StockAnalysis

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By Peter Strachan

This Week

Indices & Prices

All Ordinaries	4,676.40
Energy Index	15,412.90
Brent AU$/bbl	88.87
AUS$/US$	0.9605

As at Close November 30th

In this Issue

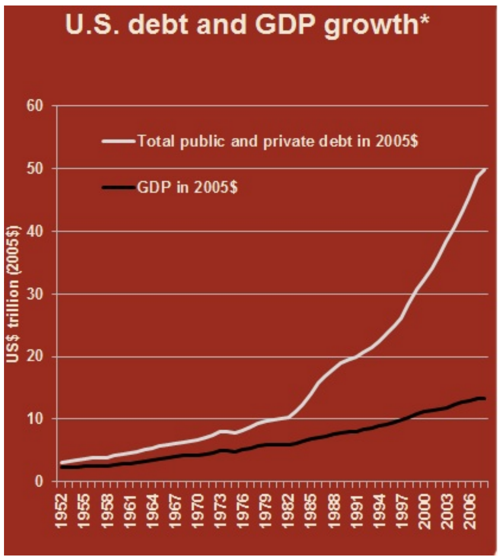
Market Moves

Worries about fiscal and monetary stability abound. Focus on the European PIIGS, along with the USA's often shaky monetary policy, have unsettled markets with no-one really knowing what the likely outcome will be.

This initially alarming graphic of **real US GDP vs real credit**, shows that over the past 60 years the total amount of US debt has risen from a position where it was only marginally more than the US annual gross domestic product (GDP) in 1952, to a level where that debt is now equal to almost 4 times the USA's annual GDP.

This is like comparing a company's gross debt to its income or an individual's salary to his or her mortgage. A crucial piece of missing information when considering a rise in the USA's debt verses its GDP is the value of underlying assets, which underpins this debt.

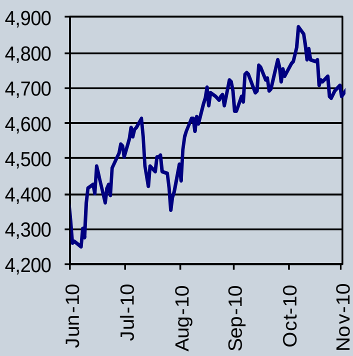
Real US GDP vs Real Credit



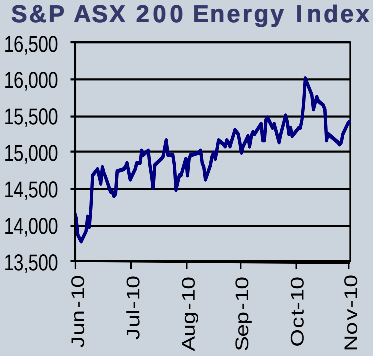
Source: Graphic from IIER, Data from: U.S. Federal Reserve – Flow of Funds, U.S. Bureau of Economic Analysis

(Continued on page 2)

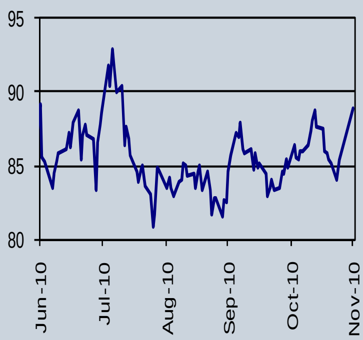
All Ordinaries



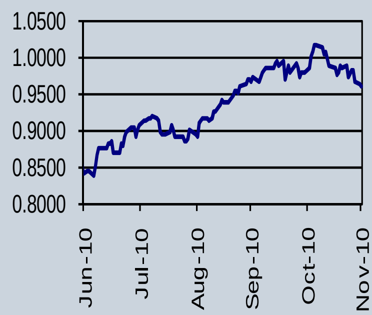
S&P ASX 200 Energy Index



Brent Crude Oil $A/barrel



A$/US$

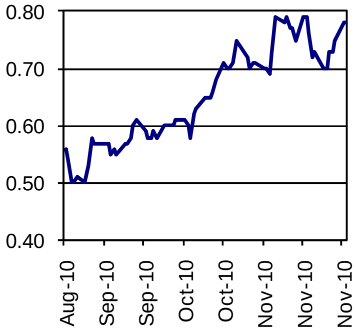


Some US debt is used to support assets outside of the USA which has little impact on the USA's GDP, so the GDP of the USA is only part of the picture. Looked at another way, would a bank feel comfortable lending $500,000 to a person with annual earnings of $130,000? The answer is yes, servicing that level of debt should be easily managed on that income. However if a borrower has debt of $500,000 and assets with a value of only $450,000, then the lender would be very worried indeed!

