BULLETIN #140 – October 24 2013
PETROFORTE PFI-TSX – COMPANY ANALYSIS

Petroforte is a rarity. While it is one of the smallest companies I have ever purchased, I was drawn to it because of management and its first starter asset—AND because they were willing to fund it with retail shareholders at 5 cents, or a $6 million market cap.

That just doesn't happen anymore. The new management team bought a big chunk of this financing as well.

The Board of Directors is headed up by Kevin Adair, who has built and sold a junior before—Spry Energy. Lead director is Harry Knutson, a director and key person in getting Novus Energy sold in 2012. He's also a founding director of Bonavista Energy (BNP-TSX; $13) which went to $37 before the 2008 crash.

It's very rare for this high quality a team to allow retail in at these ground floor market caps and share prices.

The team has already proven themselves—getting a very low-risk, two-year drill inventory in Canada's most prolific oil play—the Belly River near Brazeau. This play has helped take leader DeeThree (DTX-TSX; DTHRF-PINK) to $9 a share. Wells are coming in from 6 different stacked sands between 250-1250 boepd, with payouts ranging from 8-18 months. DeeThree surrounds Petroforte, and is drilling right beside PFI's lands.

If the team executes on the plan they have laid out for themselves, they could have self-sufficient cash flow faster than any junior—much less a start-up—than I have ever seen. It's a bold goal and time will tell, but if they can execute—history is on their side—then Petroforte will easily be one of the most profitable investments I've ever made.

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QUICK FACTS

Trading Symbols:	PFI-TSX
Share Price:	$0.19
Basic Shares Outstanding:	131 million
Market Cap:	$24.89 million
Net Debt:	$ 0
Enterprise Value (EV):	$24.89 million

POSITIVES

-top tier management
-no institutional following
-buyers market for assets which a "known" management team can exploit
-core asset in middle of established resource play

NEGATIVES

-limited cash and limited cash flow
- tough capital markets for all small players
- developing a resource play requires lots of cash
- subject to Canadian commodity prices
- little room for operational errors, every well is a big one

BACKGROUND/MANAGEMENT

In the oil and gas business, investing alongside quality management is *CRITICAL,* especially for junior producers. And honestly, when you're investing in these ground floor opportunities—the stock is now 19 cents—you're really buying management.

That is why I follow the movements of the best management teams like a hawk.

It is having a chance to jump in on the ground floor with a proven operator like Petroforte director Kevin Adair that attracted me to the stock.

Adair co-founded and was Vice President Engineering of Spry Energy Ltd.

Spry was built from nothing and using the drill bit reached 2,800 boe/d of production before being sold for $225 million.

Not only did Adair and the Spry team quickly create a lot of shareholder value at Spry, but he also carefully selected to whom he would sell the company. Spry shareholders received 70% in cash and the other 30% of their selling price in stock of the buyer, Whitecap Resources at $6.80/share.   Whitecap now trades over $12.

Everybody made 25% compounded annual returns on their Spry shares. Those shares in Whitecap have also subsequently doubled which has created more wealth for former Spry shareholders.

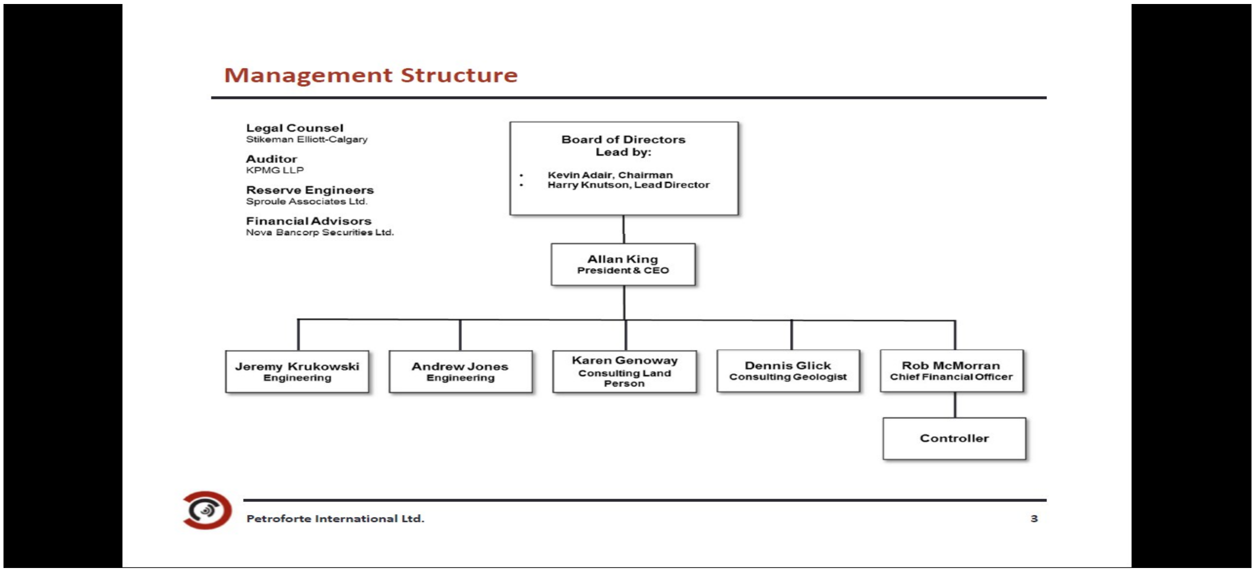
Prior to founding Spry, Adair was COO and a director of Petrobank. He was one of the main operational personnel in Latin America, and he helped lead that company from 600 Boe/d to 4,000 Boe/d.

