



Shale Revolution Spurs Growth for SFPI

Santa Fe Petroleum, Inc.

Sector: Oil & Gas

Ticker Symbol: SFPI

Exchange: OTC:BB

**Shares Outstanding:
40.9 million shares**

Public Float: 6 million shares

Coverage initiated January 22, 2013

Hydrocarbon production from American shale formations has been called a revolution. In areas of the domestic US, such as in north eastern Texas, in the Barnett Shale and Marble Falls formations, a boom in shale oil and gas production has become a critical factor in the US domestic energy security equation, and has created excellent opportunities for early stage investors.

The combined technologies of horizontal drilling and hydraulic fracturing have created new opportunities through enhanced recovery rates and, at the same time, reduced drilling risk—resulting in better overall economics and potential ROI.

The boom has made the Barnett Shale and other shale formations somewhat familiar to many resource investors. Recent years of success have, in effect, made land acquisition one of the most important tactics for reducing risk in these shale formations. Indeed a company's approach to property selection may be the single, most critical decision in Barnett Shale plays at present, given the reduction in risk due to advances in exploration and recovery techniques.

Santa Fe Petroleum Inc., (SFPI) a newly minted venture, has begun to move forward with strategy aimed at maximizing growth through a prudent and well-informed plan.



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With a mere six million shares in the public float, even modest success could push share price valuations significantly higher.

Given forecasts for continued strong and rising energy prices, a US domestic energy junior ought to be a consideration for any portfolio. SFPI offers investors early stage potential—meaning there is a reasonable case to be made for a double or more over the short term.

AN AMERICAN REVOLUTION

Oil and gas production from shale has delivered dramatic investment wins in recent years,.

Continental Resources (NYSE: CLR) saw share prices rise from \$14 in early 2009 to peak at \$94 only three years later.

Kodiak Oil & Gas (NYSE: KOG) gave investors a double between the end of 2011 and the first months of 2012.

Gulfport Energy Corporation (NASDAQ: GPOR) has yielded excellent returns with a rise from \$15 to over \$40 on shale oil and gas success.

Shares in Oasis Petroleum (NYSE: OAS) rose 145% in 13 months, and Continental Resources saw share prices up 557% in under three years.

These investment wins have been driven in part by higher world oil

prices, that have made exploration and development of the shales economically viable. The shale boom has also been helped by advances in horizontal drilling and hydraulic fracturing or "fracking."

Horizontal drill operators use a steerable drill head to attack a pay zone vertically to depth, and then turn the drill head so that it bores horizontally along the width of the zone. Because the well bore runs along within the zone sideways, and not through it vertically, more of the pay is exposed to the bore, and more hydrocarbon is recovered.

In the case of shales, horizontal drilling alone would be insufficient to elevate production rates to economic levels in most cases. Shale formations retain hydrocarbons because, while they are porous enough to hold oil and gas, few fissures between those pores prevent easy extraction. Operators have adapted and learned how to fracture the formations to get hydrocarbons to flow from the rock into the well bore for extraction.

Advances in both technologies, horizontal drilling and fracking, have increased recovery rates. Along with sustained high energy prices, improved recovery economics have generated a boom in shale oil and gas activity in the United States, so much so that many analysts now point to US energy independence with only a few years due, in no small part, to unconventional sources such as the shale formations.

LAND CHALLENGE

Shale formations such as the Barnett hold great amounts of oil and gas, however we see a wide variance in

Unlike other junior exploration and development companies, SFPI plans to acquire property holdings on an incremental basis. One of the classic errors juniors can make is simply to go out and acquire massive land holdings, only to find themselves unable to finance exploration and development. SFPI plans to add properties based on successful drill testing, within a regional framework, where exploration and acquisition risk has been minimized.

productivity among properties. Thus, property selection has become more critical in the fortunes of new entrants as earlier arrivals have cherry picked many of the best land deals.

SFPI, however, holds an advantage in land acquisition attributable to the depth of knowledge and experience of company founder Tom Griffin, and to SFPI's strategic approach to building a land portfolio.

Previously, in Santa Fe Ventures, Griffin assembled a land package of approximately 30,000 acres and leveraged an initial \$64 million investment into a \$194 million venture, a return of 204%.

Based on nearly two decades experience in the business, Griffin potentially has access to approximately 20,000 in the Barnett Shale. A land bank affiliate currently holds approximately 1,600 acres under lease.

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From a strategic perspective, SFPI seeks to contain what may be the greatest risk in the shales at present through a conservative, informed approach to augmenting property holdings drawn from a pre-defined region considered most prospective

by proven experts steering the company.

FOUNDATION FOR GROWTH

The Company currently has two prospects and potential access to 20,000 acres in the Bend Arch-Fort Worth Basin in Texas.

