

This Week

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Bi-monthly Lucky Draw!

If you renew your subscription (or, as an ex-subscriber, you re-subscribe to StockAnalysis), you stand in line to win a case of premium wine by the award-winning Swings & Roundabouts Wine Estate in Margaret River.

For May 2011, we would like to congratulate our lucky winner Sebastian B of WA. A case of mixed wines is on the way ... enjoy!

Indices & Prices

All Ordinaries	4,854.70
Energy Index	16,313.60
Brent AU\$/bbl	112.41
AUS\$/US\$	1.0858

As at Close May 3rd, 2011

In this Issue

Market Moves:

All Ords looks saggy
USD is destabilising
Fiscal environment for miners globally tightening
Minemakers looks cheap

Quarterly Snippets:

TAP, Texon, Linc, Minemakers, ADX, Sipa, AWE, Global Health, PrimeAg

Copper Companies:

Exco vs Havilah

Property:

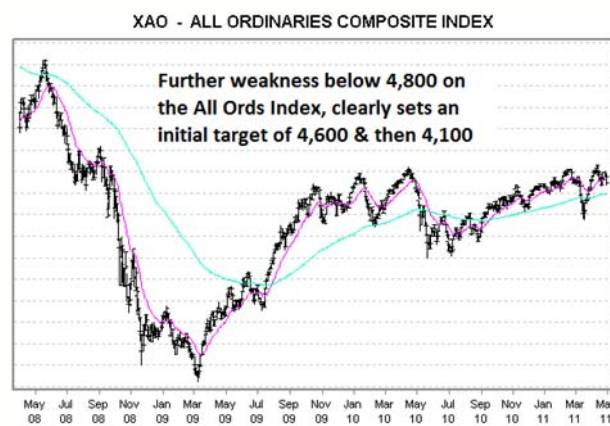
Looking very weak

Antares:

Bulks up on Permian oil - cheap with value target of \$1.32 per share

Market Moves

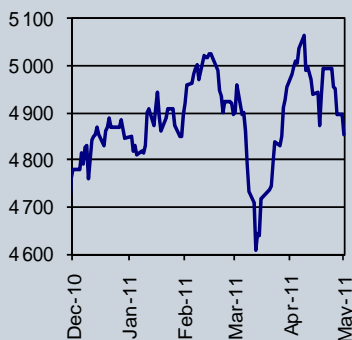
The **All Ords Index** is clearly having difficulty rising above 5,000 points with any conviction. At the beginning of 2011 StockAnalysis felt that the local market did not appear to offer compelling value but felt that there was enough momentum from strong commodity prices and the China effect, to keep share prices rising until at least May. After a volatile 3 months, which saw a rapid 10% correction in late February into mid March, recouped just as quickly as it had fallen, the market is looking for a sign to set its next direction. A **bin Laden** inspired market rally is unlikely to follow his demise, but probable outburst of attacks in retribution as the Spring 'fighting season' gets underway in Afghanistan, could also cut any 'feel good' rally short.



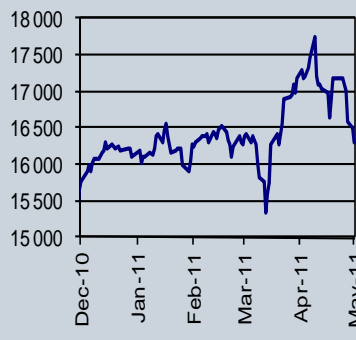
A weakening US dollar is now becoming seriously destabilising to the global economy. Clearly the US benefits from the currency fall as its economy becomes more competitive, driving up exports while holding back imports. But economies like China, which rely on exports to the USA, are beginning to feel the pinch while holders of US dollar denominated bonds, including the Chinese, are watching helplessly as the value of their savings collapse.