It is true that in the USA, as many as 25% of all mortgagees now have negative equity in their houses, which is to say that they owe more than their homes are worth on the market. But US debt extends beyond home finance to businesses and to governments, who theoretically can always repay by raising taxes or printing money! But that is another story.

Dampier Gold (DAU)

DAU Price History



Recommendation: ***Dampier is a speculative buy with support at 64 cents and upside to $0.90 per share.***

DAU - Capital Structure		
Shares	54.4	m.
Options	16.0	
	70.4	m.
Price	$ 0.78	
Cash (est)	$ 17	m.
Market cap	$ 42	m.
EV	$ 25	m.

Well performed new gold company, Dampier Gold, has delivered a Resource upgrade on its Marymia tenements, lifting total Resources to 469 Koz, including 32 Koz of Reserves. At this price, Dampier has a market capitalisation of just $89 per ounce of gold in Resource and the company is well on its way to lifting this total towards 700 Koz on the back of a $600,000 drilling campaign which is currently underway and which will deliver results through January and February.

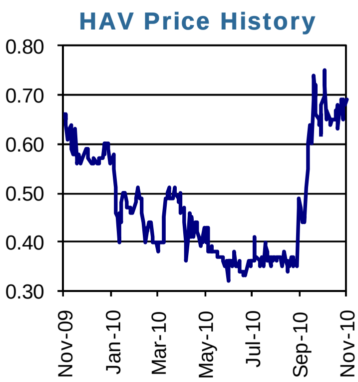
The company is drilling for extensions of known mineralisation at the K1 & K2 deposits as well as at Budgie and Trident. Trident currently has 1.9 mt of mineralisation grading 5.5 g/t, for 326 Koz of gold and a total of over 500 Koz looks to be a reasonable target by mid 2011.

Dampier has set a target of moving towards a mining decision by mid 2011 and aims to be in production by the end of 2012. The company boasts Barrick Mines as its major shareholder. Barrick has agreed to negotiate with Dampier for access to its currently mothballed open pit ore circuit, in the event of defining ore reserves.

Dampier's business model sees low cost open pit start-up, with 3-4 years of reserves at ~1 million tonnes per annum. The company will have a low cost path to operating cash flow and aims to be able to pay dividends to shareholders.

The Marymia Greenstone Belt has excellent potential for multi-million ounce discoveries. Dampier's permits have already produced 580 Koz of gold and StockAnalysis suspects that a mineralised inventory of close to 1 million ounces is already in sight, so it is just a matter of lifting this target to JORC standards by ongoing drilling through 2011.

Havilah Resources (HAV)



Havilah has become a little more active recently. Perhaps it was a high level of shareholder opposition to Director Option issues at its recent AGM that has shaken the Adelaide tree.

On the **Kalkaroo** project, Havilah's partner Glencore has taken possession of a peer reviewed feasibility study and has initiated additional studies on mining costs, expected to take up until the end of 2010. Glencore then has until the end of April to decide if it will move ahead to fund Havilah through to production. Should Glencore withdraw, Havilah plans to move towards an oxide processing plant, relying on a gravity circuit to recover native copper and gold, ahead of adding a processing plant for fresh rock.

Exploration on the **Kalkaroo North Dome** has discovered low grade copper and gold mineralisation. StockAnalysis believes that the Kalkaroo area will eventually yield very large tonnes of low grade Cu/Au mineralisation. The challenge for Havilah is commercialising this low grade material in the face of deeply oxidised material at surface.

The **Mutooroo** Project has progressed scoping study work and the company is seeking a partner to take this $250 million project forward to production of acid, copper, cobalt and iron ore. Gold at Portia seems a remote potential, given 70 metres of barren overburden on top of a potentially high grade, native gold deposit which could be processed cheaply by gravity separation.

