



Stock: Alto Energy (AOI)
Recommendation: **SPECULATIVE BUY**
Price: \$0.074

EVENT: QUARTERLY

Operations

- AOI's recently announced strategy to divest the Appalachian assets has resulted in the:
 - × Sale of the West Virginia assets for US\$1.5m (representing a significant premium to their cost) during the quarter
 - × Acceptance of an offer for the Rich Mountain prospect in Tennessee, which should be finalised this quarter
 - × For Sale sign being put up on the Little Sandy field, while the Home Run field provides some production (84mcf/d net), in Kentucky
- The focus is now firmly on conventional oil and gas prospects onshore Louisiana and Oklahoma, where AOI has an interest in:
 - × The Foothills Project (Oklahoma) that:
 - Will drill two wells this quarter, both of which offset producing wells
 - Has acquired and is interpreting 24 square miles of SD seismic in a JV with BP
 - × The Napoleonville Salt Dome (Louisiana):
 - Where AOI will fund 37.5% of seismic costs and 28.5% of the costs of the first three wells to earn its 25% interest
 - Which is one of the last Louisiana Salt Domes not to be covered by 3D seismic
 - × The Phase 3B Drilling Programme (Louisiana):
 - Where AOI has entered into a 5 well programme due to kick off this quarter
 - Which will cost US\$1.3m (net) to potentially generate net reserves of 3.9bcf

Corporate

- During the quarter and subsequently AOI:
 - × Appointed new directors – Alan Boss (a Houston lawyer) and Stephen Keenihan (a Perth explorationist)
 - × Raised \$2.5m at 5cps to fund the 3B programme and Napoleonville seismic
 - × Entered into a A\$4m working capital facility with Macquarie Bank

IMPACT

- AOI has been reinvigorated with:
 - × The experience and associations in the US of the new board and management.
 - × The new focus on conventional projects which appear to have significantly more potential and less risk.
 - × The likely sale of the residual Appalachian assets, which would add further to the Company's cash position.
 - × Support from solid investors.

- As stated by AOI, the net potential un-risked resources exposure from the recently acquired assets is as follows:

AOI Net Potential Reserves Exposure & Timing				
	Gas (bcf)	Oil (mmbbl)	Total (bcfe)	Timing
Phase 3B	3.9		3.9	Q1 07
Napoleonville	3.3	2.1	15.9	Q3 07 onwards
Foothills	9.8		9.8	Q3 07 onwards
Total	17.0	2.1	29.6	

Source: AOI, Argonaut

- With a current share price of 7.4cps and cash of ~2.3cps, the market is ascribing less than 15% of the potential value of these assets (at an NPV value of US\$2/mcf).

COMMENT

- Over the next 6 months AOI intends to:
 - × Drill 5 wells in the Phase 3B programme and commence production
 - × Acquire 3D seismic and develop prospects over the Napoleonville Salt Dome
 - × Identify prospects from the Foothills JV 3D seismic programme
- In the following 6 months, AOI expects to:
 - × Acquire further interests
 - × Finance, drill and commence production at the Foothills Project and Napoleonville Salt Dome

○ SPECULATIVE BUY

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Important Disclosures

- Argonaut Securities acted as manager to the placement of 50.0 million AOI fully paid shares at \$0.05 per share in December 2006 and received fees commensurate with this service.
- Argonaut Capital has acted as Corporate Advisor to AOI and received fees commensurate with this service.
- The Argonaut Group has an interest and / or controls 11,414,062 (6.16%) AOI fully paid Shares and 1,342,385 AOI unlisted options.
- Argonaut Securities may receive brokerage income from clients who wish to buy or sell securities subject to this report.
- The analyst has an immaterial interest in AOI shares.

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