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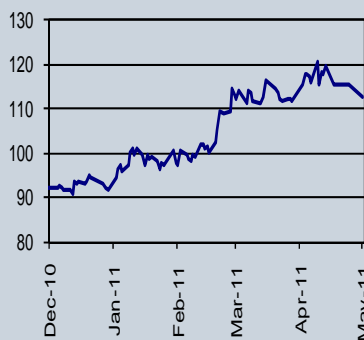
All Ordinaries



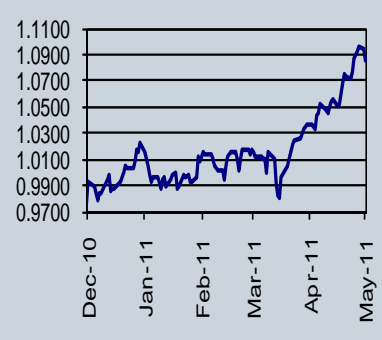
S&P ASX 200 Energy Index



Brent Crude Oil \$A/barrel



A\$/US\$



The market will either have one final upward thrust through until September '11, or it will succumb to threats of a pullback of China's manic construction activity and the impact of rising interest rates in China, Australia and ultimately in Europe and the USA into 2012. **StockAnalysis has no firm view either way, but has suggested for most of 2011 that subscribers continue to take profits and keep debt levels low.**

Around the world, **cash strapped governments** are looking at the profit margins of **mining companies** with increasingly green eyes. Taxes on oil profits from the UK's North Sea have again taken a hike to make sure that members of parliament can continue to clean their fish ponds and cut the grass at their holiday villas on the public purse. In Namibia, the government is reportedly moving to set up a national mining company, which would take a stake in any new projects. StockAnalysis reckons that experience shows us that governments should stick to taxing and regulating industry, leaving the risky activity of exploring and mining to the private sector.

ASX listed companies with operations in Namibia, such as **Paladin**, **Extract** and **Minemakers** (MAK) have fallen on this news, which StockAnalysis thinks represents a buying opportunity, especially for Minemakers, whose main phosphate project is located in Australia's Northern Territory.

I hope by now that all subscribers have read **Jeremy Grantham's** April letter to investors. I think that the impact of his deductions will be widespread. While the naysayers have already hit the airwaves, most are completely missing his point. Grantham has after all spent his whole career supporting the development of capital markets and the growth of consumption. Rather than being critical of his change of stance based on empirical evidence, I think he deserves to be praised for having the courage to change his view.

Failed States Index

RANK	TOTAL	COUNTRY
1	114.3	Somalia
2	113.3	Chad
3	111.8	Sudan
4	110.2	Zimbabwe
5	109.9	D. R. Congo
6	109.3	Afghanistan
7	107.3	Iraq
8	106.4	Central African Republic
9	105	Guinea
10	102.5	Pakistan
11	101.6	Haiti
12	101.2	Cote d'Ivoire
13	100.7	Kenya
14	100.2	Nigeria
15	100	Yemen
16	99.4	Burma
17	98.8	Ethiopia
18	98.2	East Timor
19	97.8	North Korea
20	97.8	Niger

Source: www.foreignpolicy.com

Some commentators have completely missed Grantham's point about the impossibility of continual growth in population and consumption. One journalist gleefully exclaimed that Grantham's letter proves there is a bright future for Australia as a quarry for the rest of the world, but refuses to see the consequences of continuing the current unsustainable growth system, beyond the current boom. Tomas Malthus was absolutely correct to point out that rampant population growth would be unsustainable, but the intervention of fossil fuels effectively delayed his predictions by about 150 years.

As Grantham points out, the inventiveness and intellectual strength of human kind did not prevent the collapse of a multitude of previous civilisations, which flourished at different times and in different parts of the planet throughout history. Each of those civilisations dissipated, mostly after they had overstepped their use of natural resources.

A growing list of failed states as ranked by Foreign Policy Magazine should now also include at the top of the list, places like Cameroon, Sierra Leone, Eritrea and Bangladesh, places where Australian companies are increasingly taking shareholder's funds to look for ever more scarce raw materials. StockAnalysis does not see this situation improving. Under pressure from scarce food supplies and competition for raw materials, more failed states are likely to arise, with Saudi Arabia likely to join the list this decade.