Adair knows how to build (and eventually sell) a junior producer.

After selling Spry, like many successful Calgary executives Adair decided to leave the public arena and operate instead in the private realm. You get to control your who your shareholders are, and at what price you finance.

Adair’s private venture is called Petrus Resources where Adair is President and CEO. His partner at Petrus is Don Gray who was a founder of Peyto (PEY-TSX) which is the single lowest cost gas producer in Canada. (Don is not involved in Petroforte.)

We are lucky that a special set of circumstances now allow us to invest alongside him at Petroforte where he is a director and Chairman of the Board.



While Petrus is Adair's day job, he is instrumental on what is going on at Petroforte.

After the recent financing, he owns millions of shares. His interests are fully aligned with Petroforte shareholders. He can get a lot richer with the leverage he has with Petroforte.

Adair brought in the operating team at Petroforte and negotiated its first property deal.

The market was completely unaware of Petroforte at the time of my first purchase of shares. And as yet there is no institutional following. That will change as this company grows.

When the Market does start looking it won't take long for investors to pick up on the fact that one of the energy patch's top executives (Adair) is calling the shots.

That is important because the stock prices of companies run by top executive teams in Calgary garner premium valuations.

Companies like Raging River (RRX-TSX) and Crescent Point (CPG-TSX) trade at valuations as much as double (or more) than their competitors; the Market trusts the leaders of these companies to create value for shareholders year after year. I think Adair is among this group of top managers.

The general Market just isn't aware that he is running Petroforte which is small and under the radar.

As shareholders we can look forward to both the growth of Petroforte driving the share price higher AND the revaluation of the company when the market becomes aware that Adair is involved.

Before Adair really took charge Petroforte was known as Riata Resources Corp. It changed its name to Petroforte International in November 2011.

Adair and Lead Director Harry Knutson joined Riata shortly before that in July of 2011. Under the direction of Adair and Knutson, Petroforte has changed its previous focus on South America (hence the Latin name) to focus instead on Western Canada.

It's a buyer's market for oil producing assets in Canada now. Adair and his team have great access to Canadian deal flow and get to see all of the best opportunities.

Adair believes that while the Canadian oil sector is currently starved for risk capital, eventually that cycle will switch. Now is the time to take advantage of the opportunity.

The Petroforte plan is to buy small, cheap assets today—but ones with scale--and then sell for much more when capital starts coming back into the Canadian energy patch in the coming years.

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PROPERTIES

Property 1 - Belly River - Brazeau

The stock chart above is DeeThree Exploration (DTX-TSX) and this chart shows what happens when top management is matched with great assets.

DeeThree is relevant to Petroforte because of the Belly River play that both companies have exposure to. DeeThree is the leader in the play.

DeeThree was my top pick in 2012 and 2013, going from $2-$9 per share as they developed the Belly River play in the Brazeau area of west central Alberta—between Rocky Mountain House and Edmonton.

