



Stock: Alto Energy (AOI)
Recommendation: **SPECULATIVE BUY**
Price: \$0.065

EVENT: DRILLING TO COMMENCE

- AOI has announced that it will shortly start drilling three wells:

Well	Interest	Location	Objective	Total Depth	Est. Drilling Time
Pate #5-18	25% (BP back in for 22% after 200% payout)	Le Flore County, OK	Spiro Formation	12,500 ft	24 days
Reed #4-8	8%	Le Flore County, OK	Brazil Formation	9,700 ft	17 days
ConocoPhillips #1	7.5% (Alto paying 10%)	Terrebonne Parish, LA	Crescent Farms Sand	11,800 ft	32 days

Source: AOI

- As part of the Foothills JV Project in Oklahoma, AOI will participate in the Pate and Reed wells, both of which are expected to spud in the first week of April:
 - × Pate #5-18 well:
 - Will test the Spiro Formation and offsets several wells recently drilled by BP
 - AOI has a 25% WI in the well, with BP able to back-in for 22% after 200% payback
 - The BP wells initially produced at rates up to 3mmcf/d
 - × The Reed #4-8 well:
 - Will test the Brazil Formation and is on structure with several new offset wells, which have cumulative production to date of 1.2 to 1.4 bcf each
 - AOI has an 8.0% WI in the well
- At the Phase 3B drilling programme in Louisiana, the ConocoPhillips well is also expected to spud in the first week of April.
- Meanwhile the Napoleonville Salt Dome 3D seismic shoot is progressing, with:
 - × Information expected to be in for processing by June
 - × Drilling estimated to begin in the 4th quarter CY2007

IMPACT

- Following the delays in getting the Phase 3B drilling underway, the commencement of drilling is welcome news and will provide some focus in the coming weeks.

COMMENT

- The net potential un-risked resources exposure from the Louisiana and Oklahoma assets (as stated by AOI) is as follows:

AOI Net Potential Reserves Exposure & Timing				
	Gas (bcf)	Oil (mmbbl)	Total (bcfe)	Timing
Phase 3B	3.9		3.9	Q2 07
Napoleonville	3.3	2.1	15.9	Q4 07 onwards
Foothills	9.8		9.8	Q2 07 onwards
Total	17.0	2.1	29.6	

Source: AOI, Argonaut

- With upcoming programmes focused on lower-risk conventional prospects, AOI has the ability to steadily add value through drilling success in the coming months.
- **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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