



This Week
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Market Moves

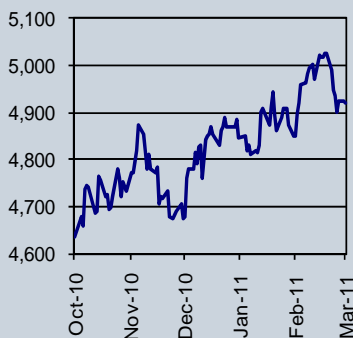
StockAnalysis cannot remember a takeover target ever getting its response document out into the market quite as quickly as **Stuart Petroleum** (STU) has done in response to the bid by **Senex** (SXY). Stuart's eager acceptance at the speed of light (2 days) can only reflect the poor state in which that company was left by its previous management and a view that by taking Senex (formerly Vicpet) shares, its shareholders stand a much better chance of reaping rewards from the triple focus of Cooper Basin oil, Surat coal seam gas and unconventional shale gas in the Cooper.

Poor old Stuart had previously deluded itself by borrowing money to pay dividends, because operating cash flow was not sufficient to cover those payments and by telling eager investors that it had a strong balance sheet and that it was funding growth from cash flow, when this was clearly not the case. Shareholders in a merged STU/SXY entity can look forward to much improved corporate governance and a more prudent approach to project identification, acquisition and development.

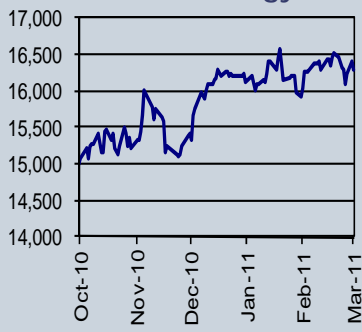
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Indices & Prices	
All Ordinaries	4,920.40
Energy Index	16,292.90
Brent AU\$/bbl	114.44
AUS\$/US\$	1.0133
As at Close March 1st	

All Ordinaries



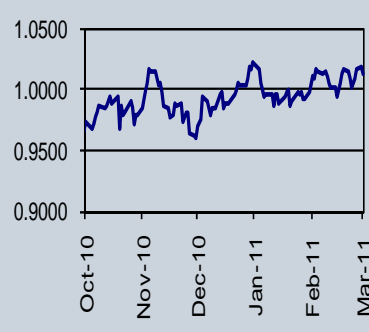
S&P ASX 200 Energy Index



Brent Crude Oil \$A/barrel



A\$/US\$



Last week's call on possible share price movement for **Norwest Energy** looks to be a bit timid and comes as a result of relying too much on charts. Following a sharp rise to 8 cents per share, the stock appears to have become a little over-bought as traders set themselves ahead of drilling at Red Hill South. Of more interest to the market, may have been StockAnalysis' observation that **BHPP** has become a player in an unconventional gas play and may well be looking over activity in the Perth Basin. Drilling of Arrowsmith-2 in April 2011 will provide additional data to guide development work by **AWE** and Norwest, with the prize being over 1 Tcf of gas from a 60 metre section of the Carynginia Shale, which could be sold into WA's high value (+\$8/Gj) gas market. Interestingly, this comes at a time when recent cyclone activity has again shut down gas production at Varanus Island, causing temporary loss of supply to customers like **APEX Minerals**.

Beach (BPT) and **Drillsearch** (DLS) are about to commence a 5 well programme in the Cooper Basin on PEL-91, where the equity is split 40/60 respectively. The total programme targets 3.5 mmbbls of oil and given past performance should have a 50-60% probability of success. Total success would be worth about \$60 million or 28 cps to Drillsearch and importantly, would underpin an operating cash flow of \$20 to \$25 million pa, allowing Drillsearch to drill and search. Drillsearch has finally bitten the bullet, consolidating its shares on a 1 for 10 basis, leaving it with a manageable 206.8 million shares. Meanwhile, success for Beach in PEL-91 would be worth about 3.6 cps.

Drillsearch looks to be fairly priced at 60 cents per share, but as its management points out, drilling 5 wells back to back with the potential for ongoing positive news flow, could offer trading opportunities as the stock swings between 55 and 75 cps.