Drilling by DeeThree has shown this to be

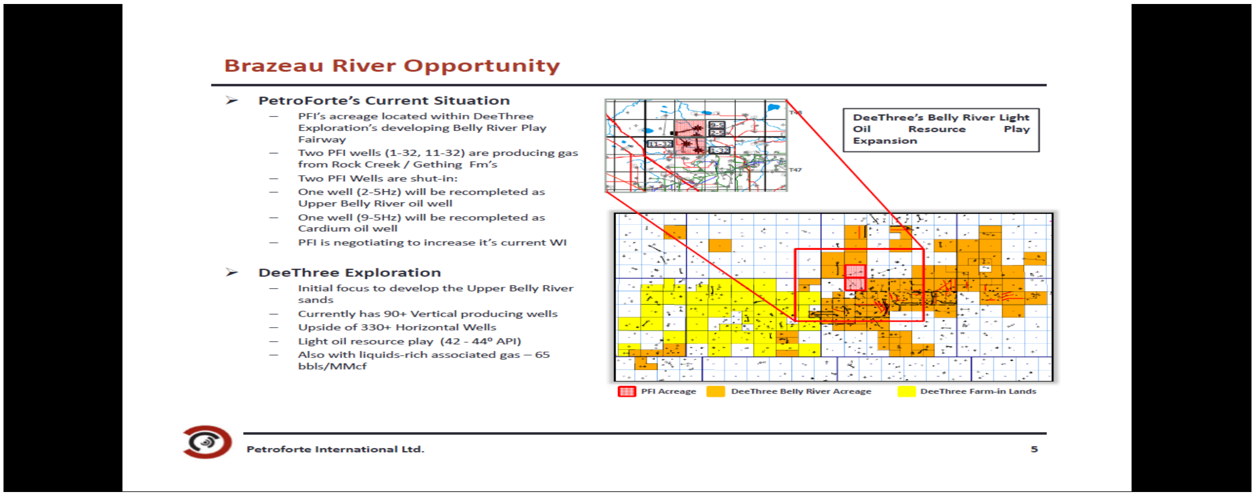
1. One of the most oil charged plays in all of Canada, with at least six and up to 10 productive oil zones
2. Very pervasive and widespread—the payzones go for miles.

Petroforte owns two sections of land right in the middle of the Belly River play that has helped drive DeeThree's share price.

Petroforte has only two sections of land in the play—*but **each** section should hold **12** low risk wells—those 24 wells are a 2-year drilling inventory of some near-certain hits. And DeeThree has had a couple wells over 1000 bopd in this play.*

Wells have been drilled all around these two sections thereby "de-risking" Petroforte's acreage. This is a VERY valuable two sections of land.

It is truly remarkable for a start-up to get a land package like this—24 wells in the heart of one of the most prolific plays in Canada.



Adair managed to turn Petroforte's original minority ownership in these two sections from a 6% minority ownership into a 100% working interest at essentially no cost.

Results from DeeThree show these two sections have at least 6, and possibly 10, stacked oil-zones that can be developed. That's more like Texas is, not like western Canada.

Having multiple productive zones on the same piece of land obviously makes the property more valuable. *It also means that Petroforte should be able to get to 1000 boepd very quickly, with essentially no risk*. And BTW, that 1000 boepd doesn't include flush production that declines fast—I'm talking base production that companies really pay up for. The only issue is capital, and how fast do they want to grow.

Petroforte is currently looking to exploit three of those zones.

Targeted Zone 1 – Upper Belly River (C Zone)

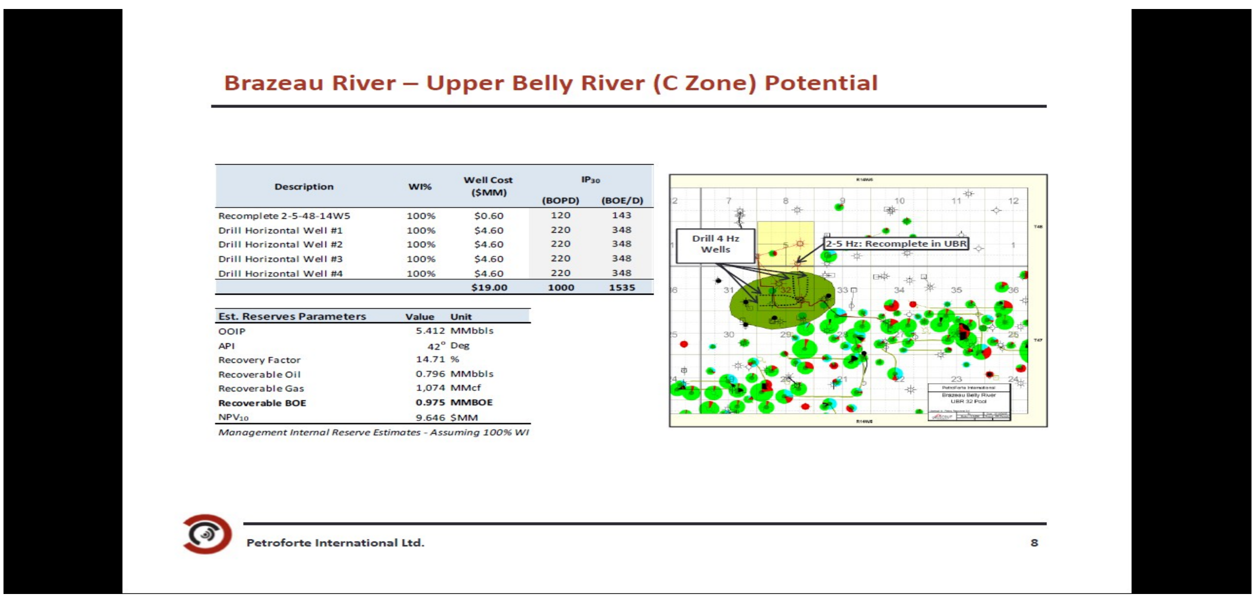
Petroforte believes that it has four horizontal drilling locations that can target the Upper Belly River (C Zone) and one Upper Belly River recompletion (where they re-drill an old well).

