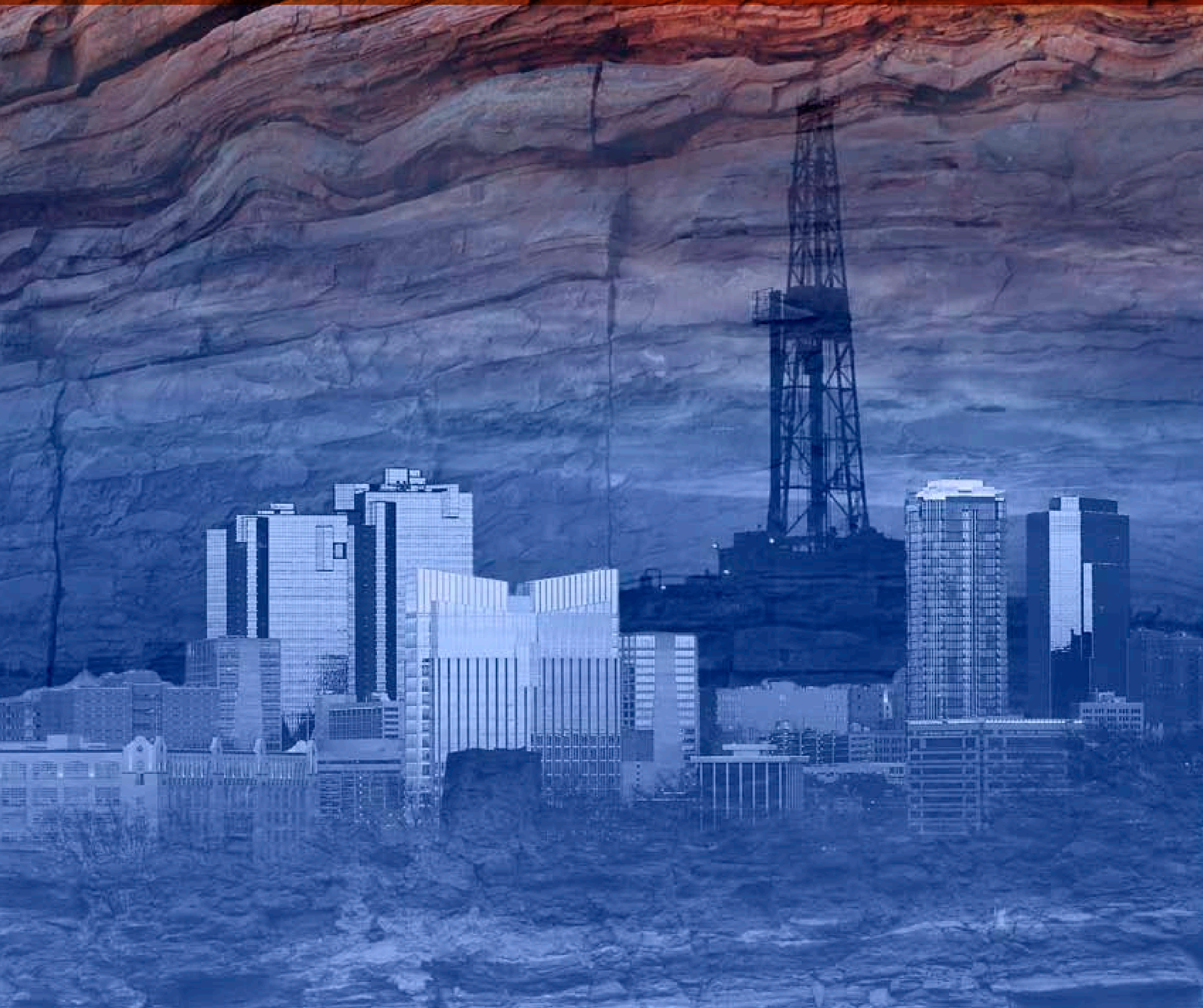
# PALO PETROLEUM, Inc.

## Palo-Barnett Royalty Fund, L.P.



# EXECUTIVE SUMMARY

## Objective

Palo Petroleum, Inc. ("Palo") is providing investors with a long term investment vehicle that will receive revenue from the production of natural gas and/or oil associated with acquired oil and gas royalty interests.

