

May 2011



### [Range Resources \(LON:RRL ASX:RRS\)](#)

#### **“Value Proposition” in the words of Peter Landau!**

“Value proposition”; is a phrase used many times in presentations from Peter Landau, Executive Director of Range Resources (LON : RRL ASX : RRS).

The word *value* can be defined as “a fair price or return, worth in usefulness or importance” and *proposition* “a proposal or topic presented for consideration”.

**In the context of Range Resources and as a result of the various deals pursued by the company over the years, investors have certainly been presented with an impressive “Value Proposition”.**

Of course patience is indeed an investors’ virtue and we are now starting to see the inherent value in these deals completed, which in turn is starting to translate into asset value and share price appreciation.

### **Value Proposition**

Since the last [Mining Maven update on the 3rd February](#) Range have released to the market no less than ten pieces of news from across its portfolio; and has seen its share price increase from 8p to currently 16.75p, a gain of some 110% over the period. So to what can we apportion this level of gain?

Well a combination of things probably. Range is certainly on the radar of more investors’ these days. A strong retail investor following is demonstrated by the fact that in February 2011 Range was the second largest bought [ISA share](#), behind Lloyds Bank, and its inclusion into the [AIM All Share Index](#) this year will have firmly put it on institutional investors’ shopping lists as well.

It is also fair to complement the company on its excellent public relations activities, embarking on recent London and [Georgian presentations](#) which have ensured the Range story is being much talked about in “The City” and beyond. After all, how many companies this year can be boasting about drilling billion barrel targets?

So where does the company go from here and what is in store for the rest of the year? An important question since the key to positive investment performance is to consider what will happen in the future, rather than just what happened in the past!

Range Resources is a company that certainly doesn’t believe in standing still. It is about to embark on further potential company-making drilling activity in Georgia and Puntland which has been long awaited. In fact [news that the Georgian drilling operations has begun](#) has just been released to the market, so we now await news on operations in Puntland shortly which should see spudding of the first well in Puntland in late July, early August.

Furthermore, the recent news of the [acquisition of the remaining 90% interest](#) of producing onshore oilfields in Trinidad for \$52m in cash plus 36million shares will have notched interest up even further; set this against that backdrop of “Value Proposition”, the 100% holding should now offer the company significant flexibility to create additional value.

A bit of background here; in July of last year Range signed [Heads of Agreement](#) to participate as a 10% stakeholder in this deal, with Monitor Energy taking the other 90%. This of course has been a deal building for some time. In his [Mining Maven video interview](#) back in December, Peter Landau made reference to the fact that he would have liked a bigger stake in Trinidad. So it would seem that has he got his wish, pulling off a deal that took the market by some surprise.

Range has now built up a diverse portfolio of assets, across continents, with varying degrees of geopolitical risk. The safe havens of Texas and now Trinidad are producing and will help underpin shareholder value as further resources are proven through additional drilling.

The bigger plays of Georgia and Puntland are now coming to the fore, with the first drill in Georgia due to spud shortly and the first drill in Puntland for over 19 years expected to spud by the end of July.

But the ultimate *value generation* event for any exploration and development company will always come from building asset values and securing crystallization. That crystallization could be through the generation of substantial ongoing revenues or through asset disposals where the work done has created a significant enough asset on which the company can reap a significant capital gain.

We are entering the phase where value is being generated and we envisage this will gather pace in all its various forms. But for now, let’s take a closer look at the up to date position within the portfolio of assets:

***Texas (North Chapman Ranch) – Producing oil and gas already, with significant forward production scalability and additional exploration potential:***

Range Resources has a 25% interest in the Smith 1 well and 20% interest in the Russell Bevly well on North Chapman ranch. North Chapman is a licence encompassing 1,680 acres within one of the most prolific oil and gas trends in Texas.

Both wells have benefited from recent [fracture stimulation](#), which is still ongoing with further results due. As a result, both wells reached production rates on testing of 9.3 MMcf of gas and 800 bbls of oil per day - [a 500% increase](#) from original production figures. It is envisaged that these figures will increase further when all fracture stimulation activity has been completed.



The company plans to spud a third well, the Albrecht 1 in late Q2 or early Q3 this year with the possibility of a follow-up well, subject to success with the Albrecht.