Perennial oil and gas exploration lightweight **Westralian Gas and Power** (WGP), which at one point was chasing Oswal Resources for joint venture funding, has rattled the tin to raise \$411K to pay for lunch. Meanwhile, the company has had another serious rush of blood to the head, claiming that discoveries by **Empire Oil & Gas** (EGO) at Gingin West and Red Gully indicate a combined potential for 1.17 Tcf of gas in the Perth Basin. Now this is very curious because Empire has stated a recoverable gas target at both discoveries as being 22 to 30 Bcf, so WGP's estimate of EGO's success may well be a little ahead of the curve.

There is nothing like the smell of blood in the water to get the sharks milling around and WGP is certainly trying to bask in the reflected glory of its peers, Empire, Norwest and AWE. EGO has seen its share price rise from 1.5 cents to 4.8 cents on the back of its excellent gas and condensate finds, while Norwest Energy has seen a rise from 3 to 8 cents, on the back of its much anticipated exploration drilling at Red Hill South and at Arrowsmith. Clearly WGP would like to participate in the frenzy but unfortunately, it still lacks the credentials.

Gold remains in a sideways trend in AUD terms, despite its recent strength in US dollar terms.

Despite a strong bounce in the USD gold price back over US\$1,430/oz, most of the action remains at the currency end of the market, since the AUD price still languishes at around A\$1,410/oz, well below recent highs of over A\$1,500/oz. However, the long term trend in USD terms remains up, as the USD remains in a 10 year decline, while in AUD terms, gold has been moving sideways for about a year.



Best Bets from Excellence In Oil & Gas Conference

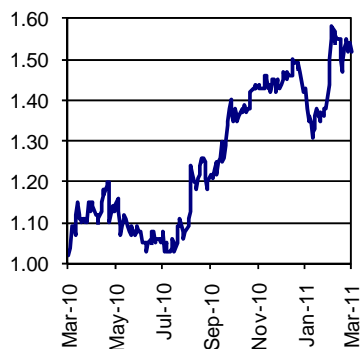
The most impressive presentations and stories so far have come from FAR Ltd, Texon, Norwest and unlisted explorer, Finder Exploration. The most worrying presentation came from Petsec, whose story sounded like an obituary at times, while Linc Energy remains a huge worry to StockAnalysis.

PrimeAg **PAG** TOO MANY BANKERS, NOT ENOUGH FARMERS

Recommendation: *As predicted, PrimeAg's December '10 half result was an ugly pre-tax loss of \$7.2 million, but PAG's management is now predicting a pre-tax profit of \$10.5 to \$17 million for 2011, not that this provides any great comfort, since so far, StockAnalysis has been more accurate at predicting PAG's profit result than has the company. With asset backing of closer to \$1.90 per share and strong commodity prices likely to lift earnings in 2012 beyond 12 cps, the stock remains a buy on any pullback to \$1.30.*

PAG - Capital Structure	
Shares	150.6 m.
Perf & Promo Rts	3.8 m.
Total Potential	154.4 m.
Net cash (est)	\$ 10 m.
Price	\$1.57
Market Cap	\$236 m.
NTA	\$290 m.

PAG Price History



If management of cotton and wheat grower PrimeAg had focused only on low cost food and fibre production and had not tried to second-guess commodity markets, StockAnalysis estimates that this year's flood damaged cotton crop (2011) would yield an additional \$28 million pre-tax to shareholders. PrimeAg is gearing up to harvest an estimated 92,000 bales of cotton during March to May. Forward sales of cotton by PAG so far, leave the company suggesting a return of about \$560 per bale, but had the company been prepared to sell its crop at the going price when harvested, it might expect a price of over \$900 per bale. That's a huge opportunity cost of over \$28 million, equal to earnings of about 13 cps for shareholders of the company, who after all are not invested in PrimeAg just for the warm and fuzzy feeling of participating in the production of food and fibre. Nor would investors ultimately be happy with 'agricultural' rates of return of around 5% of asset values through the cycle. In the opinion of StockAnalysis, if PrimeAg was now completely unhedged and looking at a potential for earnings of 25 cents per share in 2012, the shares would be trading well north of \$2 per share, enhancing value for all shareholders.

Earlier in 2010, PrimeAg's management saw \$500/per bale for cotton and thought that looked good enough, after struggling with prices closer to A\$450/bale in previous years, so they locked in some sales, forfeiting an ability to sell much of PAG's cotton crop at prices of closer to \$1,000 per bale. Similarly for wheat, the company locked in at lower prices of around \$260 per tonne, only to see prices rise to over \$330/t and narrowly avoided the double negative of having to wade into the wheat market at high prices to cover forward sales, when the quality of much of its wheat crop was damaged by rain. So rather than reducing financial risk, the company's forward sales activity has significantly increased risks for shareholders.

