

This Week

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| Indices & Prices | |
|-----------------------|-----------|
| All Ordinaries | 6,393.40 |
| Energy Index | 14,678.60 |
| Brent US\$/bbl | 69.10 |
| AUS\$/US\$ | 0.8460 |
| As at Close June 19th | |



Market Moves

Pancontinental Oil & Gas Tops Up the Kitty (PCL)

Capital Structure

| | |
|--------------|----------|
| No of shares | 444.8 m. |
| Options | 33.0 m. |

| Asset | Value \$m | \$ per Share | Comment |
|-------------|-----------|--------------|-----------------------|
| Cash | \$ 4.0 | 0.01 | |
| Exploration | \$ 99 | 0.21 | \$36m on farmin terms |
| Other | -\$ 7 | -0.02 | Corporate |
| | | <u>0.20</u> | |

Perennial exploration company, Pancon is using the break between Arc Energy's drilling in the Perth basin and when it moves its rig into the Canning to top up its cash reserves with a 1:6 issue. StockAnalysis believes that buying during the current the current rights issue will represent a sound policy for this speculative stock.

Working Systems Kicks Goals (WSS)

Since last mentioned, WSS has bounced from below 9 cents to trade up to 13.5 cents. The company has released a string of news concerning new contracts and projects entered into, without going into too much detail (none at all!) about the revenue impact of these initiatives. To be fair, any talk of revenue or profit impacts would not be in the best interests of shareholders as it would only give ammunition to the company's competitors.

Working Systems has boosted the number of Patient Administration System upgrades that it is installing in hospitals to about 63, making 30 sales in the past 6 months. The company appears to be moving back into a positive cash flow position, but the real impact of its recent activity will not be seen until the first half of FY, 2008. The stock has risen to be a hold, but should be bought if it weakens back towards 10 cents in July.

Sundance Energy Calls For the Doctor (SEA)

Struggling US based shale and conventional gas field developer, Sundance Energy has found a better way of creating shareholder wealth than digging for gas. The company has called in Macquarie Bank to advise it on ways of spruiking up its assets. This policy appears to have worked, with the stock lifting from 30 cents, 9 days before the appointment to 37 cents when the doctor was called in and then up to a high of 54 cents more recently. Clearly the punters are betting that Sundance will prostrate itself for sale in the manner of other failed companies such as Tomahawk, or seek to sell off its extensive project spread just as Orchard did so successfully. StockAnalysis has no interest, too hard!

Elixir/Gawler Not Standing Still (EXR/GRL)

Corporate Structure - EXR + GRL

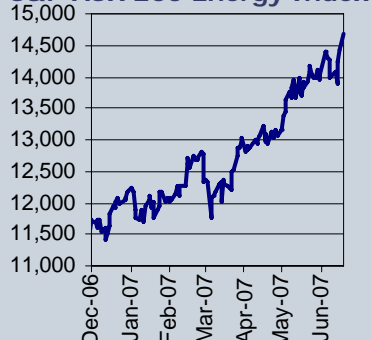
| | |
|----------------------------|--------------|
| No of shares | 146.0 |
| Converting Shares | 7.2 |
| Options | 15.2 |
| | <u>168.4</u> |
| Share price | \$ 0.25 |
| Market Capitalisation \$m. | 36.5 |

Note: all but 2 million options are well out of the money.

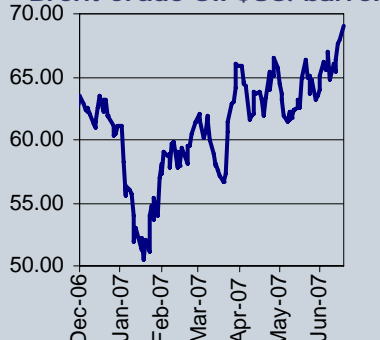
Gawler has delivered on a promise to find additional production opportunities for a merged Elixir/Gawler corporate structure. Meanwhile the Scheme of Arrangement merger process between the two companies grinds on in the courts, with a likely completion date early in August, just as the group's High Island gas project begins production from its first two production wells.