In 2009, Santa Fe LLC, drilled a test well into the Barnett, and hit a 101-foot thick section of pay. Data was logged by Baker Hughes and analyzed by Weatherford Laboratories. Measurements from core samples indicated 1.6 million barrels in place on an 80-acre spacing, equivalent to 20,000 barrels per acre.

Engineering determined an optimal configuration of five wells per section, with a center well as the natural gas injection site and four corner wells as production wells. At an estimated 75 BOE/day production rate per well, monthly production amounts to 9,000 barrels per 80-acre section.

In 2008 an operator tested a horizontal well in the Marble Falls formation in Jack County, Texas and hit with an estimated production rate of 300 BOE/day. Santa Fe's test well encountered a 175-foot thick Marble Falls Formation pay zone, on top of the Barnett Shale.

Combined production from the two zones is estimated to amount to 450 BOE/day.

RUNNING THE NUMBERS

According to Santa Fe's engineer, the oil recovery rate should be a minimum of 20% of the oil reserves in place—approximately 287,200 barrels per 80 acre location.

Looking at a best case scenario, a 37% recovery rate for 6,600 barrels per acre yields 792,000 barrels per section. On 166 sections (20,000 acres / 120 acres per section) potential recovery amounts to \$51 million per section or net un-discounted revenue potential of \$169 per share based on 40.9 million shares currently outstanding.

In dollar terms at today's oil prices and recovery rate, potential net revenue per 80 acre section totals approximately \$17 million.

As noted, the company's objective is to lease upwards of at least 20,000 acres in the area of the first five well Project to support the company's growth plan over the next few years, well over 150 sections with net revenue potential of \$17 million per section.

On the current capital structure of 40.9 million shares total outstanding, each location produces \$0.42 per share. At 150 locations, net revenue potential amounts to \$63.00 per share in un-discounted value.

While these numbers must be understood as un-discounted, undiluted future value, they indicate the ultimate scale of potential upside for SFPI.

LAND BANK MODEL AND RISK MITIGATION

The Company uses a land bank model that allows it to take down properties at the time of test drilling, rather than making large capital commitments up front. This approach mitigates land acquisition risk, one of the primary risk factors in today's shale boom environment.

Properties have been acquired in two closely held limited liability corporations, and may be dealt into SFPI on an optimal timing basis, meaning the Company will not become overburdened with land acquisition and portfolio maintenance costs.

SFPI's land bank approach preserves capital outlay associated with acquisition and maintenance of large land holdings, as common failing among junior exploration and development companies.

MANAGEMENT

Tom Griffin, CEO and Chairman of the Board

Mr. Griffin has been the President of Santa Fe LLC since its inception in July 1997, and Santa Fe Land, a wholly owned subsidiary since its inception in April 2010. He has over 16 years of experience in the oil & natural gas industry and has successfully located, acquired and developed numerous properties.

Mr. Griffin oversees strategic long-term planning and is directly involved in the evaluation of all developmental drilling locations. In addition, he has established strict company guidelines for geological, reserve value analysis and timely production of oil and/or gas operations that are to be used in the selection of developmental fields. These guidelines are also designed to identify potential daily production possibilities, drilling and completion cost, and timeliness of oil and/or gas production and cost associated with market sales requirements.

After more than forty years of successful diversified business ventures, Mr. Griffin has had many accomplishments, including numerous successful joint ventures. Since July 1997, Mr. Griffin has been the Chairman, Chief Executive Officer and President of affiliate, Santa Fe

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Petroleum, LLC. Since September 1998, Mr. Griffin has been the President of TexTron Southwest Inc., and affiliate operator.

Mr. Griffin was chosen to be a Director and Chairman of the company's Board because he was the founder of Santa Fe Petroleum, LLC in 1997 and has managed that company with a high success record in the exploitation of commercial oil & gas wells, giving a substantial investment return to Santa Fe Petroleum, LLC investors.

Vernon Hughes, Advisor & Director of Field Operations for Textron

Mr. Hughes has been the Director of Field Operations for TexTron (an affiliate company) since 1999. Mr. Hughes has worked in the oil & natural gas industry since 1982 working in many different capacities. He has set numerous industry records for in-field drilling of wells, and recognized by respected industry contractors including Chesapeake, Winn Exploration and Nicor Exploration for his success.

Mr. Hughes is certified as a supervisor in well control and has drilled

over 75 horizontal/ directional wells. Mr. Hughes brings a diversified background of drilling, completing, operating and production experience from multi-stage isolated fracturing to horizontal wells.

CONCLUSION

SFPI offers investors exposure to the hydrocarbon boom in domestic US shale exploration, development and production.

With 40.9 million shares outstanding, and only six million shares in the public float, moderate success presents a significant opportunity for valuation revision.

The Company benefits from management with a proven track record, proven access to capital, and, notably, access to a land bank of highly prospective properties.

SFPI plans to go forward based on a program of land leasing and drilling mitigating land portfolio risks.

Given the ultimate upside potential based on even the conservative development case, we assign a BUY rating to SFPI at current price levels.

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