

StockAnalysis

Written under AFSL: 259730

July 14th, 2010
Issue 17, Vol 7

By Peter Strachan

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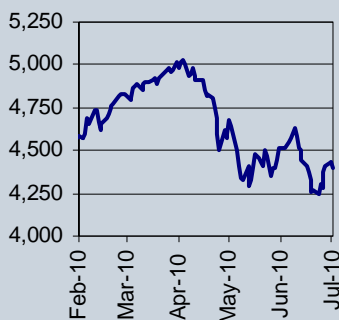
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Indices & Prices

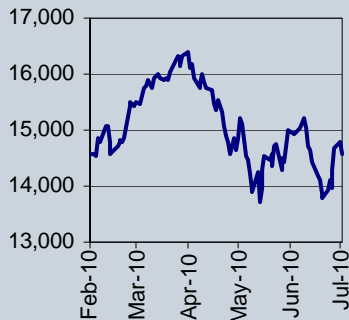
All Ordinaries	4,400.00
Energy Index	14,583.30
Brent AU\$/bbl	86.13
AUS\$/US\$	0.8816

As at Close July 13th

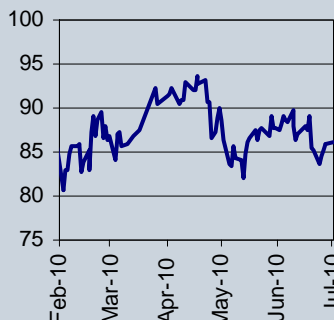
All Ordinaries



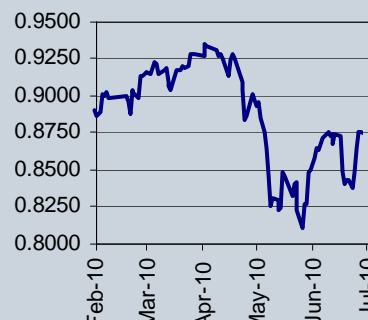
S&P ASX 200 Energy Index



Brent Crude Oil \$A/barrel



A\$/US\$



In this Issue

Texon: Chairman tops up

ADX: First drill results by 26th of July (ADX, PAA, CAV, XST)

Pan Pac: Gets legged over in Vietnam, but walks away with 5% interest

Jupiter: Looks mightily undervalued. Funding will be the key to unlock value

OZ Democracy: Time to re-think and rework the system

Taranaki Drilling: Programme not valued in participants' prices

Tap Drills: Return to exploration for undervalued explorer

Market Moves

Texon's Chairman has acquired more shares on the market and **StockAnalysis** believes that subscribers should follow his lead. StockAnalysis values Texon's oil assets and exploration interest along the Eagle Ford Shale trend in Texas at about \$1.49 per share. The company is funded for its first horizontal well on the permit, which should reduce development risks. Nearby wells, drilled by successful EFS operator Swift, have shown excellent results which StockAnalysis believes will be emulated by Texon's operations during Q3 2010.

ADX Energy has commenced drilling at its Lambouka prospect. The shallow oil target should be reached by the 26th of July, while the deeper gas and condensate target will not be seen until about mid-August. ADX is a speculative buy, but cautious players should sell part holdings into any strength to reduce holding costs in the event of a duster.

Pan Pacific Petroleum has sorted out its Vietnam position, retaining 5% and recouping funds spent on its discovery well, which it funded for a 15% interest. This is a good result for PPP. While 5% is not as good at 15%, at least it's a start and provides some diversification for PPP away from its 10% interest in the Tui oilfield. **PPP remains a spec buy.**

Jupiter Energy declares that its Kazakh Block Block 31 contains P50 reserves of 80 million barrels. StockAnalysis (and the market) believes that there is still a lot of appraisal drilling required to bring this target into a lower risk category. The company, which is short on cash, looks set to fund development by farming out field development. If we assume that JPR ends up with a free carry for 50% of Block 31 up until positive cash flow, then JPR is presently trading with a market capitalisation of less than \$1 per barrel of recoverable oil reserves.