(Continued on page 2)

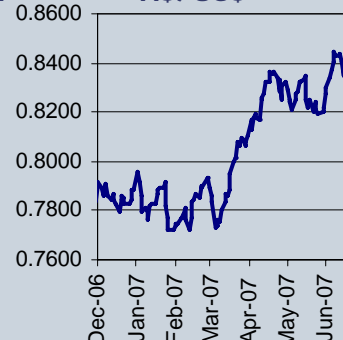
S&P ASX 200 Energy Index

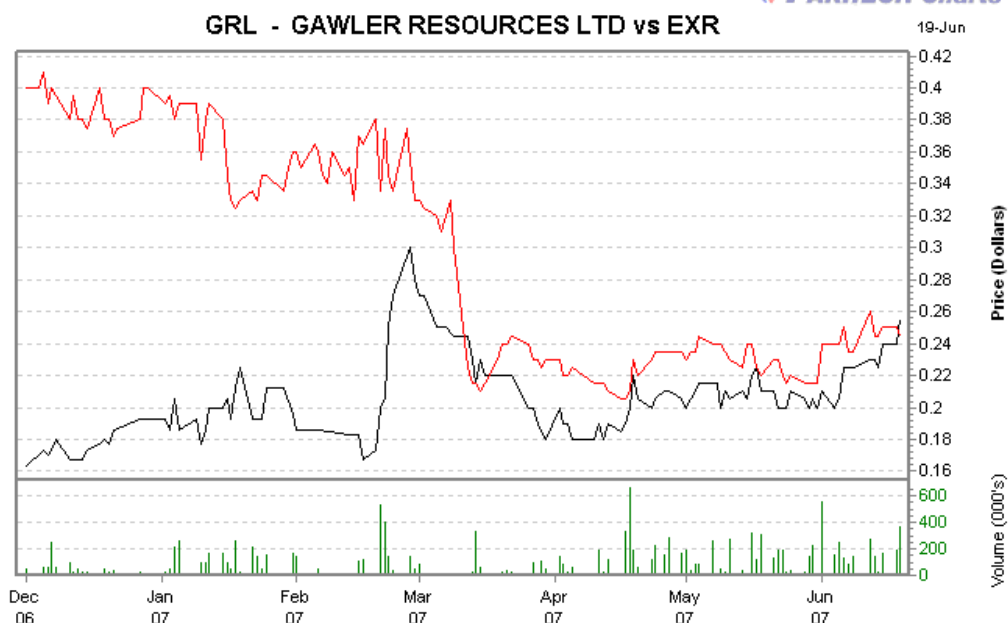


Brent Crude Oil \$US/barrel



A\$/US\$





Note:

— = GRL — = EXR

The company has an initial 30% interest in the 55 Bcfe High Island project, reducing to 24.6% once payback has been achieved.

| | \$m | \$/share |
|-------------------|------------|-------------|
| Cash | 4 | 0.02 |
| HI A268 | 38 | 0.25 |
| Pompano 25%-19.5% | 13 | 0.09 |
| Uranium Permits | 5 | 0.03 |
| Option Exercise | 0 | 0.00 |
| Corporate | (6) | (0.04) |
| Sub Total | 54 | 0.35 |
| Pomano (risky) | 3 | 0.02 |
| Leopard (risky) | 78 | 0.46 |
| Total | 135 | 0.83 |

The new project is a redevelopment of the Pompano gas field, where recent 3D seismic data has shown 24 Bcf of proven undeveloped gas reserves along with 40 Bcf of probable reserves and exploration prospects which could yield up to a further 100 Bcf of gas. StockAnalysis has valued the Pompano project purely on the basis of its 24 Bcf of PUD reserves, but addition of a further 140 Bcf would increase my valuation for the merged Elixir by over 32 cps, which is more than the current market price.

The Pompano project has existing platforms and other production infrastructure in place in water depths of just 20 metres. The development and exploration plan is to drill one production well targeting the PUD gas reserves outlined by 3D seismic. These targets are estimated to come on line at between 3-8 mmcuft per day. A second well will follow to test for possible gas with some exploration component while a third and final well in this series will target over-pressured exploration prospects at depths of around 2,500 metres, where production of 10 to 20 mmcuft per day might be achieved. Estimated cash flow of around A\$1 million per month from the High Island project from September this year will go a long way towards funding Elixir's \$2.6 million commitment for drilling and completion of the first of three wells at Pompano, where a total budget of about A\$9 million will need to be met.