Quarterly Report Snippets

Overall, StockAnalysis is bemused at the market's focus on the quarterly revenue of small to mid-sized oil producers, since the value of companies like Cue Energy, Horizon Oil, Otto Energy and others of that ilk is almost entirely in their development or exploration portfolios. In the same way, monthly production from Oil Search is almost irrelevant to the company's value, since its production will escalate dramatically once the PNG LNG project is in full operation, leaving it free to expand on known gas reserves.

Tap Oil ended the quarter with about \$7 million of oil in inventory. Drilling at Finucane South-1 is targeting a modest 8 to 23 million barrels of oil, which combined with existing small oil fields at Fletcher where 5-10 mmbbls is estimated, could provide a minimum 15 million barrels to underpin development. The Fletcher field lies around 17 km east of Santos' producing Mutineer/Exeter fields in WA-26-L & WA-27-L. Linking a Fletcher-Finucane development into Mutineer/Exeter would extend the life of those production facilities at a modest cost. A 25 mmbbl development at this project by Santos and Apache is estimated to be worth about 15 cps to Tap Oil.

Texon has lifted its 3P reserves to 6.7 mmBOE, but StockAnalysis sees a target for 20 mmbbls from both EFS and Olmos reservoirs at its McMullen County project.

Linc Energy recorded administration costs running at a heady amount of about \$32.5 million pa during the quarter with cash burn at an annual rate of \$112 million, while net cash stood at \$364 million. Since the quarter's end, Linc has purchased new oil and coal exploration assets, but with its high level of cash 'burn' funds, will rapidly decline.

Minemakers has \$14 million of cash plus investments valued at \$26 million, while market capitalisation is ~\$100 million. The company is moving ahead with plans to develop both its Namibian and Wonarah phosphate projects, but these are long term, high value assets which are unlikely to come into production for 3-4 years. Stock looks very cheap.

ADX Energy has about \$1.5 million in cash with another \$1 million in bonded cash plus 25 million or about \$3.5 million worth of RIE shares. Reinterpretation of the Dougga field post 3D seismic evaluation shows that it will hold reserves of 41 mmbbls of liquids plus 191 Bcf of sales gas, while Lambouka is estimated to hold 309 Bcf of gas plus condensate, which might be as high as 24 mmbbls. StockAnalysis believes that the onshore Sidi Dhaher prospect is unlikely to be drilled until late 2011, when it will target several zones with total potential for over 500 Bcf of gas plus about 50 mmbbls of oil.

Sipa Resources (SRI) has \$5.7 million of cash as it moves into drilling programmes at Woodline for gold and at Thaduna for copper/gold. Wide-spaced but low grade gold hits from drilling at its Woodline project is exciting to a geologist but not to investors. The company reported wide zones of anomalous gold mineralisation from holes on a grid with holes spaced 500 metres to 1,500 metres apart. Clearly, this wide spaced work aims to narrow down targets from geochemical sampling. A multimillion ounce orebody could fit between such wide spaced exploration drilling, but the market is impatient and will not be satisfied until it sees evidence of ore grade mineralisation over substantial widths.

AWE now has \$75 million of net cash and 3P reserves of 17.3 mmboe at its Sugarloaf project, where production to its account should lift towards 500 BOE per day by year's end. In the Perth Basin, the 100% held Senecio tight gas project offers a 100 Bcf prospect, which would be worth about 20 cps to the company, while further projects at Arrowsmith and Woodada Deep might require farm-in support to develop at the rate they deserve. The company's East Java project looks like holding 1 Tcf of gas, which could be developed for the prime domestic market, adding significant cash flow and a value of over 65 cps for AWE.

(Continued on page 4)

Previous StockAnalysis Healthcare IT provider favourite, **Global Health** (GLH) looks very sick. The company finished March with just \$83,000 of cash left in the bank, but has since inked a product marketing deal which will bring in \$500,000 upfront and aims to expand GLH's market reach for products already in the market. Cash outflow ran at around \$300,000 last quarter but the June quarter is typically the most active for the company as clients renew annual subscriptions to use up budgets prior to the end of the financial year. With \$500,000 backing and a good June quarter, Global Health has the means to run through until the December quarter, when new equity will be required in an uncertain environment to ensure its uncertain solvency.

