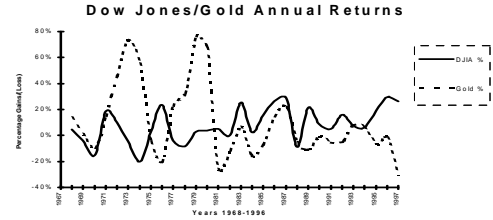




Gold & Technology Stocks



Weekly Hotline Message

(Now in our 26th Year)

July 25, 2008

Stock Pick of the Week

Santa Fe Gold Corporation



Business: Exploration, development, and evolving producer of gold and silver in America's southwest

Traded OTCBB:	SFEG
Initial Recommendation 1/11/08:	\$0.97
Price 7/25/08:	\$0.80
Shares Outstanding:	88.3 Million
Market Cap:	\$70.6 Million
Gold Resource:	2 Million Oz.
Progress Rating:	"B"
Telephone:	505-255-4852
Web Site:	www.santafegoldcorp.com

Santa Fe Gold Corporation (Santa Fe) has two advanced stage gold properties and two presently inactive industrial mineral properties. Summit is set to go into gold production by the end of this year and Ortiz in another 2-3 years. Both are located within the politically stable and mining-friendly jurisdictions of the southwestern United States. Its Summit silver and gold project is financed through to production, and construction is underway. Its **two million ounce (historical estimate) Ortiz Gold Project** is making good progress toward potential development of two deposits (Carache and Lucas). Some of the cash flow from Summit production will be directed to funding Ortiz development. With two precious metals projects in the production pipeline and with a current market cap of \$70 million, Santa Fe would appear to be even more significantly undervalued than when we first started covering this stock on January 11. Since then, Santa Fe's shares have declined, as has been true with 95% of all juniors we track. However, from a fundamental point of view, things are on track for a potential startup production by the end of this year.

Summit Silver-Gold Project Grant County, New Mexico

Located in southwestern New Mexico, the project has assets consisting of the Summit Mine, the Lordsburg Mill Site, processing equipment, and operating permits. Historically, \$8.5 million was expended in drilling and underground work in the 1980s and 1990s by Inspiration Copper, NovaGold, and Biron Bay, which included 1,550 ft. of underground work and 78,000 ft. of drilling in 88 drill holes.

Summit will be the first Santa Fe project to go into production. A definite startup date has not been announced, but management anticipates the mine will be operational before year end. So far, they are on schedule to achieve that, and we are told they are also slightly below budget. However, with construction on going and unpredictable maintenance issues that might surface with used equipment, the potential for slipping the operational date to Q1 2009 is there. Original plans

called for contracting out the mining operation, but with sharply higher costs of contract mining, Santa Fe has decided to hire their own mining crew. They hired a mining superintendent in April and he has begun hiring the crew. The company is also in the process of securing the equipment for underground mining. Rubber tire equipment will be used and entry into and out of the mine will be via a decline. Plans are to truck the ore some 57 miles to the Lordsburg Mill Site, where extraction of silver and gold will involve crushing, milling, and flotation. From the mill a high-grade gold-silver concentrate will be produced and sold to area smelters. Operating permits have been granted and the property is ready to mine.

The company is constructing the Lordsburg Mill facility now. On July 1, 2008, the company announced that it had purchased crushing equipment and real property at its Banner Mill site near Lordsburg, New Mexico for \$841,500. There is currently no power at the Summit Project, but they are bringing in a power line that is larger than needed so that there is adequate room for future expansion of the facility. The company has one ball mill, but is constructing the facility with plans to add a second ball mill in the future.

At today's prices, management is expecting \$30-\$35 million in revenue with operating cash flow of \$15-\$18 million or approximately \$0.17 per share. The current stock price of \$0.80 is only 4.7 times projected cash flow for 2009. Santa Fe also has a tax loss carry forward that is worth \$43 million so the first \$43 million of profits will be free of income taxes. The company's operating costs are projected to be \$75-\$80 per ton, which is equivalent to about \$280-\$300 per ounce of gold. Obviously, if operations are successful and those costs hold up, Santa Fe figures to be a relatively low-cost producer. And given a relatively low capital cost requirement of around \$13 to \$14 million, the project has a very high projected internal rate of return of 114% (with \$850 gold), assuming that management can execute its business plan.