Source: Strachan Corp. Pty Ltd.

Once production is established at High Island, the company will be in a good position to seek project funding for ongoing field development work at both GOM projects.

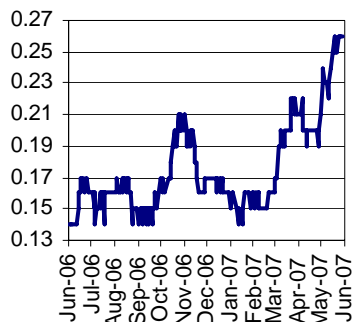
Recommendation

Since I last recommended buying Gawler Resources as a means of gaining cheap Elixir stock, (accepting the 1 for 1 offer from EXR) the prices have reversed, with GRL now trading at a premium to EXR, which may be suffering from some tax loss selling pressure.

Elixir and Gawler remain firm buy recommendations, with an underlying valuation now estimated at 35 cents per share. Limited, risky exploration upside lifts this target valuation to over 80 cps.

StockAnalysis recommends purchase of both stocks at current levels of around 25 cps.

Pan Pacific Petroleum (PPP)



Since StockAnalysis last recommended PPP at around 15 cents, the shares have moved to trade as high as 28 cents. My risk adjusted target valuation is still around 25 to 26 cents per share but it is worth noting that a discovery of 100 mmbbls at the Hector prospect would be worth about 45 cps to PPP, but my risk adjusted target valuation is based on a more conservative, 60 mmbbls prospect at Hector.

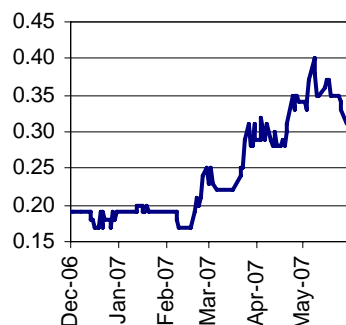
Recommendation

Development work at the company's 10% owned Tui project has gone relatively smoothly and production is due to commence this month. NZOG and PPP have begun to unravel their cross shareholdings, leaving PPP more available as a takeover target. Clearly if exploration work in the Taranaki goes well, Australian Worldwide Exploration could be tempted to move on a newly liberated PPP, consolidating its substantial existing position in the Taranaki Basin. Meanwhile the company is trading in line with its underlying value, but downside would appear to be limited ahead of drilling on Hector, unless there are commissioning problems at Tui.

| Asset | mmBOE | \$m. | cps |
|---------------------------|------------|------------|-------------|
| Tui Project | 2.9 | 77 | 13.1 |
| Other | | 1 | 0.2 |
| Net Cash (est) | | 3 | 0.5 |
| Unissued Equity (options) | | 24 | 4.0 |
| Sub Total | 2.9 | 105 | 17.8 |
| Risked Exploration | | 45 | 7.6 |
| Total Risked Value | | 150 | 25.3 |

Overall, I am happy for subscribers to hold PPP but those who entered at 15 cents might like to sell half and reinvest in Elixir.

Source: Strachan Corp. Pty Ltd.



Otto Energy Clears the Decks (OEL)

Otto has reclaimed equity in its Philippines exploration and development permits from an underperforming JV partner and now holds 99% of its Calauit oilfield development project in SC 50 in the Philippines, 85% at its deep water permit, SC 55 in the Palawan trough and 80% of its offshore Cebu permit SC 51. StockAnalysis sees this is a huge bonus for the company and its shareholders, freeing it to pursue improved terms with stronger partners on the back of innovating long term access to a purpose built, semi-submersible drilling and production rig, along with a newly acquired suite of 2D & 3D seismic data over much of the prospective targets on its permits.

| Capital Structure | m. |
|--------------------|--------------|
| Code | OEL |
| Shares | 172.9 |
| Conditional Shares | 12.0 |
| Performance Shares | 2.5 |
| Other options | 34.4 |
| Total | 221.8 |
| Share Price | 0.300 |
| Market Cap \$m. | 52.6 |

