



**Stock:** Alto Energy (AOI)  
**Recommendation:** **SPECULATIVE BUY**  
**Price:** \$0.052

#### **EVENT: FIELD TRIP**

- Argonaut met with AOI's senior management, associates, partners and other upstream oil and gas companies in Houston, Texas.

#### **IMPACT**

- The importance of local knowledge and relationships was readily apparent.
- We were very impressed with:
  - × The depth of experience of Alto and its associates and partners in both Oklahoma and Louisiana
  - × Alto's deal flow - obtaining exposure to a highly sought after area in Oklahoma
  - × The robust quality of prospects in both states (3 out of 3 wells successful so far)
- On the operational side:
  - × We believe that Alto will provide investors with regular exposure to drilling activity (up to ten more wells this calendar year – some with significant potential)
  - × Alto has drilled three successful wells, with one well already tied in, producing at 1 mmcf/d and still cleaning up
  - × We expect positive cash flow in the third quarter this calendar year, with steady growth in cash flow as more wells are drilled
  - × 3D seismic acquisition over Napoleonville is progressing well
  - × A significant portfolio of prospects is expected following interpretation of the 3D survey in Oklahoma
- "Forced pooling" arrangements in Oklahoma allow Alto to propose and participate in the drilling of many more wells compared to other states. In addition, the State's abundant infrastructure allows quick conversion from drilling success to production and revenue.

#### **COMMENT**

- Our **Speculative Buy** recommendation is unchanged following this trip.
- We remain attracted to Alto based on:
  - × Management's extensive experience and sound relationships in the US
  - × A focus on less risky, 3D-supported conventional prospects in highly prospective areas
  - × A significant drilling portfolio, which will provide considerable activity in the coming months
- The current enterprise value of A\$9m does not reflect Alto's portfolio quality and potential.

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**Important Disclosures**

- Argonaut underwrote the recent 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.
- 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 (5.43%) 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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