I know the arguments for hedging, such as giving certainty and underpinning costs, but StockAnalysis remembers hearing the same arguments from gold miners, many of whom went broke forward selling gold to cover operating costs. If shareholders want to play the gold futures market, they can easily trade gold contracts themselves. The same argument applies to PrimeAg. Recognising PrimeAg's low production costs through its strong land and water position, shareholders are there as investors to reap super profits on those few occasions when commodity prices spike as they are doing today. One or two years of earning 40 to 50 cents per share and taking home a 20 cent per share dividend will more than make up for the odd year when the company breaks even, while the memory of those bumper years will serve to hold share prices high, so long as investors are not concerned that management will limit their upside by forward selling too much of the crop.

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PAG's 2010/11 Outlook

2011 PrimeAg	Ha (est)	Yield * (est)	Prod *	Price (est) \$	Revenue \$m.
Cattle	6,147				7.8
Wheat - dry	6,700	2.0	13,400	260	3.5
Wheat - Irr	-	4.0	-	260	0.0
Chick Pea Dry	2,100	0.8	1,680	400	0.7
Chick Pea Irr	-	1.6	-	400	0.0
Sorghum dry	739	3.3	2,439	150	0.4
Mungbeans	237	1.0	237	900	0.2
cotton dry	5,960	3.4	20,264	590	12.0
cotton Irr	7,943	9.1	72,281	590	42.6
	23,679				67.1
* Tonne or bale per Ha					
Cattle	K	\$m			
Feedlot	5.25	5.0			
Backgrounding	4.80	2.8			
		7.8			

Source: Strachan Corporate Pty Ltd

and management needs to take a good hard look at its strategy, talk to its shareholders and reconfigure its business plan. If necessary, the company needs a new Board which is prepared to meet its original mandate to shareholders.

If PrimeAg had debt to service, a stay in business strategy might involve some degree of forward selling to ensure that the bank is happy, but that is not PAG's situation. Even in a poor season, PrimeAg's irrigation capabilities should ensure that it is able to breakeven in all but the most cruel commodity price environments, so why not give investors what they were originally wanting when they came to PrimeAg and that is exposure to rural land and commodities, not exposure to financial engineering?

StockAnalysis is comfortable with PAG's earnings projections of around \$25 million pre-tax for FY 2012, which should translate into earnings of about 15 cps and allow a dividend of 6 cps.

When PrimeAg was formed, much was made of the exposure it would offer to rising agricultural property prices and a growing demand for food and fibre, which should surely lift long term returns to shareholders. Well, those good thoughts have come to pass, but what we have seen is that the old ways of limiting profits by selling forward, are still prevalent. Management will argue that the 2011/12 crop will be well sold at high prices, winning back some of the opportunity cost losses from 2010, but who is to say that prices for soft commodities will not rise further in 2011. Additionally, what risks will shareholders face if the crop fails and commitments have to be met by purchasing from the market to meet forward contracts?

I'd like to see PrimeAg set in stone a limited hedge strategy for a maximum of 20% of expected crop. The company has no need to hedge its bets. It has no net debt and does not have to please any bank by securing revenue streams. Its sole task is to offer the best returns it can for shareholders. Leaving \$28 million of operating cash flow on the commodity trader's desk is not achieving this goal

PAG Estimated Profit YE 30 June	2009(a) 2010(a) 2011(e) 2012(e)			
	\$m.			
Operating Income	33.9	33.2	67.1	74.6
Other Income	1.8	0.8	0.9	0.6
Total Revenue	35.7	34.0	68.0	75.2
COS	(28.4)	(27.9)	(37.7)	(38.8)
Wages	(4.4)	(4.5)	(4.8)	(4.9)
Admin & other	(1.8)	(3.2)	(3.0)	(2.0)
EBITDA	1.2	(1.7)	22.6	29.5
D&A	(1.5)	(1.9)	(2.9)	(3.0)
EBIT	(0.3)	(3.5)	19.7	26.5
Interest	(0.2)	(1.1)	(0.6)	(0.6)
profit before tax	(0.5)	(4.6)	19.1	25.9
Impairment expense	(5.8)	(3.6)	(3.0)	
Tax	1.9	2.5	(1.2)	(2.6)
Net Profit	(4.4)	(5.7)	14.9	23.3
EPS cts		(3.8)	9.9	15.5
DPS cts			3.0	6.0