- Otto is poised for growth. The company has secured a rig to test, develop and produce oil from the Calauit oilfield in Q3, 2008. Cash flow from an initial re-entry and horizontal development at Calauit is planned to fund further field development, along with Otto's exploration programme in two other permits. Interpretation of newly acquired seismic data over its Philippine properties will be used to attract funding partners from about October this year.
- The imminent awarding of an exploration permit in Argentina, where Otto will earn an initial 32.5% interest, will result in drill testing of a 100 mmbbl target by mid-2008.
- A delay in delivery of top-side drilling gear for a new-build oilfield development and production platform has enabled Otto to acquire additional 3D seismic data over its 99% held Calauit oilfield in the Philippines. Data will outline potential for reserve expansion and assess nearby exploration leads.
- StockAnalysis estimates that the 6.4 mmbbl Calauit oilfield has an NPV of A\$64 million at a Brent price of US\$65/bbl and breaks even at US\$41/bbl. Development and production is presently scheduled to commence in Q3, 2008.
- Exploration in the company's Palawan Trough and offshore Cebu permits offers considerable appeal. Prospects with potential to hold multi Tcf of gas and several hundred million barrels of oil and condensate have been identified and show strong seismic anomalism, indicating the potential for hydrocarbons.
- Ongoing seismic data acquisition in Turkey and drilling later this year aims to expand gas reserves for rapid development during 2008. Otto has financed ongoing exploration and development of existing gas discoveries at its 35% held, Thrace Basin project in Turkey. Gas sales are expected by late 2008 and ongoing exploration has a strong chance of boosting reserves beyond the 2 Bcf presently estimated by StockAnalysis.

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- Otto has negotiated a right to earn an initial 32.48% interest in the Santa Rosa exploration Block in Argentina's Cuyana Basin, where StockAnalysis calculates a discovery value of \$1.80 per share and a risk adjusted target value of 11 cps for a 100 mmbbl prospect.

OEL - Valuation

| Asset | Value \$m | \$ per Share | Comment |
|--------------------|--------------|-----------------|---------|
| Turkish Gas | \$ 8.0 | 0.04 | 35% |
| Calauit | \$ 41 | 0.18 | |
| Unissued equity | \$ 8.8 | 0.04 | |
| Cash | \$ 12.0 | 0.05 | |
| Corporate | -\$ 6.0 | -0.03 | |
| | | <u>0.29</u> | |
| Exploration upside | \$ 167 | <u>0.76</u> | |
| Total value | | <u>1.05</u> | |

Source: Strachan Corp. Pty Ltd.

Recommendation

Otto's current share price is substantially underpinned by the value of its oil and gas resources in the ground at Calauit and in Turkey. The company has substantial exploration appeal with a risk adjusted exploration upside of 76 cps taking StockAnalysis' total risk adjusted target value to \$1.05 per share.

Disappointing delays in achieving the award of an exploration permit in Argentina and the slow delivery of topside drilling gear for the development and production platform, planned for use on the company's Philippines permits has created space for the company to acquire additional seismic data to better assess production and exploration upside at and around the Calauit oilfield and on its other permits.

Patient investors should accumulate Otto at current levels.

Who's Who in the Iron Ore Zoo

StockAnalysis has compiled a list covering most of the players in Australia's booming iron ore industry. There are pluses and minuses with most and I am not giving direct recommendations, just comparing and contrasting. Those with operations in the Pilbara will have a transport advantage over those aiming to operate out of Oakajee or Esperance, and there are also issues and challenges ahead concerning access to power, water and transport to a port.

Junior Australian Iron Ore Producers

| | | MMX Murchison Metals | MGX Mt Gibson | MIS Mid West |
|-------------------------|------|-------------------------------------|--|--|
| Market Cap | \$m. | \$ 1,653 | \$ 993 | \$ 587 |
| Cash | \$m. | 60 | | 13 |
| Debt | \$m. | 0 | 200 | |
| Product | | Hematite | Hematite & Magnetite (72%) | Hematite & Magnetite |
| Assets | | Jack Hills | Tallerang Peak & Extension Hill | Koolanooka Magnetite |
| Resource | | Weld Range 67 mt @ 62% Fe | Mt Gibson and Koolan Island 250 mt Magn plus 99 mt He @ 63% Fe | Weld Range & Jack Hills He 9.1 mt @ 58% Fe and 232 mt @ Weld Range |
| Potential | | 380 mt @ 62% fe | 1 Bn tonnes Mag | 500 mt He and 430 mt @ 35% Fe |
| Reserve | | 8 mt | 57 mt @ 62.8% Fe | |
| Infrastructure | | Rail to Geraldton or Oakajee | | Study Rail Port |
| Capex | \$m. | \$1.8 bn | \$715 m | |
| Operating cost | | \$14/t to \$21/t | US\$28/t mag | \$23/t |
| Production | mtpa | 1.2 to 2 | 2 | 1 mt |
| Production Target | mt | 25 mt pa | 10 mt pa | 15 mtpa W/R plus 6 mt Koolanooka |
| Shareholders & partners | | POSCO 12% Mitsubishi 50% Toll | Gallagher 18% Shougang 19% APAC 19% | Sinosteel JV Hong 5.2% |