Since 2009 Palo has created and been implementing a unique and successful approach to acquiring royalty and mineral interests that includes:

- Evaluating and pursuing royalty owners who own royalty rights within some of the best areas of the Barnett Shale, one of the largest U.S. gas fields and the field which spawned the worldwide shale gas plays using horizontal drilling and advanced completion techniques. The Barnett Shale now contains over 15,000 producing wells, with over 10,000 wells drilled since 2006;
- Using a disciplined game plan that targets the best well operators within these prime areas;
- Identifying drilling units where wells have recently been drilled and not completed, or units that have been freshly permitted with infrastructure currently in place and drilling imminent. By using this disciplined approach, Palo is able to stay ahead of its competitors, while also gaining a maximum return on investment by receiving a majority if not all of a drilling unit's initial flush production;
- Deploying its acquisition team to quickly penetrate those hard to reach markets.

Palo continues to identify and perform due diligence on new areas within the Barnett Shale that meet its overall buying criteria.

## Funding Structure

### Funding

| | |
|---|---|
| Palo Barnett Royalty Fund L.P. Size: | $10,000,000 |
| 100 Units: | $100,000 per Unit |
| Palo Petroleum/Affiliate Minimum Investment: | $100,000 (1 Unit) |

### Structure

| Before Payout | | After Payout | |
|---|---|---|---|
| Limited Partners: | 95% | Limited Partners: | 70% |
| General Partner: | 5% | General Partner: | 30% |

**Contact:**

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## WHY NATURAL GAS?

- Natural Gas now accounts for approximately 20% of the energy used to create electricity in the U.S.
- Approximately 84% of Natural Gas used in the U.S. is produced domestically.
- A recently released E.P.A addendum to the Clean Air Act would effectively force numerous coal fired electric plants to convert to natural gas by 2014, leading to a substantial increase in natural gas demand and higher prices.
- Only 2% of Natural Gas used in the U.S. comes from overseas.
- Natural Gas heats more homes in the U.S. than all other energy sources combined.
- The current administration has pledged to have the U.S. in a position where no oil imports will be required for our energy needs in 10 years. That will make domestic, clean burning, Natural Gas a highly important source to reach that goal. Recent Congressional initiatives include a bill that would stimulate conversion of 8 million of the U.S.'s largest trucks, including its 18-wheel, tractor-trailer rigs, from diesel fuel to compressed natural gas.

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## WHY SHALE ROYALTIES?

There are many benefits of owning oil and gas royalty interests in Shale plays across the United States. These royalties generally lack the risks inherent with owning a working interest in an oil or gas well because owners are not responsible for the expenses or liability associated with drilling and operating a well.

- Shale plays cover large areas with homogeneous characteristics
- Experienced well capitalized operators with aggressive development plans
- Ownership of energy production without drilling risk or operational liability
- Ever changing technologies are increasing gas reserves
- No capital calls or "dry hole" costs
- Income oriented investment with impressive potential for years of cash-on-cash yield
- Long Term - If additional wells are drilled on the lease, the owners of oil and gas royalty interests receive their share of the proceeds from the sales of production from that point forward at no additional cost to them
- Quarterly cash distributions
- A passive investment – no management or active participation

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## WHY PALO PETROLEUM, INC.?

- Palo Petroleum, Inc. is a privately owned oil and gas company which has focused on the acquisition and development of low to medium risk oil and gas prospects since 1976
- Proven track record with over 35+ years in the oil/gas business
- Financially committed by participating and serving as General Partner in the Palo-Barnett Royalty Fund, L.P.
- Family owned and operated with a vested interest in every deal
- Supervised or participated in numerous drilling programs and joint ventures, comprising in excess of 300 wells with an 85% success rate
- Managed numerous multi-million dollar drilling funds in the past
- Served as operator for numerous oil/gas development projects for companies such as Texaco, Arco (now BP), Amoco and Boeing

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## WHAT'S OUR STRATEGY?

