



Stock: Alto Energy (AOI)
Recommendation: **SPECULATIVE BUY**
Price: \$0.063

EVENT: QUARTERLY

- At the Foothills Minerals JV in Oklahoma:
 - × The 24 square mile 3D seismic survey with BP Exploration:
 - Has been completed and is currently being interpreted
 - Is expected to identify drilling locations during the 3rd quarter of CY2007
 - × Outside of the seismic area, two wells spudded in early April:
 - The Reed #4-8 well has since logged 50 feet of net pay in the Brazil formation and is awaiting a completion rig
 - The Pate #5-18 well, offsetting nearby BP wells, is drilling ahead to test the Spiro formation
 - These wells are expected to cost AOI ~A\$0.7m
- At the Napoleonville Salt Dome in Louisiana:
 - × AOI has a 25% interest in a 52 square mile 3D seismic survey over one of the last Louisiana Salt Domes not yet covered by 3D
 - × The 6 month survey will be completed in June with drilling likely in the 4th quarter of CY2007
- At the Phase 3B Drilling Programme in Louisiana:
 - × After initial delays, the 5 well programme kicked off with the ConocoPhillips #4 well in early April
 - × The programme is expected to cost AOI ~A\$1.6m
- On the corporate front AOI:
 - × Arranged a A\$4.0m working capital facility with Macquarie Bank
 - × Spent ~A\$1.8m to be left with A\$2.4m in cash at the end of the quarter
 - × Changed the name of its US subsidiary from Alto Energy Inc to Grand Gulf Energy Inc
 - × Is in the process of selling its few remaining Appalachia assets

IMPACT

- AOI estimates it has the unrisks potential to generate net reserves of:
 - × 9.8bcf at the Foothills JV
 - × 3.3bcf and 2.1mmbbls (mid-case) at the Napoleonville Salt Dome

- × 3.9bcf from the Phase 3B drilling programme
- AOI's focus is on low-risk, conventional plays which are backed by 3D seismic data.
- Given the potential from the 3 projects and an undemanding Enterprise Value of <A\$10m we maintain our **Speculative Buy** recommendation.

COMMENT

- AOI has:
 - × An MD with significant experience and strong associations in the US
 - × A new focus on conventional projects which appear to have significantly more potential and less risk
 - × The ability to generate a significant drilling portfolio, which could see >10 wells drilled during CY2007
 - × Support from solid investors

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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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