Clearly, the market leaders in the iron ore game are Rio Tinto and BHP Billiton, along with the other established producer, Portman. So far, three new junior producers have joined the fray and there are a pack of wanabes aiming to enter the game, but StockAnalysis believes that not all will succeed.

Key issues for the Yilgarn players, and to a lesser extent the others, include the establishment of transport and, in the case of magnetite miners, power infrastructure to run their operations. Meanwhile the Western Australian State Government is keen to see the projects roll out in an orderly way and does not want development hindered by infighting over who will build and operate what parts of the infrastructure.

So far there are two competing transport infrastructure developers. The Murchison & Mitsubishi JV and a stand alone purpose built infrastructure group, Yilgarn Infrastructure, led by Chinese interests with the support of local equity groups. Yilgarn Infrastructure hopes to list on the local exchange and gather support from patient equity, which StockAnalysis sees as being a challenge with little in the way of a positive role model to follow.

Source: ASX Reports & Strachan Corporate Pty Ltd

(Continued on page 5)

Junior Australian Iron Ore Developers

| | AGO | CXM | SDL | FMG | FRS | GWR | ARH | SPH | GBG | GRR | SRK |
|-------------------------|-----------------------|--|---------------------------|----------------------------|-----------------------------|----------------------|------------------------------|--------------------------------------|--------------------------|----------------|----------------------|
| Market Cap | \$ 197 | \$ 123 | \$ 778 | \$ 9,353 | \$ 85 | \$ 148 | \$ 633 | \$ 449 | \$ 522 | \$ 221 | \$ 205 |
| Cash | 18 | 8 | 27 | 2000 | 12 | 6 | 28 | 22 | 57 | 15 | 16 |
| Debt | | | | 2900 | | | 2 | | | | |
| Product | Hematite & Magnetite | Hematite & Magnetite | Hematite | Hematite | Hematite | Hematite | | Magnetite | Hematite & Magnetite | Magnetite | Hematite |
| Assets | Atlas | Centrex | Sundance | Fortescue | FerrAust | Golden West | Australasian | Sphere | Gindalbie | Grange | Strike Res |
| | Low grade Pilbara | Wilgerup He | Mbalam Cameroon 90% | WA Pilbara | Roberston Range Newman area | Inland High Grade | Balmoral South Low grade Mag | Guelb el Aouj - Mauritania owned 25% | Karara magnetite 50% | Southdown 70% | 68.15% Apurimac |
| Resource | Pardoo | Bungalow & Carrow | Hematite | Cloud Break & Christmas Ck | | 50 mt | Base metal and Uranium | | Karara Hematite | | 68.15% Cuzco in Peru |
| Potential | 10.5 mt | 9.1 mt He | 218 mt | 2367 mt | 24.3 mt | 250 mt | 1.1 bn tonnes | 1,425 mt | 1,290 mt | 479 mt | 1.3 bn t |
| Reserve | 35 mt Plus 1 bn t Mag | 250 mt Mag | 800 mt | 1053 mt | 45 mt | 250 mt | | | + 40 mt He | | |
| Infrastructure | 4.4 mt | | | | | | 547 mt | 472 mt | | | |
| Capex | Truck to port | | Rail | rail & port | 3rd Party | rail | | | Pipe, power, water, rail | Power Pipeline | Road |
| Operating cost | 21.5 | | US\$2.5 bn | \$2.6 bn | \$4m | | US2.1 bn | US\$1.45 bn | | \$1.2 bn | |
| Production | | | US\$15/t | \$7/t | | \$32/t | | US\$30.3/t | | US\$43/t | |
| Production Target | 3 mt pa | 2mt pa | 45 mt pa | 10 mtpa | 2mt pa | 10 mtpa | 12 mt pa | 7 mtpa DRI pellet | 8mt pa Con | 6.6 mtpa Con | 20 mtpa |
| Shareholders & partners | IMC Resources Linq | Shenyang Orier George Jones Baotou I & S | BaoSteel offtake Tangshan | | Shougang | Saudi BI Qatar Steel | Ansteel 13% | Sojitz | | | |