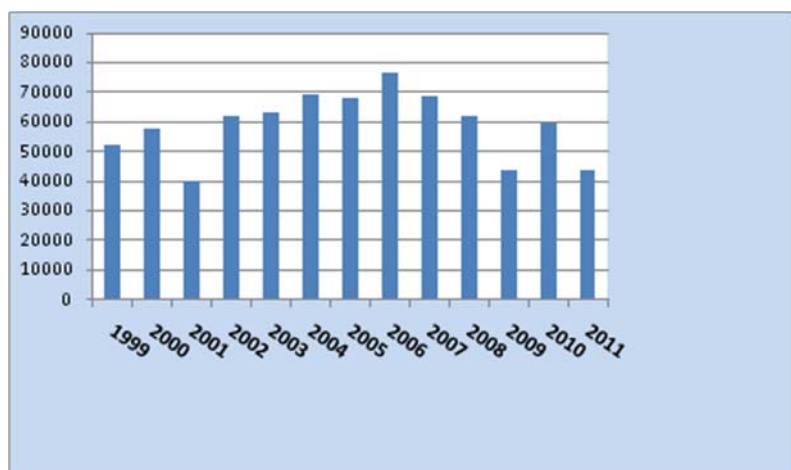
PrimeAg (PAG) recorded negative operating cash flow of about \$12 million for the year to date and coincidentally, for the March quarter. On top of trimming its potential revenues by hedging cotton and wheat sales at low prices, the company has also used up all its cash and now has about \$4 million of net debt. PrimeAg may be cheap when compared to its underlying asset value of around \$1.95 per share, but the company maintains a policy of limiting its profitability while increasing its risk profile, as it sells its cotton and wheat on forward markets. One-off gains can be made by hedging, and it makes sense to hedge at reasonable price levels in order to lock in cash to cover planting costs or cover debt servicing commitments. However, over the long term hedging is most likely to reduce price achieved, while adding risk in the event that crops fail, at which time the company would need to be buying from the market to cover its forward sales. **The strategy for PrimeAg is to watch with the idea of buying at lower levels on reaction to disappointment with profit results for FY 2011, or on a positive change in management strategy within the company.**

Exco's Directors have agreed to a sale of its Cloncurry Copper Project (CCP) for a price (\$175 m) which represents just over 3% of the insitu value (ISV) of the CCP's total JORC Resource. The much less-well defined but larger and deeper Carapateena copper, gold and uranium project was sold at a price which reflected just 0.6% of its then, ISV. Meanwhile, **Havilah Resources** which is down to its last \$4 million of cash, has upgraded its resources at Portia and announced a new drilling programme at Kalkaroo North. Glencore has a right to develop a low grade copper and gold project at the main Kalkaroo deposit. Valuing Havilah's total mineral inventory at just 2% of the current ISV of all polymetallic ores at Muturoo, Portia and Kalkaroo, to allow a discount for the low grades and poor recovery from oxide ore at Kalkaroo, but ignoring its magnetite ore potential, produces a target value of \$1.40 per share, which compares favourably with current share price of about 52 cents.

Property Direction

WA's resources backed housing market, is as good a gauge of the overall health of the economy as we can see. The graph below shows Western Australian property transfers over the first 8 months of each of the past 13 financial years and is a gauge of activity in the sector.

WA Property Transfers
FIRST 8 MONTHS OF FINANCIAL YEARS 1999 TO 2011



Source: www.landgate.wa.gov.au

Bursting the dotcom market bubble in 2001 saw strong market conditions during 2000 fall away into 2001 as enthusiasm for property waned. There followed a sustained, resources fuelled boom in property through until 2006. The GFC saw activity fall away into 2009 but following recovery in 2010, fuelled by stimulus from the first home seller grant (AKA the first home buyers grant), the property market in 2011 looks as sick as it has at any time over the past 13 years.