Range has an [independent reserves assessment](#) for the North Chapman Ranch Project, which gives a PW10 estimated future cashflow of US\$248m. It is envisaged that as a result of the successful fracture stimulation of both the Smith 1 and Russell Bevly wells, combined with a third well due to spud, that a significant movement of Probable Reserves into the Proved Category will occur, as well as establishing new reserves by the Russell Bevly well.

The North Chapman Ranch wells give Range a steady income stream and with rising oil prices, this serves to contribute materially towards the company's working capital requirements.

In a world of high risk oil and gas plays, a safe producing environment with proven reserves provides a substantial degree of security for investors and also helps to underpin a significant proportion of the company's market capitalization.

### **Texas (East Cotton Valley) – first successful well drilled**

Range holds a 21.75% interest in the East Cotton Valley Prospect in Red River County, Texas. The prospect area encompasses approximately 1,570 acres, with a recent oil discovery. Independent assessed gross recoverable reserves in place are 5.4 million barrels of oil.

The company spudded its first well, the Ross 3H in February this year with a targeted depth of 2,500m. In March the company confirmed that the well had successfully encountered 130 feet of gross oil pay in the objective section and more recently this month confirmed that they had run and cemented in place a production liner to target depth. It now plans to [fracture stimulate](#) the well to accurately report on flow rates and update reserves.

This successful drilling of Ross 3H would further enhance the company's cashflow with oil sold from production. The company then plan to drill further low cost wells to continue to prove up reserves and increase production.

### **Georgia – seismic and helium surveys completed, first drill target identified and rig contractor appointed**

Range holds a 40% interest in two licences covering approximately 7,000sq kilometers on which they have completed a 410km 2D seismic exercise. The seismic exercise identified 68 potential structures containing an estimated 2.045 billion barrels of undiscovered oil in place.

In February this year, the company announced the results of its [Georgian Helium Survey](#). The survey was carried out by a company called [Actual Geology](#) on three areas (Mukhiani, Kursebi and Sachkhere). A 10km<sup>2</sup> grid was used to evaluate proposed drill locations within these structures. The technology used as part of the survey measures helium concentrations in shallow bore holes and analyzes the results to produce a "sweet spot" for oil and gas drilling. Actual Geology have completed major field projects using this technology, for Gazprom, Lukoil, Rosneft and other leading companies in Russia.



The helium survey has indicated active oil and gas presence in the first two drill targets (as identified by the RPS Seismic Report) with the survey identifying priority zones which are most likely to contain potentially productive systems. The productive zones which have been distinguished are at Mukhiani and Kursebi.

Upon completion of the helium survey, the company appointed [Edeco Petroleum Services](#) Limited ("Edeco") to provide the drilling rig and associated inventory for the first well to be drilled. The company has engaged First Drill Limited ("First Drill") to assist in identifying the most appropriate rig. It is expected that the first Georgian well will spud in June this year, following the recent mobilisation of the rig from the UK earlier this month.

## Puntland, Somalia – enormous prospectivity, stunning targets and first drill to spud in July 2011

It is worth re-capping the history of the Puntland deal, as at one point this was the only asset that Range held within its portfolio.

In the early 1990s, Conoco and Phillips Petroleum (before they merged) had concessions in the Nogal valley. They drilled two wells before abandoning their concessions and evacuated their personnel upon the collapse of the Siad Barre government.



Consort Private Ltd, a holding company operated by two Australian dealbrokers Terry Donnelly and Anthony Black, travelled to Puntland in April 2005 to tour the country and meet with Puntland leaders. An agreement was signed on 30th August 2005 with Consort Private for exclusive rights to explore and drill for oil in the Nogal and Dharoor blocks.

Range Resources purchased 50.1% of Consort Private's exclusive rights to the Dharoor and Nogal blocks on 5<sup>th</sup> October 2005 in exchange for US\$2,500,000 in cash, 17 monthly payments of US\$200,000, 85,000,000 shares of Range Resources stock and a further 85,000,000 stock options. In June 2006 the remaining 49.9% was purchased from Consort Private with the key assistance of Sir Sam Jonah, who became Range Resources non-executive chairman.

Range [farmed out 80%](#) of its interest to Africa Oil Corp (CAN: AOI) in January 2007, with a commitment under the Production Sharing Agreement (PSA) for AOI to invest US\$50m in the two blocks of Nogal and Dharoor within two 3 year periods.

Range continues to hold a 20% interest in Puntland, with Africa Oil (CAN : AOI) holding 45% (due to become 60% after their acquisition of Lion Energy (CAN : LEO) and Red Emperor (ASX : RMP) holding the remaining 20%.