The cost of the horizontal wells are estimated to be roughly $4.6 million and the recompletion about $600k.

DeeThree's recent Upper Belly River (C Zone) wells have been 80% light oil and have IP rates on the very best wells of over 1,000 barrels per day.   I spoke with DeeThree VP Exploration Clayton Thatcher, who estimated to me that 1 in 4 Belly Rivers could be these booming 1000+ bopd wells.

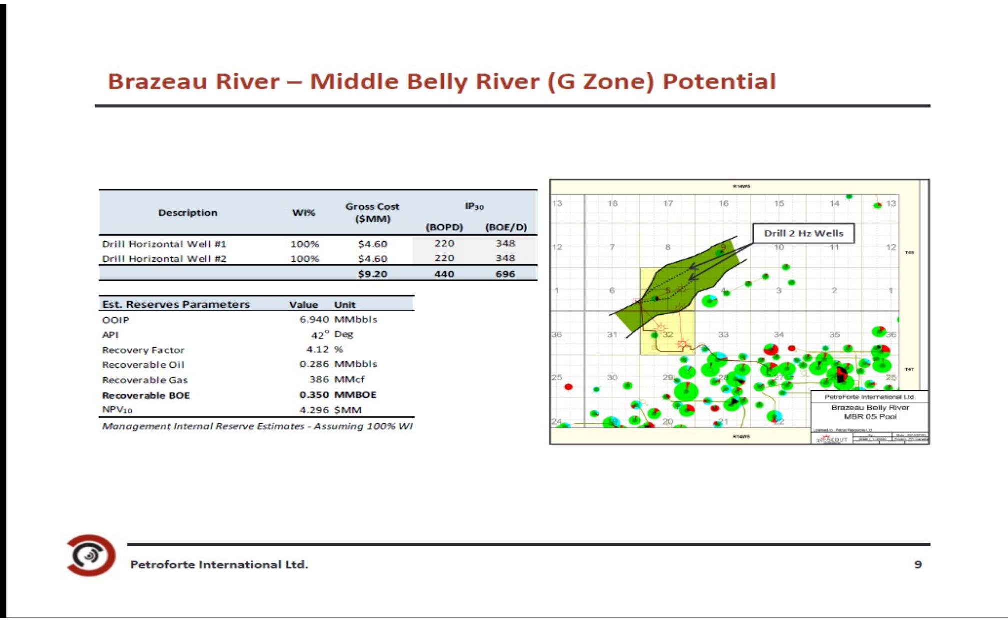
Average wells have had IP30's (what the average daily production is over the first 30 days of production) of over 300 barrels per day.

There shouldn't be anything different about Petroforte's wells that will be drilled into the exact same geology.



With four horizontal drilling locations and a recompletion, Petroforte estimates the "C Zone" could offer the chance to recover 1 million boe (barrels of oil equivalent) and have a net present value of almost $10 million. That's just for four wells and a recompletion.

Targeted Zone 2 – Middle Belly River (G Zone)



Description	WI%	Gross Cost ($MM)	IP_{30}	
			(BOPD)	(BOE/D)
Drill Horizontal Well #1	100%	$4.60	220	348
Drill Horizontal Well #2	100%	$4.60	220	348
		$9.20	**440**	**696**