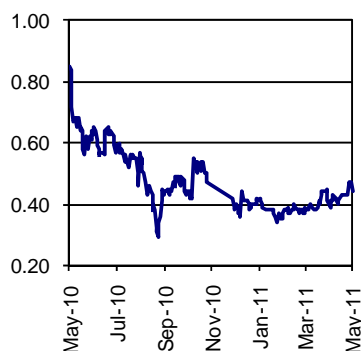
There is currently an unusual level of housing stock on the market and sellers are not adjusting prices sufficiently to attract buyers in an environment of rising interest rates and uncertain price outlook. Gone are the days when property and the share market moved in separate cycles. Today, the share market sets the scene and fuels the property market and is no longer the traditional alternative to the share market.

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Paradoxically, despite booming population growth, low unemployment, rising rents and low vacancy rates, property values are falling as turnover plummets to decade lows. In StockAnalysis' judgment, the threat of further interest rates rises during H2 '11 is likely to see house sellers capitulate as their holding or opportunity costs rise, leading to a burst of sales activity as prices fall, which will please the agents and clear the market through 2012.

Antares Quarterly AZZ

AZZ Price History



Recommendation: For an estimated \$77 million, Antares has purchased Permian Basin leases which when fully developed, could have an NPV of over \$500 million or \$1.75 per share. The company's net cash and hydrocarbon assets, valued largely at cost, underpin a value of 38 cent per share, with risked development upside lifting target value to \$1.32 per share.

AZZ - Capital Structure

Shares (est)	275.0	m.
Convertible notes	7.5	m.
Performance rights	10.8	m.
Total	293.3	m.
Net Cash (est) \$m.	13	
Price	\$ 0.450	
Market Cap \$m.	\$ 124	m.
EV \$m.	\$ 111	

Antares continues to acquire leases in the Permian Basin of Texas, with a focus on the Wolfberry oil Play.

The Wolfberry Play is one of the most active resource plays in North America. It is characterised by a continuous hydrocarbon column which is regional in extent. Production wells in the Play exhibit a repeatable statistical distribution of estimated ultimate recoveries (EURs). It contains a gross thickness of up to 1,200 metres of detrital deposits consisting of turbidite flows, debris flows and submarine fluvial channels, all inter-bedded with brittle, organic rich deep water shales saturated with hydrocarbons. Because of the thick gross oil section encountered, it can be commercially developed using vertical wellbores. This keeps completed well costs down when compared to other plays.

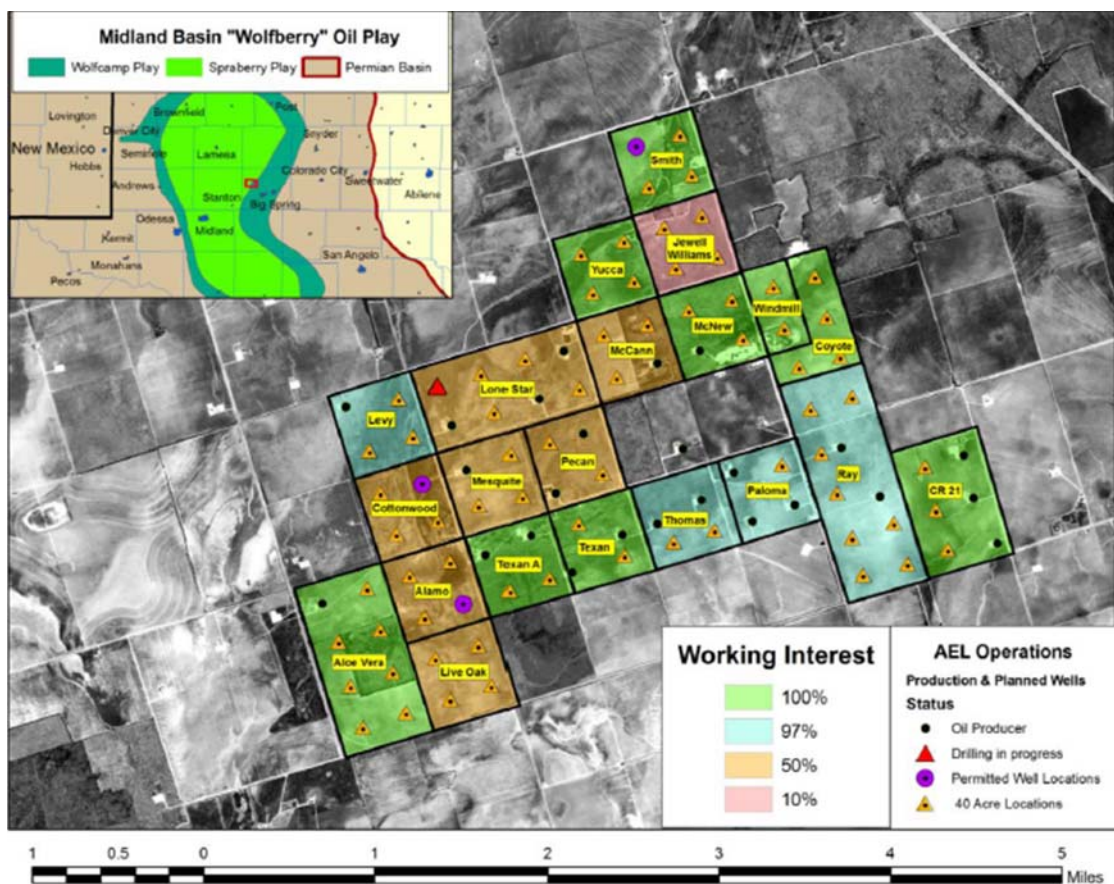
AZZ - Current Permit Holdings, Outside of Oyster Creek

