geological model has also been constructed by Petrel Robertson Consulting Ltd ('Petrel'), which is being used by Dr. Ali to model the steamflood process through a series of simulations. Data from drilling will also enable Petrel to refine their porosity and permeability models, and generate a more accurate 3D representation of the region's permeability. Dr. Ali will run further simulations using the improved geological model which should ensure that his study is an

Key Data	
EPIC	SER
Share Price	2.725p
Spread	2.7p – 2.75p
NMS	15,000
12 Month Range	1.125p – 6.125p
Market Cap	£9.54 million
Total no. of shares	350.03 million
Market	AIM
Website	<a href="http://www.seftonresources.com">www.seftonresources.com</a>
Sector	Oil & Gas
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accurate representation of the expected performance of the steamflood project.

In Kansas, the company has executed the Construction, Ownership and Operating Agreement with Southern Star to construct a gas interconnect with their pipeline. Once construction is completed, which is expected to begin in spring 2012 contingent on meeting all easement, landowner, legal, and regulatory reporting requirements, Sefton will have a route to deliver its own gas, and additional third party gas, to major US markets. Once operational, the capacity of the interstate tap is expected to range in gas volumes from 360 thousand cubic feet per day to 10 million cubic feet per day. However, under the terms of the agreement, gas flow will not commence until Southern Star begins gas sales, which can be anytime up to one year after the activation of the system.

The North and West sections of the company's LAGGS pipeline have now been operationally certified, but in order join the entire Kansas pipeline infrastructure, Sefton needs to acquire operational certification on the Vanguard pipeline, which is expected this year. Once certification has been received, the LAGGS and Vanguard pipelines will then be joined during 2012, in conjunction with the construction of the Southern Star interconnect, thereby completing the Kansas pipeline system. Sefton is continually acquiring land and wellbores with associated gas reserves in the vicinity of these pipelines, which will help to ensure a continuous supply of gas once the pipelines become operational. In addition, three third party gas operations have shown an interest transporting their gas through the Sefton pipeline, which would earn Sefton a transportation fee. Finally, the Competent Persons Report conducted by Dr. Nafi Onat to identify the company's Contingent and Prospective Resources in Kansas will be updated at year-end 2011.

We feel the increase in oil production that is likely to result early next year could provide a significant upside for the company going forward. There have also been promising developments with the gas operations in Kansas that have the potential to come to fruition as early as H2 2012. We feel our previous model valuing the company's oil reserves at £12.7 million is still valid and the recent increase in the independent oil reserve valuation on a PV10 basis to \$136.76 million underpins this. If we include 20% of Dr. Onat's total independent valuation of Kansas gas assets of \$100.1 million to our valuation model, this adds a further £12.5 million and brings our total valuation to £25.2 million, or a share price of 7.2p. We maintain our stance of buy at 2.725p, with a target price of 7.2p.

## Forecasts 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	15.4	0.0	0.0
2009A	2.74	(0.29)	(0.25)	N/A	0.0	0.0
2010A	3.85	0.40	0.31	13.6	0.0	0.0
2011E	4.50	0.70	0.27	15.7	0.0	0.0

Source: Company and Growth Equities & Company Research

Notes: \* P/E ratio calculated using an exchange rate £1 = \$1.5561



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