



Stock: Alto Energy (AOI)
Recommendation: **SPECULATIVE BUY**
Price: \$0.069

EVENT: OPERATIONS UPDATE

Oklahoma and Louisiana

- AOI has provided an update on its current drilling programme:

Well	Interest	Location	Objective	Total Depth	Current Depth
Pate #5-18	25% (BP back in for 22% after 200% payout)	Le Flore County, OK	Spiro Formation	11,800 ft**	309 ft
Reed #4-8	8%	Le Flore County, OK	Brazil Formation	9,700 ft	9,155 ft
ConocoPhillips #4*	7.5% (Alto paying 10%)	Terrebonne Parish, LA	Crescent Farms Sand	11,976 ft	3,023 ft

Source: AOI

- The Reed #4-8 well will shortly be at its total depth of 9,700 ft. After drilling the well will be logged and, assuming analysis shows gas, will be completed and placed on production.
- Normal operating procedure in this area is to fracture treat wells, and announcement of gas flows will only take place after connection to the sales line.
- Completion times will vary depending on a number of factors, including the availability of completion rig and fracture treatment crews. The entire procedure will take at least 2 months.

Appalachia

- AOI has also recently announced that it has settled the sale of its interests in its Home Run project in Kentucky and expects to settle the sale of its interests in Rich Mountain in Tennessee shortly.
- Following this, the only remaining interest in Appalachia will be the Little Sandy project.

IMPACT

- Following a quiet first quarter, we expect increased activity and news flow from AOI over the next couple of months.

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 the current programme focused on lower-risk conventional prospects, AOI has the ability to steadily add value through drilling success in the coming months.
- **SPECULATIVE BUY**

Ian Christie, CFA
 Director, Research
 Argonaut Securities
 Direct: (08) 9224 6872
 Mobile: 0400 217 013
 Email: ian@argonautlimited.com

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.

Disclaimer and Disclosure This email and any attachments are intended solely for the addressee. Unauthorised use is strictly prohibited and may be unlawful. If you have received this by mistake, confidentiality and any legal privilege are not waived or lost and we ask that you contact the author and delete and destroy this and any other copies. Argonaut Securities Pty Limited AFS License No. 274099 ("Argonaut") and its associates will not be liable in connection with any data corruption, interruption, delay, computer virus or unauthorised access or amendment to the contents of this email. Any views expressed in this message are those of the individual sender and may not necessarily reflect those of the company. This document has been prepared without any consideration of any specific client's investment objectives, financial situation or needs. Advice included in this document is general advice, and does not take into account the investment objectives, financial situation and particular needs of any particular person. The recipient should consider carefully the appropriateness of the advice in light of his or her financial circumstances and speak to his or her advisor before making an investment or trading decision. Argonaut receives commission from dealing in securities, and its authorised representatives or introducers of business may directly share in this commission. Argonaut and its associates may hold shares in the companies recommended and this may change at any time.

Privacy and Copyright In relation to any legal use you may make of the contents of this email, you must ensure that you comply with the Privacy Act (Cth) 1988 and you should note that the contents may be subject to copyright and therefore may not be reproduced, communicated or adapted without the express consent of the owner of the copyright.