Permian Permits	Acres (est)	WI %	Net Acres	Value K\$/acre	Total Value A\$m.	NRI A\$m.
Northern Star	10,712	100%	8,034	1.2	13	10
Big Star	8,000	75%	4,500	1.2	6	4
Southern Star	5,426	75.3%	3,109	19.9	82	62
EFS Permits	Acres	WI %	Net Acres	Value K\$/acre	Total Value A\$m.	NRI A\$m.
Petrohawk	8,558	T/A		8	16	16

At the **Northern Star** project, Antares has so far acquired a net 8,034 acres of mineral rights. These permits hold potential to yield over 20 mmbbls of oil when developed on 40 acre drill centres. The company's Northern Star leases contain a recently drilled well called Newbrough-1, which will be stimulated and put on production during May. While Antares did not design or drill this well, it is reported to have intersected favourable petroleum saturated horizons. Early well performance will give some indication of the potential of the company's permits in this location. Regionally, recovery of between 100,000 and 150,000 barrels of oil per well has been achieved from this play, with typical well costs within the Wolfberry Play coming in at US\$1.5 - US\$2.5 million. This cost compares quite favourably with current costs on the Eagle Ford shale and the Bakken shale where horizontal well costs run at between US\$6 - US\$8 million and US\$8 - US\$10 million respectively. Antares has a rig on site at Northern Star and has over 3 years to drill 16 wells in order to hold all leases by production, so with one rig on continuous duty, this should only take about 18 months of work.

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AZZ's Southern Star Project Area



Lease map showing the relative location of leases & wells with the working interest acquired

At the **Southern Star** project, Antares has paid US\$62 million to purchase net 2P reserves totalling 22 million barrels of oil and natural gas liquids (NGLs) along with 30.5 Bcf of gas. Even if the gas is said to have no value (and it obviously does have value), Antares has bought this partially developed 2P oil for \$2.81 per barrel in the ground, when StockAnalysis estimates that it has an NPV of \$9 per barrel at the current oil price. The field, in which AZZ has a net revenue interest of 57.3%, is currently producing at a rate of about 640 bbls per day of oil and NGLs, as well as 880 Mcf per day of gas. At its current rate of production, Southern Star should generate about \$8 million pa of operating cash flow, adding to estimated cash flow of about \$2 million pa from the company's Harrison wells at its Oyster Creek project.