Summit project economics – An engineering report on Summit project was completed by the geological engineering firm of Chapman, Wood, and Griswold in April of 2007. Economic projections were made using two prices for silver and gold. The projections related to profitability and pay back used \$13 (\$17) for silver and \$650 (\$850) for gold with the projections for higher prices noted in parentheses:

Capital Cost: \$13.4 million	Gold Equivalent Grade: 0.35 oz/ton
Operating Costs: \$280/oz. of gold	Metallurgical Recovery: 80% to 85%
Operating Costs: \$75.65 per ton	Contained Silver: 7,792,240 ounces
Mining Reserve: 758,000 tons	Contained Gold: 108,394 ounces
Mining Rate: 120,000 tons per year	Return on Initial Capital: 1.5 (1.0) years
Mine Life: 7 years	Operating Cash Flow (EBITDA): \$70 (\$111) million
Average Silver Grade: 10.28 oz/ton	Internal Rate of Return: 71% (114%)
Average Gold Grade: 0.143 oz/ton	

The Summit Silver-Gold Project would not be classified as a major precious metals deposit although given exploration potential it could grow well beyond its current 7.8 million ounces of silver and 108,394 ounces of gold. However, the Summit Silver-Gold project is the first project the company will put into production and the revenue will allow the company to grow. Moreover, as noted above, the economics for this project are quite favorable at current prices for gold and silver.

We asked management what they will do with the cash flow from Summit production and they responded by saying they expected to use it for three purposes. They will further explore the Summit property to expand the resource base. Some of the revenue will also be used to move the Ortiz property toward production. CEO Dr. Pierce Carson also made clear his intentions to grow the company through advanced stage acquisitions. Ortiz apparently had around \$40 million invested in it 20 years ago. The company's fact sheet noted that they have looked at two dozen possible acquisitions. We are in a bull market in metals, but there are still properties that had a lot of resources invested years ago and then were abandoned. With sharply increasing exploration expenses, there will be prospective properties available that other pure exploration juniors cannot move forward. Dr. Carson strikes us as a patient and experienced geologist who will be profitably discriminating.

Ortiz Gold Property **North central New Mexico**

Santa Fe Gold acquired the Ortiz Gold Project in September 2004. The project encompasses 57,267 acres (90 sq. miles) over the Ortiz Mine Grant in north-central New Mexico. The company has exclusive rights for the exploration and mining of gold and other minerals on this property.

Approximately \$40 million was spent in previous exploration and development work by Conoco, Lac Minerals, and Pegasus in the 1980s to early 1990s. That work, including 386,000 ft. of drilling, identified approximately 2 million ounces of gold resources in several deposits.

A pre-feasibility study was carried out on the Carache and Lucas deposits by Mineral Advisory Group. The recommended development plan entails open-pit mining of the Carache and Lucas deposits at 3 million tons/yr, processing by crushing, milling (HPGR), and gravity recovery of gold, avoiding use of chemicals. The study confirmed that a \$650 gold price would support an economically attractive open-cut mining operation projected to produce approximately \$350 million in operating income over a 10-year period.

Management says it sees significant upside in new exploration targets within the 90-square-mile property. The company is early in the permitting process, which could take two or more years to complete. They are currently considering several strategic options to advance the Ortiz Property, including independent development or joint venture.

Ortiz Project Economics

Projections of the pre-feasibility by Minerals Advisory Group for the Ortiz Project open pit mine as of December 2005 were as follows (using a gold price of \$650 (and \$850)):

Capital Cost: \$38 million
 Operating Costs: \$230/oz.
 Mineable Reserve: 29,084,000 tons
 Mine Life: 10 years
 Average Annual Gold Production: 92,503 oz.

Average Gold Grade: 0.035 oz./ton
 Contained Gold: 1,027,818 ounces
 Metallurgical Recovery: 90%
 Operating Cash Flow (EBITDA): \$353 (\$527) million
 Internal Rate of Return: 49% (69%)

The \$38.2 million CAPEX cost is fairly low, but with increased energy prices 2 ½ years later, that cost would be higher now. When revenues start to flow from Summit, management intends to start the permitting process for Ortiz. Apparently the permitting is not cost intensive (perhaps \$1-2 million), but will take 2-3 years, so it will be a while before this property goes into production.

In our initial recommendation (January 2008), we discussed the industrial mineral properties at length (Black Canyon mica and the Planet Micaceous Iron Oxide (MIO)). The resources on those properties do have significant value, but are not being actively developed at this point. Santa Fe is currently considering a joint venture for the Black Canyon property, but that is the only significant information that has changed since our last report on those properties.

Financing – The company would appear to be in reasonably good shape, assuming capital costs to get the Summit Silver-Gold Property are in line with expectations. When we initially recommended this stock, the company had just completed a \$13.5 million financing. The \$13.5 million was raised in Europe through a convertible debenture that converts at \$1 per share with a maturity of 2012. To minimize interest expense, the company draws down the funding as needed. They have drawn down a total of \$8.5 million, but have spent only \$4 million so far.



The Stock, Technically Speaking – My assistant, who likes to pay more attention to the technical picture of stocks than I'm inclined to do, noted the following with respect to Santa Fe's stock picture:

