

KFG Resources Prepares Seismic in the Hunt for 4 Million Barrels of Oil and Gas Equivalent

By Katherine Young

After more than two years of painstakingly raising funds for a crucial seismic survey, KFG Resources' (TSX.V:KFG) story is about to heat up. With a \$2.5 million financing in place, and permitting currently underway, KFG has contracted to begin a 3-D seismic survey on its Fayette Oil Field in the Mississippi Interior Salt Basin in February 2008.

Financing will cover the seismic survey on the Fayette Oil Field, located in Jefferson County Mississippi, as well as the planned next stage—a 10,000-foot test well to be drilled in late spring of 2008. Production and cash flow could follow as soon as ten months from now.

The objective of the 3-D survey is to survey the Lower Tuscaloosan reservoir at approximately 9,500 to 10,000 feet deep where 37 deep wells have been drilled so far, 29 of which are on the east side and only eight on the west side of the salt dome. Current production from the dome – which totaled 31 barrels of oil per day and \$290,085 cash flow for KFG at year end in April 2007 – has all been from the southeast side of the dome. Of secondary importance, the survey will cover several areas KFG has identified with development potential in the Wilcox shallow gas targets.

Salt domes form in marine basins like the Mississippi Interior Salt Basin when salt intrudes into the surrounding rock strata following repeated flooding and draining of the basin. Sediment forms over the salt, burying it. Then, because the salt is less dense than the sediment, it pushes up toward the surface forming a dome. As the salt forces its way to the surface, the surrounding rock bends, forming pockets, or 'traps' where oil and gas collects.

The trap around the salt dome is circular, much like when a drop of water falls into a pool and ripples travel outwards in concentric circles. When there is known oil on the east side of the dome, as in this case, there should be oil on the west as well, where KFG expects to find reserves comparable to those already discovered on the east.

The seismic survey will pinpoint exactly where the narrow traps lay, drastically improving accuracy of drilling over previous geology-only technology.

Robert Kadane, President of KFG, says, "These are very narrow channels – 1,000, maybe 1,500 feet wide – and could be about 100 feet thick. It's very easy to miss, so that's the reason for the survey. What we'll do is see where we have half a dozen of these signatures line up on top of each other and that's where we'll drill. It's that simple."

KFG's target is 2 million barrels of Lower Tuscaloosa oil, 10 billion cubic feet of shallow gas reserves, and approximately 8 to 10 billion cubic feet of deep gas reserves. In addition, secondary reserves, which can be recovered through CO₂ injection, account for an additional 80%. Numbers like these inspire Kadane to comment, "If it works, the shareholder value will be increased somewhere in the magnitude of 10 to 20 times."

With KFG carrying up to 80% of a potential 4 million barrels of oil at today's price of nearly \$90/barrel, the Fayette Oil Field holds a promising risk-reward ratio.

Adding further value to the project is the 50 years of experience Bob Kadane has put in – much of it here in the Mississippi-Louisiana Salt Basin. Since he was digging ditches at 16 years old has worked in virtually every aspect of oil exploration—from finding and developing reserves to selling oil and gas.

Words of wisdom gained from a lifetime as an oilman: "Dance with the girl you brought to the party," Kadane chuckles. "Stay with what you've been successful at. The easiest way to fail is to get involved in a new area you don't know anything about. I've had consistent success throughout the years here so that's where I'm staying."

And with pipeline infrastructure in place, low Mississippi taxes and 2.2 million barrels of oil produced so far from the southeast side of the salt dome, Kadane's focus on the Fayette Field seems well-placed.

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