South Star Net Reserve Estimates

RESERVE SUMMARY

Reserve Category	Net Oil (Mbbbls)	Net Gas (MMcf)	Net NGL (Mbbbls)	BOE (Mbbbls)
Proved Developed Producing	888	1,720	476	1,651
Proved Developed Non-Producing	36	49	15	59
Proved Undeveloped	5,468	12,325	3,429	10,951
Total Proved (1P)	6,392	14,094	3,920	12,661
Probable	7,103	16,418	4,546	14,385
Proved + Probable (2P)	13,495	30,512	8,466	27,046

Source: Antares

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In a third Permian Basin acquisition, Antares has purchased a net 4,500 acres of mineral rights at its **Big Star** project within a 75% held area of mutual interest agreement with a local company. Leasing activity at Big Star is ongoing and the company expects to lift its ultimate net acreage to 7,500 acres.

Big Star hosts the Lonestar No. 1 well, which is currently drilling and has a projected drilling cost of US\$1.8 million. The rig is contracted for an additional two wells, but Antares plans to extend that contract and employ an additional rig, with the aim of drilling over 75 wells to develop the project on 40 acre drilling centres.

Peer Group Comparison

	EV \$m.	2P	3P
Beach Energy	822	33.2	129
AWE	744	30.5	72.6
Roc Oil	270	26.2	43.5
Maverick	79	25.0	32.5
Antares	106	24.0	42
Jupiter	91	24.0	54.0
Carnarvon	144	20.0	57.0
Horizon Oil	407	17.9	46.0
Aurora	1032	15	61
Sundance	172	14.3	19
Tap Oil	158	11.5	22.8
AED Oil Ltd	48	11.2	21.2
Amadeus	60	10.9	15.1
Senex	230	9.5	34.9

Pilot work is currently underway within the field to test whether drilling on 20 acre centres will prove to be commercial. The field is estimated to hold over 25 million barrels of initial oil-in-place per 640 acre drilling section. Drilling on 40 acre centres, with each well recovering 0.13 mmbbls will recover just 8.3% of estimated initial oil-in-place, so there would appear to be scope to improve recovery from the field by employing closer spaced drilling.

Largely as a result of recent purchases, Antares now has about 24 mmbbls of oil equivalent in its 2P category and StockAnalysis estimates a contingent target resource of about 42 mmbbls. Looking at ASX mid-cap oil and gas stocks, Antares' holdings are similar to that of Roc Oil, which itself looks cheap with an EV of \$270 million, but is more than twice the value of Antares. Likewise Carnarvon has similar reserves to Antares, but its EV is almost 60% more than that of Antares. Tap Oil, with half the estimated 2P and 3P reserves of Antares has an EV which is 50% more than Antares while Horizon, which has strong operating cash flow and several development projects with total target contingent reserves at a similar level to Antares, has an EV of nearly four times that of Antares. Clearly, from this analysis, Antares, along with Maverick and Jupiter, all look cheap by comparison with peer stocks, while Aurora looks fully priced.

Source: Strachan Corp. Pty Ltd. (note: resource numbers are barrels at value equivalence)

AZZ - Asset	Value \$m	\$ per Share	Comment
Gulf production	12	0.04	
Permian Assets	77	0.27	
Term Assignment	16	0.05	25% of \$8K/acre
Cash (est)	48	0.17	Estimate
Possible Tax Liab	(20)	(0.07)	
Convertible note	(15)	(0.05)	
Other	(8)	(0.03)	Corporate
	110	0.38	
Exploration Value	197	0.94	Risk adj
Total Value	307	1.32	

Source: Strachan Corporate

Antares is about to flow to production from the lower zone of three productive zones at a recent development well on the Oyster Creek project, where it has a 67.5% WI. Production should kick off at around 350 BOEPD, adding about \$300K per month to operating cash flow.

After payment for its Permian Basin lease purchases, drilling and completion costs at the Harrison well and ongoing share buyback activity, Antares is estimated to hold about \$48 million of cash but has a likely tax liability of about \$20 million relating to the sale of its McMullen County assets. Permian assets are valued at close to their purchase price with risked development upside shown as Exploration Value. The company's estimated net \$28 million of cash after tax payments but before repayment of \$15 million of convertible note debt, provides the company with adequate capital backing to run a substantial development drilling programme on its Permian Basin leases, building production and cash flow from an estimated current level of around \$10 million pa to a level which should support ongoing field development.

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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