Source: Strachan Corporate Pty Ltd

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Antares AZZ NEARING PURCHASE DAY

Recommendation: *Antares is a speculative buy with little downside risk at around 35-38 cents, backed by assets worth over 50 cps.*

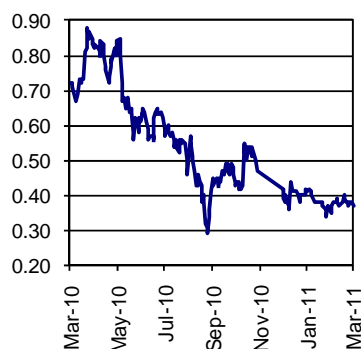
Antares Energy (AZZ) continues to work towards acquiring new production and development assets in the USA. Management aims to thrust Antares into the top 10 category of ASX listed oil & gas companies by acquiring at least 20 mmBOE of 2P petroleum resources with revenue potential of at least \$65m pa and ongoing exploration and development appeal. This sort of an asset would have the ability to value Antares at upward of 70 cents per share on its current equity base of 283 million shares, with current net cash of ~\$119 million. After a vigorous share buy-back phase, AZZ trades with a net cash asset backing of 41 cents per share, while retaining oil and gas production assets along the Texan Gulf Coast region with added value, estimated at a further 4 cents per share. Antares holds a back-in after payout on a well by well basis over 8,938 acres in the Hawkville Field area, which could end up being worth well over \$25 million or 9 cps under the right sale conditions. StockAnalysis is comfortable with a current target value for Antares of 51 cents per share, but subscribers will most likely want to wait to see just what assets the company is able to purchase, for what price and what the quality of new assets will be. Under its self imposed timetable, Antares aims to complete an acquisition during the March quarter, so subscribers and other investors in AZZ will not have long to wait!

AZZ - Capital Structure	
Shares	283.0 m.
Convertible notes	7.5 m.
Performance rights	10.8 m.
Total	301.3 m.
Cash (est) \$m.	134
Price	\$ 0.38
Market Cap \$m.	\$ 108 m.

AZZ - Asset	Value \$m	\$ per Share
USA production	12	0.04
Term Assignment	25	0.09
Cash (est)	134	0.46
Convertible note	(15)	(0.05)
Other	(5)	(0.02)
	151	0.51
Exploration Value	17	0.06
Total Value	168	0.57

Source: Strachan Corporate

AZZ Price History



Cue Energy CUE

Recommendation: *Despite the drawback of having a major shareholder which treats Cue like a private investment, Cue remains a buy for its exploration appeal, supported by ongoing operating cash flow.*

CUE - Capital Structure	
Shares	693.3 m.
Options	5.8 m.
Price	0.330 cts
Market Cap	229 m.
Net Cash (est)	\$ 45 m.

Cue runs a lean operation, with administration costs of less than \$1.4 million pa, comparing favourably with many of its peers, who would chew through that amount in a quarter.

Despite a market setback when it participated in the drilling of a duster at Artemis, the company has performed well on the back of the judicious sale of some assets, a solid production performance from the Maari oilfield in the Taranaki Basin and its Oyong oil & gas assets in Indonesia, as well as exciting farm-outs with Woodside and Apache in the Carnarvon Basin. Unfortunately, the company is still managed much like a private company, with New Zealand's Todd Corporation calling all the shots and paying little attention to its status as an ASX listed company with a Board, which should be more responsive to the needs of all shareholders and not just Todd and Singapore Petroleum, who together own 43% of Cue's shares.

Cue has farmed out its WA-389-P lease to Woodside, which is earning a 65% interest by acquiring some 3D seismic, starting in March and undertaking an exploration well, probably in 2012.