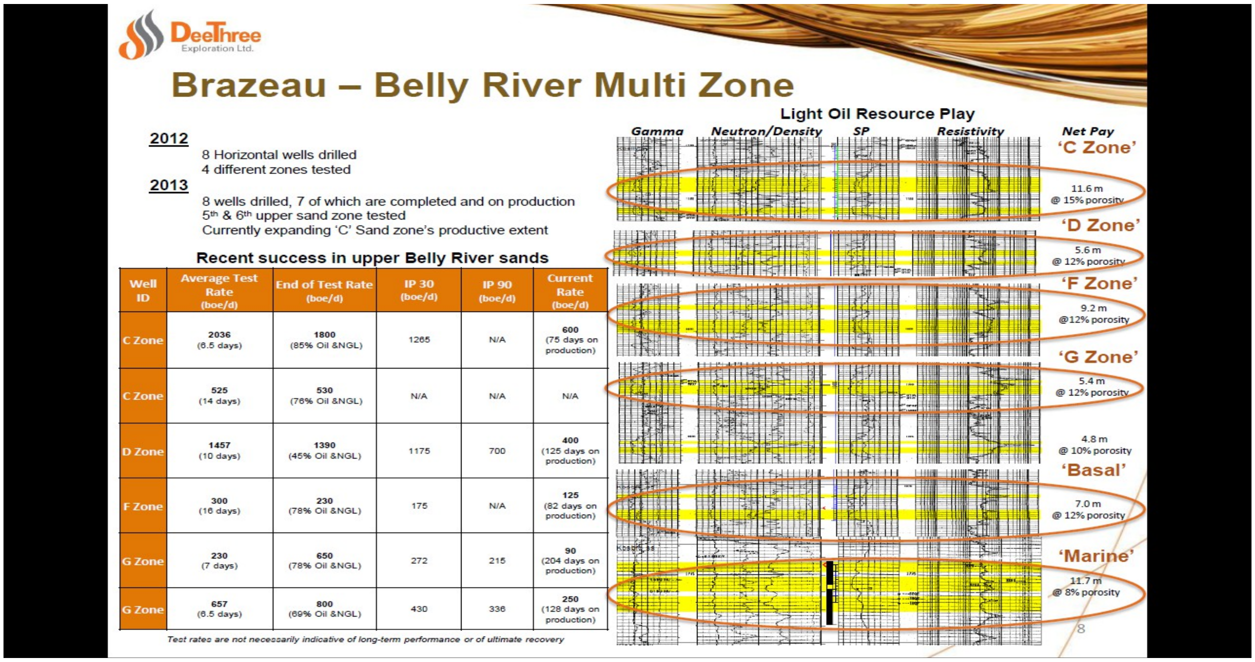
Est. Reserves Parameters	Value	Unit
OOIP	6.940	MMbbls
API	42°	Deg
Recovery Factor	4.12	%
Recoverable Oil	0.286	MMbbls
Recoverable Gas	386	MMcf
Recoverable BOE	**0.350**	**MMBOE**
NPV_{10}	4.296	$MM

Management Internal Reserve Estimates - Assuming 100% WI

The Middle Belly River "G Zone" is very similar to the "C Zone".

Really, the only difference is that the "G Zone"—for now—has only two planned horizontal drilling locations instead of four.

The oil weighting, IP rates and net present value per drilling location is nearly identical between the two zones.



DeeThree has been getting consistent results across both zones with the wells it has drilled on similar land nearby.

Targeted Zone 3 – Cardium

Petroforte announced last week the recompletion of a Brazeau Cardium well using a 30 tonne gelled hydrocarbon frac.

At the end of a two day test the well has stabilized at 220 barrels of oil and 800 mcf/d of gas.

That is a great result. Payout on these $600,000 recompletions is months if not weeks. That well started producing cash flow in mid-October.

Adair compared Petroforte's Cardium opportunities to being a "rifle shot"….in other words the oil is in discreet pools; they're not spread out over the entire property like the Belly River stacked oil zones are. You can use a "shotgun" approach to the Belly River.

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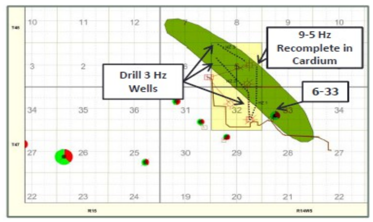
Brazeau River – Cardium Potential

Description	WI%	Gross Cost ($MM)	IP_{30} (BOPD)	IP_{30} (BOE/D)
Recomplete 9-5-48-14W5	100%	$0.60	120	143
Drill Horizontal Well #1	100%	$4.60	220	348
Drill Horizontal Well #2	100%	$4.60	220	348
Drill Horizontal Well #3	100%	$4.60	220	348
		$14.40	**780**	**1187**

Est. Reserves Parameters	Value	Unit
OOIP	2.200	MMbbls
API	42°	Deg
Recovery Factor	29.26	%
Recoverable Oil	0.849	MMbbls
Recoverable Gas	3,667	MMcf
Recoverable BOE	**1.460**	**MMBOE**
NPV_{10}	15.06	$MM

Management Internal Reserve Estimates - Assuming 100% WI



In addition to the recompletions, Petroforte should have three full horizontal locations to drill into the Cardium.

Property 2 - Expand Energy Asset Acquisition

The Petroforte business plan is all about taking advantage of the big opportunity that they see in Western Canada today.

That opportunity is being created by the fact that there are too many assets for sale and not enough buyers. It really is a “buyer’s market”.

