



Stock: Alto Energy (AOI)
Recommendation: **SPECULATIVE BUY**
Price: \$0.06

EVENT: THREE OUT OF THREE

- AOI has drilled 3 out of 3 successful wells in the new focus areas of Louisiana and Oklahoma, with the announcement that Pate #5-18 will be completed following log analysis.
- The table below provides a summary of the status of these 3 wells. Note that the Reed #4-8 is currently producing at 1mmcf/d with the potential to increase production post clean-up.

Drilling Summary					
Well	Interest	Location	TD	Current Depth	Comments
Pate #5-18	25% iBP back in for 22% after 200% payout	Oklahoma	11,802ft	11,002ft	Logs show a 4ft zone in the Spiro with better than 10% porosity. The well will now be completed. Adjacent offset wells have flowed ~3mmcf/d from 2ft and 8ft zones with similar porosity. Possible potential in Pano a sand (9,370ft).
Reed #4-8	8%	Oklahoma	9,724ft	9,724ft	Drilled successfully. Turned into sales gas pipeline and currently producing at ~1 mmcf/d. Still cleaning up, so production may increase from current rates.
Cornucopia #4	7.5% (AOI paying 10%)	Louisiana	11,967ft	11,967ft	Has reached TD. Log results confirmed pay at 11,650ft. Will be completed for production (awaiting rig), with flow rates determined after completion.

Source: AOI

- AOI expects the next well of the 3B drilling programme in Louisiana – the Catapult #1 well – to be spudded in ~30 days time.

IMPACT

- The new focus on lower risk conventional plays is paying off for AOI.
- The drilling programme is set to accelerate once 3D seismic has been acquired and/or interpreted at Foothills (Oklahoma) and Napoleonville (Louisiana).
- The recently announced capital raising provides the capacity to progress these opportunities.

COMMENT

- Our **Speculative Buy** recommendation is based on:
 - x Management’s experience and associations in the US
 - x A focus on less risky, conventional prospects (delivering 3 out of 3 successes thus far)
 - x A significant drilling portfolio, which could see >10 wells drilled during CY2007
 - x The cash to pursue the drilling programme, with demonstrated support from solid investors

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Important Disclosures

- o Argonaut is underwriting the current Entitlements Issue and previously 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 these services.
- o Argonaut Capital has acted as Corporate Advisor to AOI and received fees commensurate with this service.
- o The Argonaut Group has an interest and / or controls 11,414,062 (5.43%) AOI fully paid Shares and 1,342,385 AOI unlisted options.
- o Argonaut Securities may receive brokerage income from clients who wish to buy or sell securities subject to this report.
- o The analyst has an immaterial interest in AOI shares.

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