



Range Resources: (LON:RRL ASX:RRS) “Patience and Faithfulness”
(in the words of Vincent Van Gogh!)

Building a successful company in the small cap oil and gas sector is never going to be easy, and any success will always be hard earned.

In an inherently “high stakes” business, much of that success will come from management’s ability to manage and mitigate risk, whilst leveraging opportunity as it presents itself.

It’s called “riding your luck, whilst covering your rear!”

Similarly for investors in the sector, it’s all about confidence - confidence in the company, its management and its business strategy.

Being a successful investor in this sector will always require a certain degree of luck; and if you have the stomach for it – not for everyone does! - Oil and Gas exploration will offer that potential adrenalin ride “race to value” which comes when all the stars align, and a commercial discovery is made.

It is important to retain the right mind-set and psychology. In the midst of the process and the hype, there will be periods of heightened uncertainty and the worry. Questions will always abound, driving doubt, worry, and concern; and when the share price is your barometer for progress, volatility will always be the order of the day.

And therein lies for the fortunate and certainly very stoical, the potential for very significant rewards.

We all have similar questions:

- What is the geopolitical risk?
- How prospective are the licence areas?
- Is there sufficient funding?
- Will the company become profitable or generate substantial growth in the value of its assets?

Or specifically with [Range Resources](#) the two key concerns are probably:

- When will drilling start in Georgia and how will this be funded?
- When will drilling get underway in Puntland and how will this be funded?

We were recently considering progress with Range Resources and thought it may be interesting to draw some parallels from the words of [Vincent Van Gogh](#) , of course he was addressing the subject of Art, his Art, and we all know the story there....

“It would be difficult for me to express all my thoughts about it. It remains a constant disappointment to me that my drawings are not yet what I want them to be. The difficulties are indeed numerous and great, and cannot be overcome immediately. Making progress is like miners' work: it doesn't advance as quickly as one should like, and also as others expect; but faced with such a task, patience and faithfulness are essential. In fact, I don't think much about the difficulties, because if one thought of them too much, one would get dazed or confused”.

Range Resources shares a similar perspective to Vincent Van Gogh it seems, acknowledging that their chosen path will not be an easy one, but the potential rewards are what make the effort worthwhile.

["if you can find a path with no obstacles, it probably doesn't lead anywhere"](#)

Despite the challenges, it looks like patient investors are starting to see the rewards for their stoicism. In July 2010 our update "[Oil & Gas on a grand scale](#)" took into account developments up to that point. And in the six months since then Range's progress has continued apace.

Those watching closely will know a certain momentum appears to be building within the Range portfolio. This momentum is starting to drive the business forward and we have increasing visibility as to when key events are likely to happen, notably within Georgia and Puntland.

Many readers will know the structure of the company, but for assistance, we have added a few notes below:

[Texas](#) – Producing oil and gas already, with significant forward production scalability and additional exploration potential:

Range has a 25% interest in the Smith 1 well drilled on North Chapman Ranch and a 20% interest in subsequent drills. North Chapman is a licence encompassing 1,680 acres within one of the most prolific oil and gas producing trends in Texas.

In July 2010, we had already seen Range's North Chapman ranch project producing oil and gas from the Smith 1 well. The second well, Russell Bevely had been drilled and 130ft of net pay discovered. That enabled Russell Bevely to be brought into production and this was [announced to market in September 2010](#) .

Then in October 2010, [the company announced](#) that independent assessment of the North Chapman Ranch project had yielded a 67% increase in the commercially recoverable reserves to 12.7 billion cubic feet of gas and 1.9million barrels of oil and natural gas liquids. Interestingly, this amounted to an independent (PV10) DCF valuation of Range's net interest of \$248million.

More wells are to be drilled and as more data flows in, the level and quality of reserves will hopefully continue to increase.

But North Chapman Ranch is not the only asset in the portfolio. The second, East Texas Cotton Valley, is also becoming an increasingly important part of the portfolio, with [the company announcing an increase in their ownership](#) to 21.75% in a January 2011 announcement.

[Georgia](#) – Seismic completed, helium surveys and drill target refinement underway, first drilling scheduled for March:

Range holds a 40% interest in two licences covering approximately 7,000sq kilometres on which they have completed a 410km 2D seismic exercise. In [November the company announced](#) that this seismic exercise had identified 68 potential structures containing an estimated 2.045 billion barrels of undiscovered oil in place.

Later in [November the company announced](#) the commencement of activities in Georgia and, notably, the implementation of a helium survey to further enhance drill targeting. The results of the helium survey are expected shortly and should significantly enhance the probability that the 2 well drilling programme will be successful.

On [10th January the company announced](#) the successful farm out of a 10% interest in Georgian licences to [Red Emperor](#) (ASX:RMP), which reduced the level of Range's interest to 40%. That said

the transaction also reduced the financial risk to Range, particularly as Red Emperor must pay a disproportionately higher proportion of the cost of the two well programme, reducing Range's commitment to just 30% of the total cost.

[Puntland, Somalia](#) – enormous prospectivity, stunning targets, drilling delayed but now first drill likely within six months:

Range Resources holds a 20% working interest in two licences including hugely prospective Dharoor and Nugaal Valleys. On the ground exploration work including seismic has been completed and targets selected for a drill programme to include one drill in Dharoor and one in Nugaal.

There have been significant delays to the commencement of drilling, in part due to the need to secure full confidence that financing and security issues were properly addressed. As a result it was also necessary to agree an extension of the Production Sharing Agreements (PSAs) for Dharoor and Nugaal which expired on 17th January 2011.

That extension was agreed and announced to the market on 17th January 2011 by Africa Oil (operator CAN: AOI) and by [Range on 18th January 2011](#). The PSA stated:

Under the amended PSAs Africa Oil is obligated to spud a minimum of one exploratory well in the Dharoor Valley Exploration Area by July 27, 2011. A second exploratory well is required to be spudded in the Nugaal Valley Exploration Area or, at the option of Africa Oil, in the Dharoor Valley Exploration Area, by September 27, 2011.

So we have a timetable, and one that should see the first drill spud within six months. That, in itself should generate substantial interest, especially as the [competent persons report](#) prepared for Africa Oil in December 2009 provided an Estimated Gross Oil in Place of 1.16billion barrels of oil for Dharoor and 2.48billion in respect of Nugaal. And these figures are the 'attributable to Range' amounts reflecting Range's 20% working interest.

Clearly drilling in Puntland should excite the market, and an oil discovery there could well be a significant company maker.

And finally:

We should not forget on [6th January 2011 the Company announced](#) its inclusion in the AIM All Share Index reflecting its increasing share liquidity and exposing the company to a wider range of institutional investors. In December last year we also conducted [an interview with Executive Director Peter Landau](#) where he gives a complete round up of events to date.

Also worth a study is the [update from house broker Old Park Lane Capital](#) following the recent Puntland news and the [Edison Research report](#) from 6th December 2010.

Of course to calculate suggested price targets, research reports need more certainty than speculation.

That said, as we proceed, the next six months should see drills turning in Georgia and Puntland so who would bet against speculation taking the leading hand in the months ahead?

And if that speculation leads to just a little certainty (i.e. they strike oil) then that adrenalin "race to value" would certainly be on the cards – in which case that 'patience and faithfulness' would be handsomely rewarded!

Disclosure: The Authors hold shares in Range Resources

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