A new [Production Sharing Agreement \(PSA\)](#) was granted in January 2011 which incorporated the requirement for Africa Oil, as operator to spud the first exploratory well in the Dharoor Valley by 27<sup>th</sup> July 2011. There is much speculation as to whether Africa Oil are on target to achieve this date, however recent market updates by Africa Oil confirm they are looking to appoint a rig contractor and are in advanced discussions.

One thing to always bear in mind with Puntland is that Range were the original deal makers and the company is understood to have a very close relationship with the Puntland officials, continue to work closely with the government and in conjunction with their advisors, Texas Energy Advisors, are also actively pursuing efforts to procure an offshore drilling partner in Puntland,

Should Range and its partners strike it lucky with its drills in Puntland, the oil industry will undoubtedly sit up and take note, as Puntland is one of the world's last undiscovered oil frontiers with billions of barrels potential. The stakes are simply that high.

## Trinidad – 100% operator of onshore producing fields

Range have just recently concluded [the acquisition](#) of 100% of SOCA Petroleum, which holds three licenses in producing onshore oilfields in Trinidad, together with a local onshore drilling operation.

Trinidad has produced over 3 billion barrels of oil to date and currently produces 100,000 barrels of oil per day. All locally produced oil is acquired by the state owned petroleum refinery with logistics already in place.

This acquisition can be seen as a major coup for Range, who were originally due to participate with only a 10% stake. The deal fell through in the early part of this year due to timescale constraints from the vendor, when at the time the transaction was being pursued by Monitor Energy (ASX:MHL) taking up the 90% stake.



Peter Landau seized the opportunity to put the deal back on the table knowing full well it was already receiving strong backing from potential investors.

The company secured a £20m placing, (which was over-subscribed) to assist in funding the \$52m acquisition, along with funds from its £20m equity line of credit with Dutchess Capital. The equity line was arranged in January 2011 by First Columbus LLP, Dutchess's joint venture partner in the UK.

The acquisition was structured as follows:

- US\$52m cash upon formal completion of the acquisition;
- The issue of 35,842, 293 fully paid shares on completion;
- The potential issue of two parcels of a further 17,921,146 fully paid shares upon production from the licences reaching 1,250 bopd and 2,500 bopd respectively.

The placing of £20m which created a further 118million fully paid shares and whilst some investors will see this as dilution, it must be taken into account that the company have taken on a cash producing asset which has substantial future potential. Current production from the fields is 600 bopd and there is a planned work programme which is expected to increase that to more than 4,000 bopd within 36 months.

Furthermore, this planned production does not take into account any exploration upside from the deeper "Herrara Formations" which from the known reserves could see the company targeting an increase in production levels to between 8,000 – 10,000 bopd.

Everything about this acquisition points towards those words "Value Proposition":

- currently producing
- significant increased production from current wells from a workover programme
- low cost drills for future exploration
- oil sold direct to State within existing infrastructure.

The deal should start to contribute significant and increasing net asset value to the company and when the market begins to see the value, one would expect a corresponding share price appreciation to follow.

## Conclusion

We love to see companies that are constantly pushing the boundaries. Thinking about Range Resources a year or so ago reminds us how important it is to hold fast to your belief, if, after conducting your research, you maintain the conviction that the future holds promise. And there are plenty in the markets who are out to dissuade and shake those shares from your hands, whatever their motivation. Of course there is risk, but as previously stated, this game is being played for extremely high stakes.

Range Resources have created substantial value and since our last Value Proposition update in February, they have continued to go about their business in a focused manner, bringing in new projects and new partners. Success with the drill bit has continued and they are now moving to participate in the drilling of hugely exciting prospects in Georgia and Puntland.

Where can the company go from here?

We remain of the view that Range Resources offers a compelling Value Proposition. With Texas and Trinidad, the company has secured a solid underpinning secure mix of projects to help underpin the existing market capitalisation. Those assets, as they are developed and grown will increase in value and investors can look forward to significant value crystallisation going forward.

We all know a lot will depend on success in Georgia and Puntland; but drilling prospects potentially containing hundreds of millions or billions of barrels mean that any material success could offer the serious blue sky potential we all crave.

One thing is for sure, the spotlight continues to focus heavily on Range Resources, which can now boast the accolade of “producer and explorer” and with billion barrel targets in their sights who would bet against further increased shareholder value?

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**Disclosure: The Authors hold shares in Range Resources**

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