There are many companies in financial distress due to low natural gas prices, no micro-cap capital and a lack of quality management teams who know how to bootstrap and build a company from the bottom up.

Petroforte took advantage of the distress environment by buying the assets of Expand Energy out of bankruptcy. PFI management told me they are worth several times more than the $1.1 million they paid for it. Expand spent $20 million building the assets on their properties.

In fact they believe that the infrastructure in the ground alone on just the asset called “Flood” is worth well more than their overall purchase price.

A bank just wants its money back, it doesn’t care whether the property is worth more than that.

Expand Energy Purchase - Flood Asset

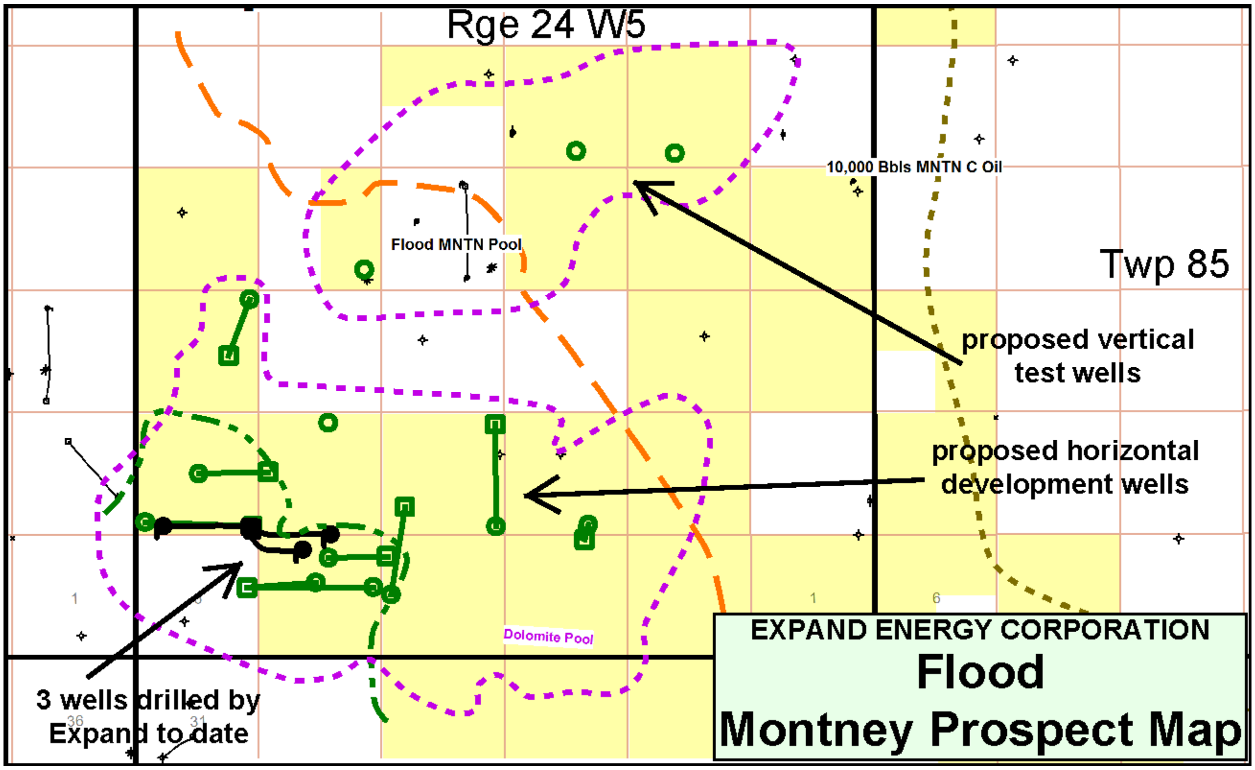
At Flood, Petroforte purchased a 100% interest in 23,840 acres of land.

The acreage has three productive Montney horizontal oil wells and 29 kilometers of recently shot, processed and interpreted 3D seismic. The value of the seismic alone might again be worth more than Petroforte paid for the property.

Production facilities are in place and oil has been produced from the Montney formation. The three wells are currently shut-in awaiting the drilling of a water disposal well.

Potential production from the three wells is estimated at 85 bopd net of 29.5 degree API oil.

Petroforte also obtained a 100% working interest in a new multi-well oil battery with all associated equipment—and like I already mentioned, that equipment alone was worth more than Petroforte’s purchase price.



The Flood property is perfect for a small company like Petroforte.

It has low IP rates which keep the big boys away (no competition for the property), but very low cost wells with fast payout that make the play economic. Wells will cost somewhere around $800,000 a pop and have IP rates of 30-50 boepd.