The company's geothermal subsidiary, **Geothermal Resources** (GHT) has come to a grinding halt as the market finally works out that geothermal energy is no longer the flavour of the month and that the technology to develop low emission hot-rock power is most likely still 20 years away from commercial application. The company's uranium subsidiary **Curnamona Energy** (CUY) is having a small glitch at its Oban ISL pilot plant. So far it has failed to see any uranium in the return solution at the surface. It may be that the solution is escaping within the aquifer or it may be that the uranium is just not available to the solution being used. StockAnalysis suspects that this glitch will be ironed out with more test work, which after all is why the process has been undertaken.

Havilah remains undervalued based on it resource of gold, cobalt, copper and other minerals.

Vicpet, Beach & ITC

Fresh from raising $26 million to take its cash position to around $56 million, Vicpet has raised its holding in ITC from 10% to 15%, providing some competition for Beach's 8.25 cent takeover (merger) offer for ITC. Clearly, ITC is in play and it looks like Vicpet has been able to pick up additional stock at a discount to Beach's offer price.

Watch this space, but the normal rule in situations like this is not to sell until the final bids are on the table. The final price for ITC could be substantially more than BPT's 8.25 cent offer and Vicpet should know what it is worth, because it is the operator of the Cooper basin oil permits. Vicpet is now more likely to over bid Beach in a battle for ITC.

Tap Oil Spins the Bit

TAP Price History

Recommendation: *Tap is a buy.*

The company has an underlying value for net cash and hydrocarbon assets of 69 cps, plus risked exploration upside, taking target value to over $2 per share.

Speculative interest during the drilling of Zola and Craigow is likely to lift the stock towards 95 cps.

ASC Code	TAP	
Shares	241	m.
Options	5.7	
Fully Diluted	247	m.
Price	$ 0.785	
Market Capitalisation	$ 233	m.
Net Cash (est)	$ 80	m.

Tap Oil has commenced a 30-40 day drilling programme on the Zola prospect, west of Barrow Island where a 1 Tcf gas target is the prize, should hydrocarbons be present. A gas field of this size would find options for rapid development into the domestic gas market, but could also become part of the feed for possible LNG projects in the longer term. Even a 250 Bcf discovery at Zola could be commercial if developed along with the existing 120 Bcf Antiope gas pool in the permit. **StockAnalysis estimates that Tap's 10% of a 1 Tcf discovery would be worth about 38 cps to the company.**

Early in 2011, Tap will drill the Craigow prospect, in Bass Basin permit T-47-P, where a 20 mmbbl target has been estimated. **Success at this prospect would add about 60 cps to the company's NPV** for its 40% interest, but more importantly would upgrade several follow-up targets, such as the 32 mmbbl Tolpuddle prospect, where discovery could be worth over $1 per Tap share.

Valuation Matrix

Valuation	Holding %	TAP % mmBoe	Value $m.	$/share
Oil Reserves	12.2-100%	3.5	42	0.17
Gas contract			65	0.26
Manora	30%	7.2	44	0.18
Litigation Liability			(30)	(0.12)
Corporate			(32)	(0.13)
Cash (est)			80	0.32
Hard Value			169	0.69
Exploration			340	1.38
Option Exercise			4	0.01
Total Value		10.7	512	2.08

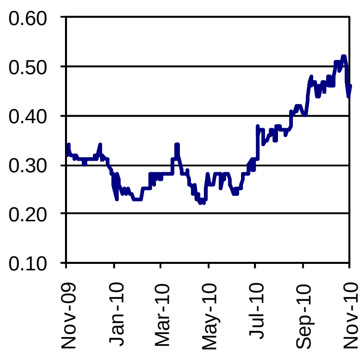
Source: Strachan Corporate Pty Ltd

Tap Oil has completed acquisition of a net 30% interest in the Manora oilfield in the Gulf of Thailand, along with associated exploration upside on associated permits. Appraisal drilling has defined this 24 mmbbl project, which will now move towards production during 2011, with cash flow likely by 2014.

The company has drilled two wells in Brunei, which have been suspended for further testing, following the discovery of gas.

