



Stock: Alto Energy (AOI)
Recommendation: **SPECULATIVE BUY**
Price: \$0.058

EVENT: DRILLING UPDATE

						Summary	
Well	Interest	Location	Objective	TD	Current Depth	Comments	
Pala #3-18	25% (NP back in for 25% after 100% p-paid)	La Fiere County, Oklahoma	Opire Formation	11,800R	8,800R	Drilling ahead	
Reed #4-8	8%	La Fiere County, Oklahoma	Opire Formation	9,750R	9,750R	Has reached TD. Logs were run and initial analysis confirmed 100R of sand and 40R of net pay based on porosities observed. A flow was observed while drilling through the sand. A gas contract has now been signed and the well will be connected to the pipeline.	
ConocoPhillips #4	7.5% (AOI paying 10%)	Terrebonne Parish, Louisiana	Crescent Form Sands	11,870R	11,800R	Expects to reach TD shortly. Mid logs showed strong gas shows in a good sand at proposed depth between 11,450R and 11,670R. Logs will be run once at TD. Gross estimated potential of this well is 11 bcf (USG of net to AOI).	

Source: AOI

IMPACT

- AOI has delivered encouraging results thus far from its current drilling programme.

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

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.