Adair told me that the only thing the company needs to confirm is that the geology is good for SWDs – Salt Water Disposal wells.

The Flood oil pool sits between a pool owned by Spyglass Energy and a pool owned by Storm Energy.

There is a lot of history on these two pools, since they were both developed as public companies and having access to that data made this Flood acquisition much less risky for Petroforte.

The Spyglass field (called Worseley) right next door to the Flood asset currently produces about 3,400 boe/d.

The 2P NPV on the Flood property itself according to Petroleum Consultants GLJ (one of the Big 4 reservoir engineering firms in Canada) was $42 million on February 19, 2012.

Adair thinks that value will have diminished somewhat since then but it gives you an idea of the value that he just picked up for next to nothing.

Opportunities like this wouldn't be ***as*** available in an efficient market, but with little risk capital available, the market for these small assets isn't efficient right now.

The companies with cash are the really big guys and they aren't interested in properties of this size. Adair and his team have a great advantage.

Adair thinks that Petroforte can quickly take production on this property from 0 to 200+ bopd—without having to raise a lot of capital--and continue to ramp it up from there.

Expand Energy Purchase - Lloydminster Asset

At Lloydminster Petroforte has received a 100% working interest in two producing heavy oil wells, a 40% working interest in another three producing heavy oil wells and a 3.5% royalty interest in two producing heavy oil wells.

All wells are currently shut-in and will be re-activated with an expected net production of just over 20 bopd.

That isn't much, but those assets basically came for free and will provide steady, low decline cash flow for Petroforte.

This property had been neglected by Expand which was focused more on the Montney-Flood asset.

Petroforte believes there is an opportunity to drill at least two vertical wells at about $500k each that will IP at around 45 bopd.

Again, not sexy wells, but profitable and a good fit for a small company looking for fast payouts and low well costs. That's how you build up production without building up the share count. With just a few wells, they'll be able to flip it for a big profit or keep developing it slowly. It's good to have options.

Property 3 – Rimfire Farm-In Property

Adair and his crew acquired a third property back in August of this year.

This one is a farm-in on a Cardium oil play with Rimfire Energy in the Wapiti area of Alberta. Petroforte's COO actually comes from Rimfire.

The terms of the farm-in are to start drilling one well (to be paid for by Petroforte) by December 31, 2013 to earn a 70% working interest in two and a quarter sections.

After six months of production Petroforte will have the option to acquire the remaining 30% interest from Rimfire.

Rimfire is producing oil from a previously drilled horizontal well on the property. There is several offsetting producing horizontal oil wells that were drilled by other industry players.

Adair knows the Cardium well—through his experience running Spry—and this again is the case of him taking advantage of an opportunity where a company (Rimfire) has a nice oil property but limited cash to exploit it.

Petroforte believes that there are at least three horizontal oil drilling locations in total yet to be drilled on this property.

FINANCES AND VALUATION

Investors have to understand this is a ground floor opportunity. With that potential of great reward, comes great risk. Even though I consider their first two plays low risk development plays, any missed wells can have a huge negative impact on the company.

At this early stage, the stock is a management bet—pure and simple. It's not really relevant to put normal western Canadian valuations on this stock yet.

They do have cash flow now—about 200 boepd which should stay very steady for awhile. While the first Cardium well hit 220 boepd, it will decline but those declines should be quickly back-filled by a couple Belly River recompletions and getting the Flood asset into production.

So multiply \$50,000 per flowing barrel x 200 bopd (it's basically all oil) and you get \$10 million. At 20 cents and 131 million shares out, the company has a market cap of \$26 million.

Another way of looking at valuation is…DeeThree estimates their Belly River wells have an average NPV of \$2.6 million. Think of NPV—Net Present Value—as the profit left over, after costs, over the life of the well. If there is 24 wells to be drilled on Petroforte's ground, that's \$62.4 million in value.

Nobody is going to pay that—that's full price!—but they might pay 40% of that—which is \$25 million. That will allow the buyer to more than double their money over time by purchasing those two sections for a combined \$25 million.

Now, I personally think the Flood asset is worth a lot of money, and here's why—both Spyglass and Long Run Exploration (LRE-TSX) are junior dividend paying producers with ground in that area. They need low cost, low declining OIL assets—and that's what Flood can give them. I think if Petroforte spends \$10 million developing that asset, they can flip those 37 sections for a multiple of that within a couple years—it makes the perfect "tuck-in" acquisition.

So the \$42 million NPV estimation that GLJ came up with isn't far off, IMHO. But remember, I'm a storyteller, not an reservoir engineer ***;-)***

The last thing everybody should understand—this company will rollback, or reverse split, or consolidate—their shares. There is 131 million out now. I expect a 5:1-8:1 rollback sometime in the next year—so there will only be roughly 40 million shares out.