Nexus Deals on Crux

NXS Price History



Recommendation: *Nexus has underlying value which underpins its current price, but other risky players in the oil & gas sector are preferred. The stock can be considered a speculative buy with downside to 35 cents and upside to 75 cents.*

NXS - Capital Structure			
Shares		1020.3	m.
Options		35.2	m.
Net Cash (est)	-$	278	m.
Price	$	0.455	
Market Cap	$	464	m.

Nexus has agreed to pay Shell an effective US$35 million plus an overriding royalty of 3.5% on Crux's project revenue, to purchase a three year extension to its right to extract liquids from the Crux field. This news was not exactly what the punters wanted to hear, so the stock was sold down from around 52 cents to 43 cents.

Many eager beavers would have been hoping that a newly muscular Shell might have just taken the approach that the way to clean up this awful mess of a project would be to simply bid for Nexus. Shell is playing a delicate game, since there needs to be a project up and running at Crux by the end of 2014 to enable the permit to remain in good standing.

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So if Shell wants to keep hold of 100% ownership of the 1.9 Tcf of Crux gas plus any liquids left behind by Nexus, it needs to see action on the permit by then. Shell may have hoped that Nexus would fall over and that it would then pick up the pieces, but that option now looks less likely, so Shell has to get a little bit more commercial.

Nexus' bankers wanted to see that there was an additional 3 years of wriggle-room for the Crux project, to ensure that they would be repaid under all possible scenarios, while Nexus wanted extra time to enable it to test and possibly produce liquids from the Auriga and possibly Caelum prospects.

Looking quickly at Crux, on a base case value for production of 68 million barrels of condensate, Nexus' 85% of the Crux project is estimated to be worth about $650 million after tax allowances and $1,000 million, assuming exploration success, lifting total extraction to 95 million barrels of condensate. Nexus will need to give something away to make this project happen, either in the form of interest to a bank or more likely as equity in the project to a partner.

Shareholders are now locked in to see how value is extracted. StockAnalysis sees a base value of 39 cps for Crux plus debt and Longtom, but before substantial value for Echuca Shoals, which could lift risked value to 77 cps. An expanded Crux case offers value of $1.13 per share with exploration and development upside from Echuca Shoals, lifting risked total to $2.08 per share.

Clearly, Nexus has plenty of leverage to success from its current price of 44 cps, but the final value equation will need to await funding arrangement, which might be expected by mid 2011.

Artemis (MEO, CUE MOG)

Drilling has commenced at the Artemis prospect and results should be known by the 15th of December. StockAnalysis is not giving the prospect a high chance of success but clearly, discovery of anything close to the pre-drill target of +11 Tcf of gas plus condensate, would be worth over $1 for Cue, +$2 per share to MEO and nearly $2 per share to Moby.

A duster here could put Cue back to 32 cents, supported by its producing and development assets while MOG could slide to 10-12 cents and MEO would likely fall to 22-25 cents, supported by cash asset backing.

MEO Price History

Target	Bcf	mmbbl	Risk %	NPV $m
Artemis	11,800	139	20%	$ 5,334
In-ground Value Assumptions				
Condensate $A/bbl	$ 18	/bbl		
gas $m/PJ	$ 0.24	/PJ		
Artemis	**CUE**	**MEO**	**MOG**	
Equities *	15%	25%	10%	
Discovery Value/share $	$ 1.14	$ 2.42	$ 1.84	
Risk Adjusted Value/Share	$ 0.22	$ 0.48	$ 0.37	
* estimated post farmout				
No of shares	693	540	288	
No of Options	6	10	2	
Current Price	$ 0.38	$ 0.50	$ 0.16	
Discovery Leverage per share	301%	490%	1185%	

Antares (AZZ)

