

Grand Gulf Energy (GGE)

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Current Share Price	\$0.060
Valuation	\$0.145
Recommendation	SPECULATIVE BUY

Market Statistics

ASX Code	GGE
Sector	Energy
Ordinary Shares	297.9m
Capitalisation	\$17.9m
Cash (30/09/07)	\$1.9m
Year High	9.5cps
Year Low	4.4cps

Major Shareholders

Directors & Management	16.3%
Macquarie Bank	11.1%
Argonaut	5.1%

Project Values	Reserves Potential (net bcfe)	Risked Value (A\$m)	Value (A\$/share)
Oklahoma Foothills JV	4.2	6.3	0.017
Oklahoma Fee Minerals	10.1	16.6	0.044
Oklahoma Noble Farmin	1.0	1.4	0.004
Louisiana Phase 3B	2.0	3.1	0.008
Louisiana Napoleonville	15.9	24.3	0.064
Total	33.2	51.7	0.137

Source: Company Presentations, Independent Expert, Argonaut

Overall Value	Valuation (A\$m)	Valuation (A\$/share)
Projects	51.7	0.137
Cash	2.6	0.007
Corporate	-3.7	-0.010
Unpaid Capital	4.2	0.011
Total	54.8	0.145

Source: Argonaut

Important Disclosures

Argonaut is underwriting the current Entitlements Issue of 74.5m options at \$0.01 per option, underwrote the Entitlements Issue of 46.3m shares at \$0.05 per share in June 2007, and managed the placement of 50m shares at \$0.05 per share in December 2006. Argonaut has a substantial 5.1% interest in GGE. For further important disclosures, please see page 2.

GROWING PRODUCTION

- The September quarter was a busy one for GGE:
 - × Completed the acquisition of 4,000 highly prospective net Fee Minerals acres in Oklahoma
 - × Completed the acquisition of 50.4 square miles of 3D seismic at Napoleonville in Louisiana, which is presently being interpreted
 - × Farmed into four producing wells in Custer County, Oklahoma, together with rights to participate in a number of others
 - × Brought 1 well onto production with another pending
- Production has steadily increased from 70mcf/d in the June quarter to the current 300mcf/d. Another 4 wells are presently drilling (including the Company's first farmin well in Texas), with up to 7 more due to spud prior to year end. As a result, we expect GGE to deliver net production of 1mmcf/d during the first quarter of 2008.
- The activity over the last few months has shown that management's experience and relationships in the US have been telling points in the regular delivery of high quality deal flow. In addition consistent drilling over this period has ensured regular and positive updates.
- In early October the Company announced that it would undertake an underwritten 1 for 4 entitlements issue of options at \$0.01 to raise \$740,000 before costs. The options will be exercisable at \$0.06 on or before 28 February 2009.
- We have reviewed our valuation of GGE's projects post the entitlements issue. This calculation is based on an in-ground value of net risked expected reserves (see table at left).
- Factoring in current cash, corporate costs and unpaid capital, our overall valuation is **\$0.145 per share**. This is well ahead of the current share price, which provides a market capitalisation of only \$17.9m. This fails to recognise successes to date or capture GGE's potential.
- We expect GGE to continue to provide investors steady, low-risk growth in production and reserves through to the higher impact drilling of Napoleonville next year. We retain our **Speculative Buy** recommendation.

Disclosures & Disclaimer

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- Argonaut Capital has acted as Corporate Advisor to GGE and received fees commensurate with this service.
- The Argonaut Group has an interest in and / or controls 15,271,172 (5.1%) GGE fully paid shares and 1,342,385 GGE unlisted options. The Argonaut Group's Managing Director & CEO, Edward Rigg, has an interest in 2,919,220 (1%) GGE fully paid shares.
- Argonaut Securities may receive brokerage income from clients who wish to buy or sell securities subject to this report.
- This report was produced by Ian Christie, CFA and Director of Research, Argonaut Securities Pty Limited. Ian has an immaterial interest in GGE shares.

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