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## Investment ideas

### TomCo Energy

TOM £14m 3.25p

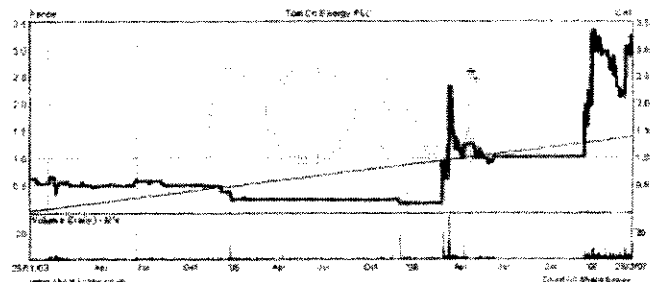
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TomCo Energy is a play on the potential of shale oil – crude oil which is locked into hard rock. Shale is costly to extract but as oil prices rise and new technologies reduce the extraction costs, TomCo's considerable resource will become commercially viable – and highly profitable.

The company holds two State of Utah oil shale leases comprising approx 2,918 acres in the Green River formation which are estimated to contain some 230 million barrels of oil. TomCo has a rare commercial lease – most other shale leases are owned by the federal government and are only occasionally leased out to giants like Shell for R&D purposes. Indeed, Shell recently announced that its in-situ oil shale extraction technology could be economic at oil prices of US\$30 per barrel.

The strategy is two-pronged: to hold its leases as a long term asset to be exploited when the commercial conditions are suitable (expected to be within 6 years), and to acquire and develop conventional oil assets in the USA. Led by Howard Crosby and John Ryan, TomCo will concentrate principally on acquiring participations in shallow producing oil wells and proven drilling prospects, principally by leveraging the expertise and extensive industry contacts of the management team

Oil Shale is a general term used to describe sedimentary rocks, generally shales, rich enough in organic matter (hydrocarbons) called "Kerogen", to yield an oil like substance capable of being converted to synthetic petroleum products, following heating at temperatures of the order of 450 – 500C in the absence of air, a chemical process termed, "pyrolysis". The US hosts over 95% of the world's known resource. This is equivalent to 1.5 trillion barrels of oil (or all of the combined proven conventional reserves in the world today). With the oil price above \$60 a barrel, and with some analysts



predicting \$100 oil within five years, TomCo's proposition becomes increasingly attractive. This resource will be developed in time, the question is just how profitable the resource can be. In the 1970s, attempts to strip mine shale oil were unsuccessful, but now, thanks to advancing technologies, it can be mined in-situ with no major tailings or water required. The process does require a lot of energy, but it is still clearly viable with 3.5 units of energy returned through the shale for every 1 unit of energy spent.

TomCo is run by a high profile management team. Crosby and Ryan were directors of Cadence Resources which rose in value from under US\$1 million in 2001, when the company adopted its oil and gas investment strategy, to over \$450 million in June 2006 when Crosby stepped down as a director. Together with John May, financial director, they are also directors of Platinum Diversified Mining which raised \$79.5 million when it moved to AIM in March 2006.

TomCo acquired its resource for less than 10 cents per barrel and Crosby reckons that, in time, he will be able to return many multiples of that. Factor in the desire for the US to have its own domestic energy source, rather than being so dependent on the Middle East, and that the world's existing resource is diminishing. Investors will enjoy a major windfall when this project eventually goes into production. If \$60 oil is here to stay, that day may not be far off. At 3.25p Tomco is valued at £14 million. It has £2 million of cash and thus its share reserves are valued at just 5 cents a barrel. Their exploitation may be years away but that seems more than discounted. **A SPECULATIVE BUY.**