Source: ASX Reports & Strachan Corporate Pty Ltd

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Murchison Metals has just sold half of its Jack Hills project in the northern part of the Yilgarn area to Mitsubishi. The deal adds about \$100 million of cash, allowing Murchison to pay back \$44 million of debt and also secures Murchison's equity component for a proposed \$1.8 billion project development to establish a 25 mt pa operation by 2011. The JV plans to construct an open access rail line, 380 km to Oakajee and a port facility. The company has an off-take agreement with POSCO, who is a 12% shareholder in the company.

Murchison, which has established a 1.5 mt pa trucking operation to Geraldton, is a front runner and its market capitalisation recognises this position.

Mt Gibson is close behind Murchison since it is also a small, 2 mt pa direct shipping iron ore producer and has established strong relationships with both Russian and Chinese interests, both of whom hold equity positions. Mt Gibson's share register might be an interesting topic as time passes with an aggressive and strong Russian presence unlikely to stand still. Mt Gibson plans to develop a magnetite concentrator and ship concentrate to Asia for pelletising. The company owns the high grade, Koolan Island project, inherited from Aztec following a takeover.

Midwest is in a similar position to Mt Gibson, with both magnetite and some relatively low grade hematite, which it is currently selling at about 1 mt pa. Midwest has partnered with Sinosteel and is also looking to export magnetite concentrate for pelletising close to the destination steel mill. Midwest and Mt Gibson, along with others in the region, such as Golden West Resources are looking to an infrastructure solution for both transport and power supply which could see over 500 Mw of new power generating capacity installed in the region.

Atlas is located in the Pilbara and has outlined small tonnages of moderate grade hematite at its Pardoo deposits, which is suitable for direct shipping via Port Headland, 70 km to the west. Atlas is supported by resources fund LinQ and IMC Resources. In the longer term, Atlas aims to outline large tonnages of magnetite from known mineralisation on its permits, but is initially focused on establishing a cash flow from the sale of hematite to support this drilling exercise.

Centrex has partnered with two Chinese steel mills to develop hematite and magnetite resources on South Australia's Eyre Peninsula. Clearly port facilities will be an issue, along with all other requirements including power and transport, not to mention funding.

Sundance Resources has begun drilling at its 90% owned, Mbalam hematite project in Cameroon. The company is backed by George Jones, who has a track record with Portman and Gindalbie. George will need to work hard to make this work. Cameroon is not the best place in the world to operate and development will require the construction of a 400 km train line, much of it through remote jungle of world heritage quality which is home to many species of endangered animals. The task is not impossible, since an oil pipeline was built through Cameroon from Chad in similar circumstances. Still, StockAnalysis would be wary of the stock with a market capitalisation of nearly \$800 million at this stage. No doubt, Sundance will aim to further establish bonafides for an estimated 800 mt hematite operation via its current drilling work and then bring in Chinese capital to make it work.

Fortescue is in the process of constructing a 45 mt pa hematite direct shipping operation on its relatively low grade Cloudbreak and Christmas Creek deposits by May 2008. The company is studying an ultimate expansion to 200 mt pa by 2011 and will need additional funding prior to establish first cash flow next year.

Ferraust is seeking to establish a small, low cost hematite shipping operation on its Robertson Range deposits, but will need to establish access to third party infrastructure to make it happen.

Golden West Resources is actively drilling out its high grade hematite mineralisation, located just south of Wiluna. The company has established 50 mt of ore grading 61% Fe and aims to boost this to 100 mt by December as drilling proceeds. The company's licences are seen to have potential to yield well over 200 mt of high grade hematite. Transport infrastructure will be an issue and the company is working with all parties to establish a position as a user of rail transport to Oakajee, post 2011. Once resources are established I expect that Golden West will select a development partner.