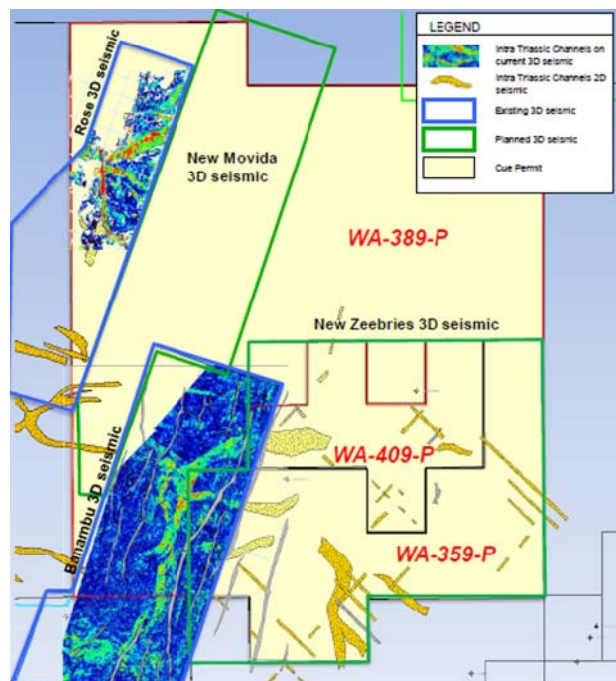
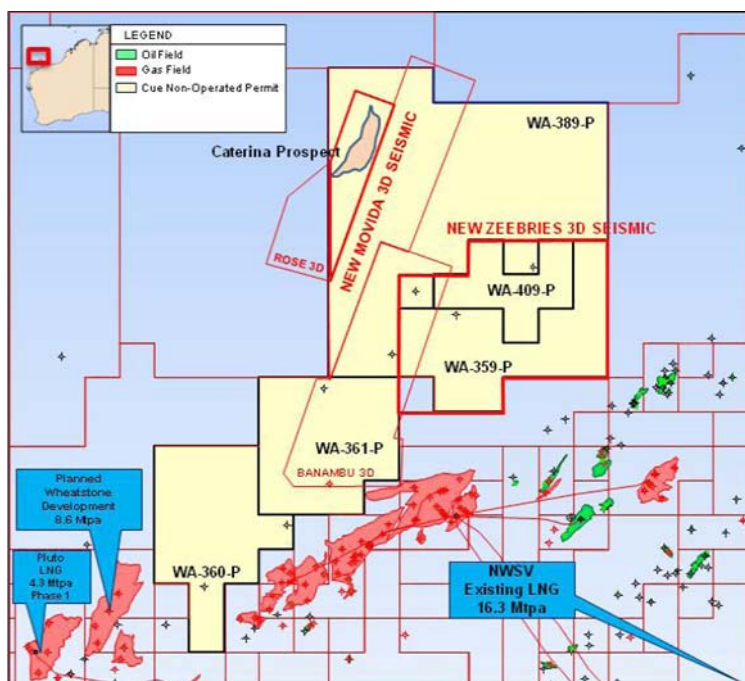
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So far, seismic data shows strong anomalous with clear analogy to fields at Goodwin, Julimar and the work done by Hess further west, where bright spots which might indicate the presence of gas, coincide with mapped faults and channel sands, indicating potential compartments of gas bounded by tilted fault blocks. Woodside is gearing up to acquire the new Movida seismic, which it can integrate with existing data and plans to drill in WA-389-P in early 2012. The partners have recognised Top Mungaroo formation prospects with potential to yield over 4 Tcf of gas and more seismic information could add to this tally.

Contemporaneously, Apache is acquiring new seismic data over WA-409-P and WA-359-P, where it must drill a well in each permit to earn a 70% interest. Clearly the existing Banambu seismic data indicates leads and prospects in WA-389-P, overlapping into Apache's ground and extending south into WA-361-P, which Cue continues to hold 100%!

Any success by Apache or Woodside would immediately increase the value of Cue's remaining, 100% held lease area. Given Woodside's involvement, any gas found in the region could find its way into Woodside's new Pluto project or ultimately into the NWS LNG project post 2022, where Woodside is the operator. In addition, Apache has already inked a deal to combine some of its gas from Julimar with Chevron's Wheatstone development, so gas from its JV with Cue could also go that way.