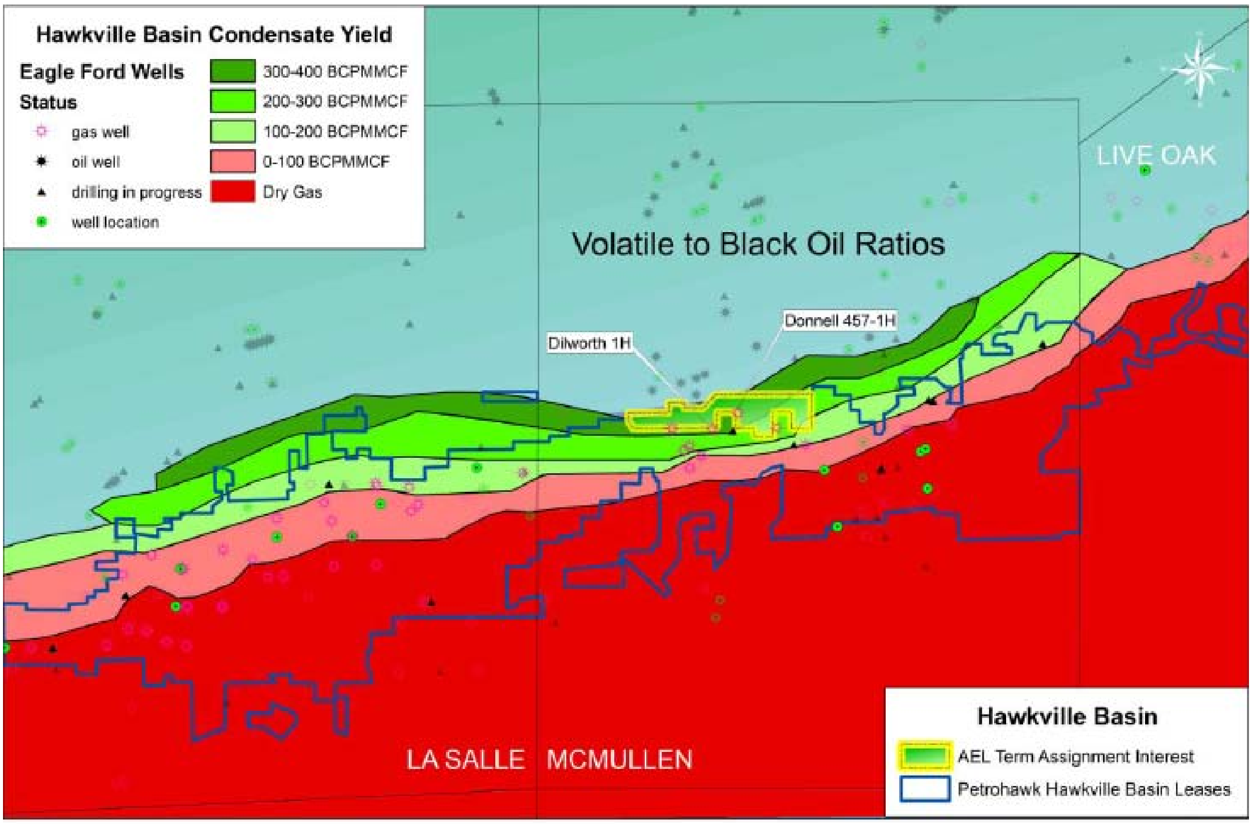
AZZ Price History

Recommendation: Antares is a speculative buy. The company has hard asset backing of 54 cps with exploration and development upside. Antares is in an ideal situation, holding net cash of around $139 million at a time when opportunities in the sector abound.

AZZ - Capital Structure		
Shares	299.3	m.
Convertible notes	7.5	m.
Performance rights	10.8	m.
Total	317.7	m.
Cash (est) $m.	156	
Price	$ 0.44	
Market Cap $m.	$ 132	m.

Antares has agreed to sell the majority of its Eagle Ford Shale interests for a net US$156 million to US independent company, Chesapeake. The sale represents a fair price of US$8,628/acre. Netting off the company's $15 million of convertible note debt and estimated costs and revenue through October and November, leaves the company with an estimated net cash position of A$139 million or 45 cents per share.

Location of AZZ's EFS Term Assignment Permit



Source: Antares

Antares retains an interest in 8,938 acres of liquids-rich permit on term assignment with US independent oil company, Petrohawk. Antares is entitled to back-in to each well drilled by Petrohawk, after cost recovery. StockAnalysis estimates that the effect of this confidential agreement is that Antares retains an interest in about 33% of the petroleum products within this permit, which might be 25 million barrels of oil equivalent. Performance of Petrohawk's Donnell 457 No 1H well shows strong potential for the permit. Average production of 1,180 BOE was achieved over the first 30 days of production from the well, indicating that rapid payback of capital costs will be achieved.