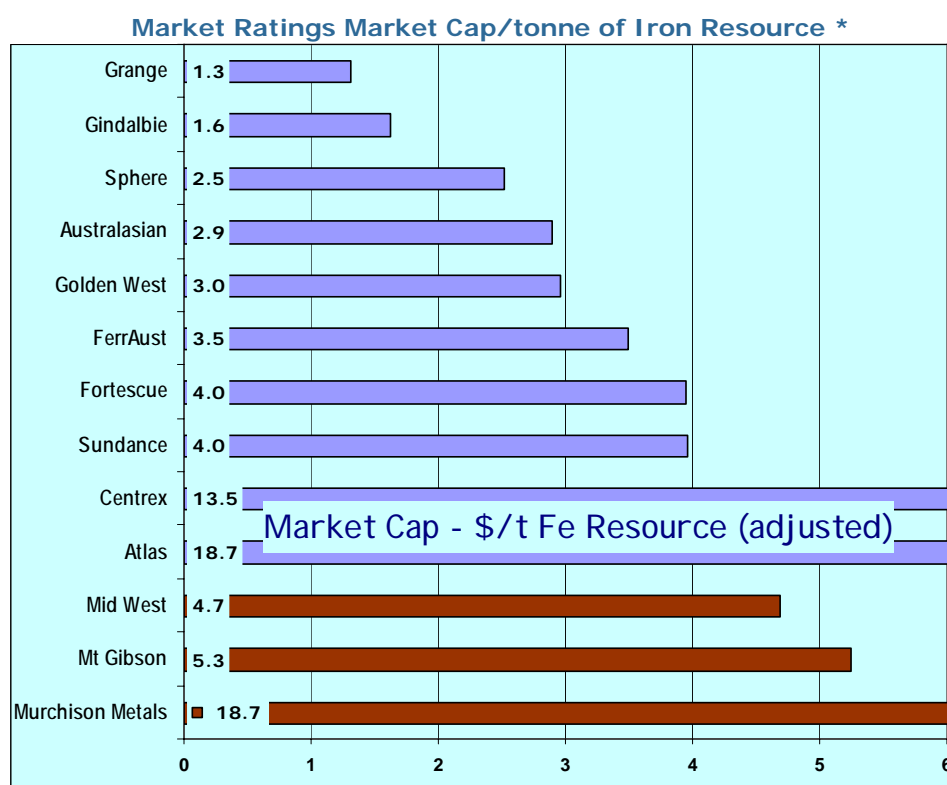
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Australasian is a largely opportunistic group which has established a relationship with Clive Palmer's group to gain access to large tonnages of very low grade (25% Fe) magnetite, close to the Pilbara coastline. Australasian has the Chinese steel mill, Shougang as a partner, which probably means that it will succeed in some form.

Sphere has ventured over to Mauritania to gain access to a very remote magnetite resource, which it is developing with Middle Eastern capital and partners. The project will require a lot of power and water in a very dry and energy poor nation.

Gindalbie must be considered a front runner in the game, since it is well funded and has a well established resource of both hematite and magnetite mineralisation at its Karara project, along with sound management and strong partners in Ansteel. Gindalbie plans to pipe magnetite concentrate slurry to the port at either Geraldton or Oakajee for sale to a mill with its own pelletising plant. Power and water requirements will be key factors as the company must first concentrate and then pump slurry 400 km to the coast and then pump the water back to site.

Grange Resources has recently attracted Japanese trader, Sojitz to its Southdown magnetite project in the south of WA. Grange faces a shipping cost disadvantage, but plans to pipe a concentrate to the port of Esperance to reduce environmental impacts.



* Adjusted for type of ore.

█ Existing miners

Strike Resources looks to be relatively under-priced by comparison with its peers. Strike has multiple projects in uranium and base metals, but is now focused on establishing resources at its Apurimac project in Peru. Previous work at the deposits has outlined a large target while recent mapping and drilling confirms the extent and very high grade nature of this hematite mineralisation. Strike probably suffers a discount for political risk and the complexity of its corporate ownership of its Peruvian project. Transport to a port will also be an issue, but the company is assessing the option of piping a slurry to the coast.

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