Palo Petroleum, Inc. has created a unique approach to acquiring royalty interests by identifying the best operators within the prime areas of the shale and deploying its acquisition team to quickly penetrate those hard to reach markets.

| IDENTIFY | ACQUIRE | MANAGE |
|---|---|---|
| Our seasoned research team targets prime areas to acquire royalty interests under proven operators ahead of the flush production<br><br>Reserve economics are run in-house to ensure the areas identified are surrounded by excellent production | Our experienced negotiators acquire targeted royalty assets in a specified area at discounted values<br><br>We use a well disciplined, engineered approach to acquiring the royalty interests from producing assets using conservative pricing | Diverse property acquisition requires quality asset management to make it simple for the investor<br><br>Quarterly revenue distributions to limited partners<br><br>Monitor all drilling activity on or near acquired properties |

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# PALO-BARNETT ROYALTY FUND, L.P.

Palo Petroleum, Inc. is providing investors with a long term investment vehicle that receives future revenues from the production of natural gas and/or oil associated with those oil and gas royalty interests acquired for the fund.

- **DIVERSIFICATION** - Royalties spread out over different gas units within the best Barnett Shale production in Tarrant County, TX
- **LONGEVITY** - Legacy assets with over 25+ years of reserves
- **PROVEN OPERATORS** - Palo will pursue assets managed by large, well capitalized operators with successful track records in the Barnett Shale
- **PROVEN RESERVES** - All assets will ultimately have 3rd party engineering verifying the reserves and reserve life
- **CASH FLOW** - Proceeds will be distributed quarterly to all partners
- **UPSIDE POTENTIAL** – Undeveloped mineral acreage gives owners the opportunity for new wells to be added, at no cost to investors

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# WHY INVEST TODAY?

## PORTFOLIO DIVERSIFICATION

Commodities Investment

Inflation Hedge

Increasing Demand for Energy
with Decreasing Supply

## LONG TERM INCOME

Quarterly Distributions

Easy to Own

No "Dry Hole" Losses

No Capital Calls

25+ Year Revenue Life

## EXPERIENCED OIL/GAS MANAGEMENT

Over 35+ Years of Oil/Gas Knowledge and Experience

Financially Committed to the Palo-Barnett Royalty Fund, L.P.

"Open Door" Policy with Investors

Quarterly Drilling Updates, Revenue Reports & Updates

Annual Reserve Reports

## TAX ADVANTAGED INCOME

Cost or Percentage Depletion Allowance

Allows Depletion Deduction in Excess of Basis

Year End Schedule K-1 Provided

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# PRO FORMA ROYALTY ACQUISITION ECONOMICS**

## Barnett Shale Wells, Tarrant County, Texas

| | Case I | Case II | Case III |
|---|---|---|---|
| Average Price Per MCF Over Unit Life (15+ years) | $4.50 | $5.50 | $6.50 |
| Net Revenue Per MCF @ 70%[1] | $3.15 | $3.85 | $4.55 |
| Total Unit Production: | 17,000,000 MCF's[2] | 18,000,000 MCF's[3] | 20,000,000 MCF's[4] |
| Net Revenue to Drilling Unit | $53,550,000 | $69,300,000 | $91,000,000 |
| Net to Palo's 2.30%[5] Net Royalty Interest: | $1,231,650 | $1,593,900 | $2,093,000 |
| Cost to Acquire Palo's 2.30% Net Royalty Interest[6]: | $250,000 | $250,000 | $250,000 |
| Cash-on-Cash Return: | 4.93:1 | 6.38:1 | 8.37:1 |

[1] Assumes 30% expenses to royalty owners, including transportation costs & taxes

[2] From 8 wells @ 2.125 million MCF's (2.125 BCF) per well

[3] From 8 wells @ 2.250 million MCF's (2.250 BCF) per well

[4] From 8 wells @ 2.500 million MCF's (2.500 BCF) per well

[5] Based on acquiring 10% of the royalty interests in a drilling unit, with acquired royalty interests ranging from 20% - 25%, averaging 23% overall.

[6] Based on current acquisition costs

** The predictions and estimates in this analysis are based on assumptions that Palo Petroleum, Inc. believes to be reasonable. The assumptions underlying these predictions and estimates may be incomplete or incorrect, however, and unanticipated events and circumstances may occur that could materially affect these predictions and estimates. Cash-on-Cash returns are from projected royalty investments only; Limited Partner returns would be subject to the Fund's organization and operating costs, and the General Partner's After Payout profits interest.

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