Cue's Carnarvon Basin Permits



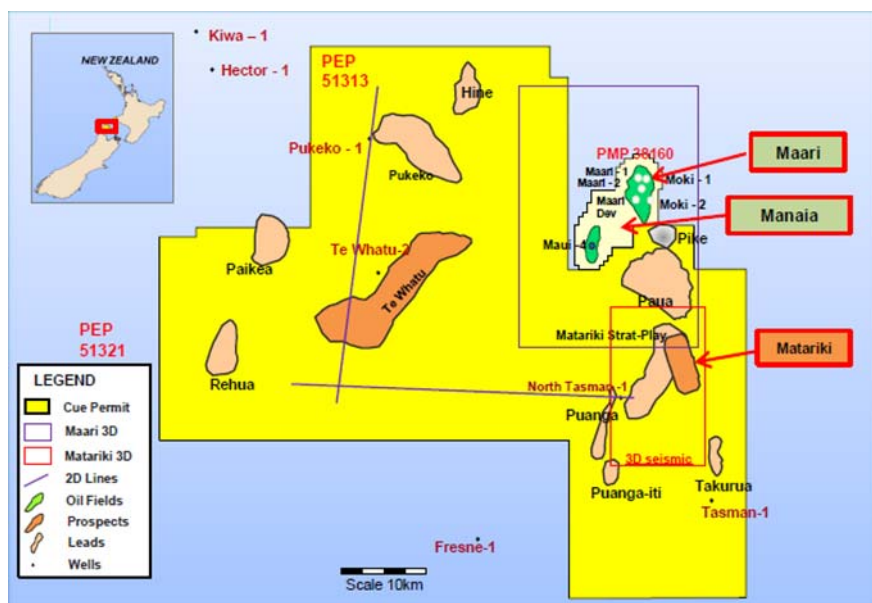
Source: CUE

Clearly, Cue's Carnarvon Basin strategy is well set. StockAnalysis sees speculative upside value to over \$1 per share for Cue shareholders from this asset cluster, while any discovery is likely to be met with corporate action by the main players to secure long term gas supply.

Well	Equity	Target		POS Risk %	Discovery Value \$/share	CUE cost to drill \$m	Risked NPV \$m
		Pj	mmbbl				
Maari Upside	5%	0	18	30%	0.05	2.4	7
Barikewa-3	14.9%	700	2	20%	0.13	2.2	17
Matariki PEP-51313 +	20%	40	115	11%	0.59	9.0	37
Te Kiri PEP-51149	20%	168	6	11%	0.07	2.4	3
Pare (Sampang PSC)	15%	80	0	25%	0.02	2.7	0
Caterina 389-P	35%	2800	28	17%	0.59	0.5	68
							132
+ possibly twice as large							

Source: Strachan Corporate Pty Ltd

Cue's Taranaki Basin Permits



Source: CUE

At Maari, Cue and its partners are considering further field development, along with exploration drilling, while to the south, additional seismic data has been acquired and processed over the Matariki prospect, leading to interpretation work during the coming quarter. Cue's involvement in the Taranaki, with a 20% interest, has a potential, speculative upside value of over 50 cps in the case of discovery. Development in PEP-51313 could utilise existing infrastructure at Maari, reducing costs and speeding up development schedules.

Cue has a 2C Resource base of about 4.1 mmbbls of oil plus 160 Bcf of gas and it trades with an enterprise value of \$10.40 per barrel of oil on a value equivalent basis, indicating that on the basis of its petroleum assets alone, the stock looks cheap. Add to that value, an estimated net \$45 million or 6 cps of cash and StockAnalysis estimates an underlying value of 25 cps for hard assets, while risked exploration adds 22 cps, taking the total risked target value to 47 cps.

Cue's Valuation Matrix

Asset	Size	Value	\$ per
	Bove	\$m	Share
Maari mmBO	2.7	\$ 95	0.14
Oyong mmBOE	1.3	\$ 11	0.02
Wortel mmBOE	1.2	\$ 13	0.02
SE Gobi mmBO	0.33	\$ 6.4	0.01
Barikewa	10	\$ 13	0.02
Net Cash *		\$ 45	0.06
Options		\$ 1.2	0.00
Other		-\$ 8	-0.01
			0.25
Risked Portfolio Value		152	0.22
Total Risked Target Value			0.47
* post sale of Cash/Maple			

Source: Strachan Corporate Pty Ltd.

Pirates

Global shipping routes are coming under increasing threat from lawless seas, further raising the cost of trade and transport. Pirate activity is rampant across the northern Indian Ocean, in many parts of Asia and more recently, off the coast of South America. The cost of defence, ransom and surveillance is adding up, as failed States provide sanctuary for this highly profitable activity.

Piracy is becoming a major issue for the United Nations and ultimately will require additional resources from trading nations to secure the lines of commerce. All this activity adds additional risk to global commerce, at a time when other risks and the cost of fuel are making businesses nervous and cutting profit margins.

Contact

Peter Strachan:
Pex Publications:

Peter@stockanalysis.com.au

oilinfo@pex.com.au

5/1 Almondbury Rd Mt Lawley, WA 6050

Tel: 08 9272 6555 Fax: 08 9272 5556

Website: www.stockanalysis.com.au

www.pex.com.au

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