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AZZ - Asset	Value $m	$ per Share
USA production	12	0.04
Term Assignment	20	0.06
Cash (est)	154	0.50
Convertible note	(15)	(0.05)
Other	(5)	(0.02)
	166	0.54
Exploration Value	17	0.05
Total Value	183	0.59

Source: Strachan Corporate Pty Ltd

The company retains ongoing production interests at Oyster Creek, which currently net it about 200 BOEPD. The company will embark on a new development well during December at this project, which could lift its working interest in production towards 500 BOEPD by Q2 2011.

In recognition of its position as a cash rich oil & gas company, Antares has instigated a share buyback programme. Buying back shares at around current market prices, below cash backing of 50 cents, is like buying a dollar for 80 cents and will have the affect of lifting the overall value of remaining shares.

Antares is now cranking up its business development activities in the USA. The company is in a strong position with sufficient operating cash flow to sustain its corporate costs and a pile of cash in the bank at a time when deal flow is strong and a buyers market is apparent to those with patient capital to invest.

Given the shareholder wealth creation achieved by Antares' management over the past two years, StockAnalysis believes that it would be wise not to bet against a continuation of that performance in the coming year.

Year Wrap Up

In December 2008, just before the nadir of the GFC, StockAnalysis put together a portfolio of stocks for market recovery, which duly commenced in April 2009. Over the ensuing two years, this portfolio suffered by not including either BHP Billiton or Rio Tinto, and the inclusion of Telstra and Sonic Healthcare has also put lead in its saddle bags. Overall however, the portfolio has outperformed the All Ords Index and has been a heavy dividend payer from stocks such as NAB, TLS, UGL and WES. Large gains were made on re-capitalisation stories, such as Wesfarmers and Transfield, while losses were recouped in UXC on the same basis. Not surprisingly with the benefit of hindsight, the Materials Index, which is heavily influenced by stocks such as Fortescue, Rio and BHP, has outperformed the 2009 Champions portfolio.

Summary	Move %	Annualized %
All Ords	33%	17%
Materials Index	53%	27%
2009 Champions	44%	29%
Out Performance	33%	73%

NB: Begun 17th December 2008

Company	Code	Price $/share Cost	30-Nov-10	Move %
All Ords	XAO	3515	4676	33%
Materials Index	XMJ	8668	13226	53%
2009 Champions				
National Australia Bank	NAB	$ 19.32	$ 23.45	21%
Oil Search	OSH	$ 4.72	$ 6.83	45%
Sonic Healthcare	SHL	$ 12.90	$ 11.80	-9%
Service Stream	SSM	$ 0.68	$ 0.54	-21%
Telstra	TLS	$ 3.56	$ 2.81	-21%
Transfield	TSE	$ 1.65	$ 3.44	108%
Transfield 1:1 @ $1.25	TSE	$ 1.25	$ 3.44	175%
United Group	UGL	$ 7.11	$ 13.83	95%
UXC	UXC	$ 0.53	$ 0.47	-11%
UXC	UXC	$ 0.42	$ 0.47	12%
WesFarmers	WES	$ 16.60	$ 31.46	90%
WESFarmers 3:7 @$13.5	WES	$ 13.50	$ 31.46	133%

Lessons should also be learned about the pitfalls of choosing a set-and-forget portfolio. Examination of this selection illustrates that no portfolio should ever be bought on the basis that shares will not be sold. If circumstances change such as technology, management, finances or commodity prices, then stocks should always be reviewed and if necessary culled. For example, profits on my 2009 Champions could also have been taken at significantly higher prices for NAB ($32), Sonic ($15.40), TSE ($4.50), UGL ($15.60) and WES ($34). In fact, your correspondent acted on its own advice here and did sell its own TSE and WES as value points were reached and overshot, but sadly did not sell its Sonic.

It is worth revisiting old recommendations to check and recalibrate strategy. These stocks were selected at an extremely difficult moment for the investment community, so looking at them today in a very different environment from that in which they were selected, provides an opportunity to see what worked, what didn't and where we should be looking for 2011.

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The author has small holdings in shares of BRU, SRI. Modest holdings in ADX, CUE, ROC, NMS, NWE, OEL, NXS, UXC, MGR, COF, PAG, SUN, COE, HZN, RCR, TAP, AWE, TLS, PTM, WPL, & GLH and larger holdings in ACE & HAV.