



Stock: Alto Energy (AOI)
Recommendation: **SPECULATIVE BUY**
Price: \$0.062

EVENT: SECOND POSITIVE DRILLING RESULT

Summary					
Well	Interest	Location	TD	Current Depth	Comments
Pete #5-18	25% (BP back in for 22% after 200% payout)	Oklahoma	11,900ft	8,316ft	Drilling ahead
Reed #4-8	8%	Oklahoma	8,724ft	8,724ft	Has reached TD. Logs were run - initial analysis 50% of net pay. Flare observed while drilling. Gas contract signed. Well will be completed and connected.
ConocoPhillips #4	7.5% (AOI paying 10%)	Louisiana	11,982ft	11,982ft	Has reached TD. Log results confirmed pay at 11,980ft. Well will be completed for production. Flowrates to be determined after completion.

Source: AOI, Argonaut

IMPACT

- o Two out of two positive results for AOI, with both the Reed #4-8 and the ConocoPhillips #4 to be completed for production.
- o Value implications will become apparent when flow rates and reserves are announced. This will only happen after completion procedures, which in both cases will take 2 – 3 months.

COMMENT

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

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