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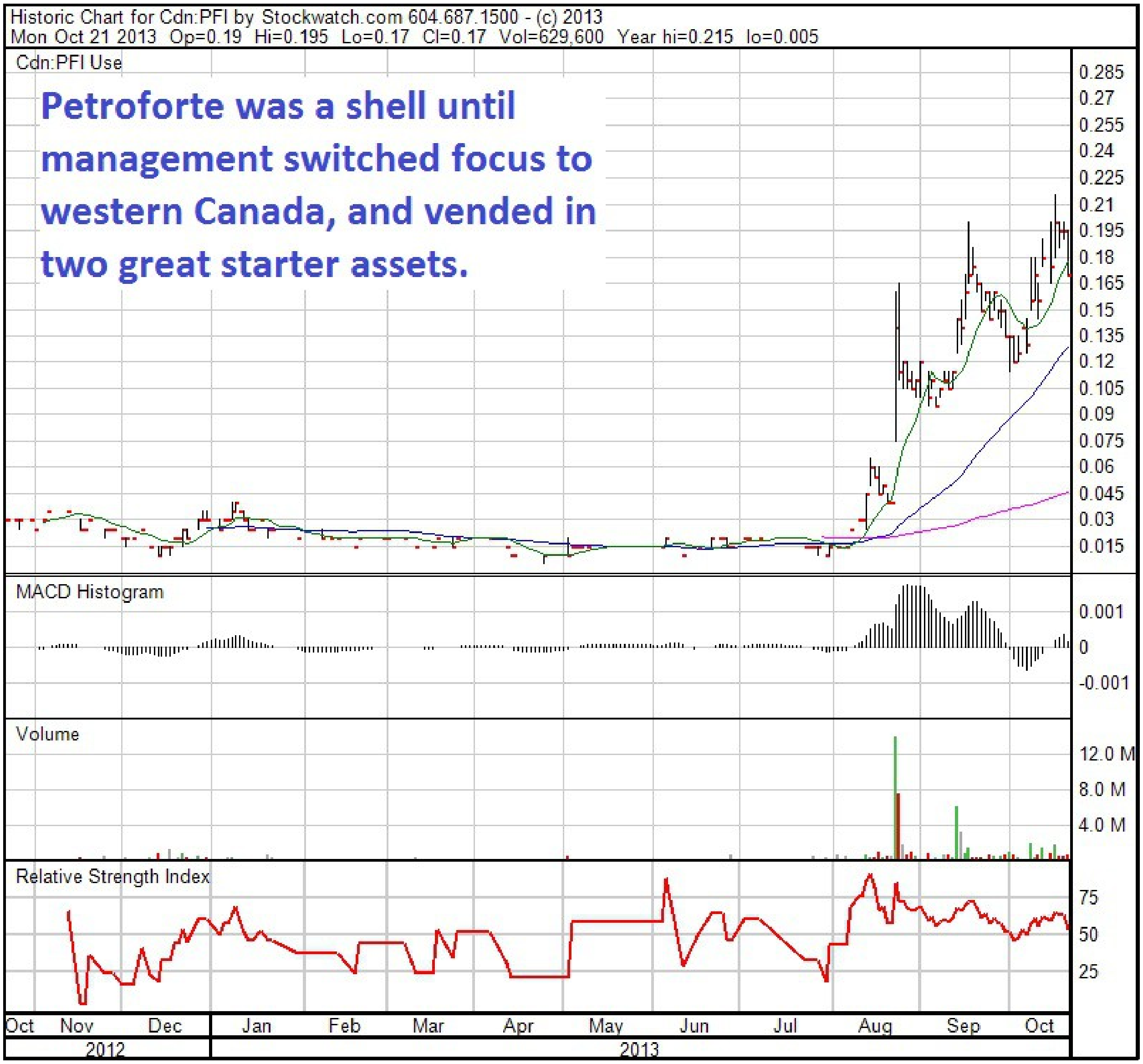
STOCK CHART



CONCLUSION

Normally a very cheap penny stock like this involves very high risk. But this Tier-1 Calgary oil and gas team has already bought two very low risk starter assets for just over $1 million, which have the potential to take the company to 3000 boepd (that includes some flush production) in a year.

They have already hit on their first well, a vertical Cardium recompletion that came about twice the flow rate as was expected.

I think they could sell the two Belly River sections for the current market cap of the company--$25 million. They are showing very early they know what they're doing, and can acquire and produce highly accretive plays for shareholders.

I own two million shares—1.5 million at 5 cents and 500,000 at 10 cents.