(Continued on page 2)

Given its current stage of field appraisal, StockAnalysis thinks that a value of \$3 per barrel is more appropriate for Jupiter's oil potential, which would translate into a target price of 25 cents per share, diluted for options and performance rights. If development funding can be secured, risk will be lowered and Jupiter's retained interest will attain a higher value, lifting target value per share beyond 30 cps. **StockAnalysis retains a speculative buy rating for Jupiter.**

Australia's Unhealthy Democracy

It is fitting that this edition of StockAnalysis coincides with the 221st anniversary of the storming of the Bastille. On that day in 1789, French citizens took a stand against a symbol of their social and political oppression at the hands of their ruling elite, calling for freedom, equality and community.

StockAnalysis believes that it is time to re-evaluate the Australian system of government, which has descended into a contest of 'spin' run by self-serving politicians, advised by professional media and marketing gurus.

Australia is not well served by its current batch of parliamentarians (Going forward – see what I mean!) and the whole system needs to be re-thought. **Politicians are not the humble public servants we want to represent us.** They have turned out to be self-serving power grabbers who do not rule the country on behalf of the people they represent, but instead rule over the general population with huge amounts of propaganda, threats and anger.

After sitting through last week's angry morning meeting between Perth's mining and accounting fraternity and our Resources Minister Martin Ferguson, I came to the conclusion that **there is something fundamentally wrong with the Australian democratic process.** This type of confrontation is not the way the system was meant to work. We should not see Ministers of the Crown facing up to a room full of angry citizens in this way. Worse still, Ferguson seemed to enjoy the process. He had no idea that he was being dysfunctional even as he hectored and bullied the senior business people, calling one 'Comrade' as he glared at the impertinent questioner in a threatening way. **Poor marks, Martin! I think that it is time you took a spell on the backbench to consider if you are really cut out for the role of representative of the people or if your talents might be better put to use in some other career.** (Consider bouncer!)

StockAnalysis concludes that many of those who have been chosen to represent us in Canberra have become self-serving spin-doctors. Instead of administering the rules on behalf of their electorate, they have mostly become determined to empower themselves and rule over the population of Australia by fear and/or threat.

So here is what I thought the democratic process was about:

- ⇒ Representatives of the community are thrust forward to seek election to the people's parliament in Canberra.
- ⇒ Successful candidates accept the huge honour of becoming our representatives in the people's parliament, charged with administering the laws of the nation and use of taxation revenue for the benefit and on behalf of the people they represent. **They are public servants, responsible to the electorate for their actions.**
- ⇒ When circumstances change and rules need to be modified or new rules introduced, our representatives must consult with their electorate and experts in the field to construct solutions, so as to achieve broad support in the community.

What we have in our current batch of parliamentarians is not ideal:

- ⇒ They are mostly self-serving, seeing the main aim of being in parliament as maintaining power and milking the perks for all they are worth.
- ⇒ They are not our servants, but rule over us like some sort of feudal oligarchy.

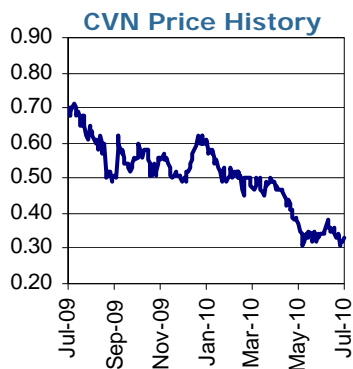
(Continued on page 3)

⇒ Worse still, they seek to divide and rule. Kevin Rudd's threats to the mining industry that the Labor Party has a long memory may just have been a joke, but it wasn't very funny.

Another great example of this corruption of process is the recent sending of Kevin Rudd off to some leadership forum in North America! What possible benefit could this junket provide to taxpayers? I thought K Rudd was going to take a holiday with his family. Are taxpayers paying for Rudd to take a holiday in the USA? This type of blatant misuse of the system is getting up the collective noses of the Australian electorate.

StockAnalysis says, bring on the revolution!

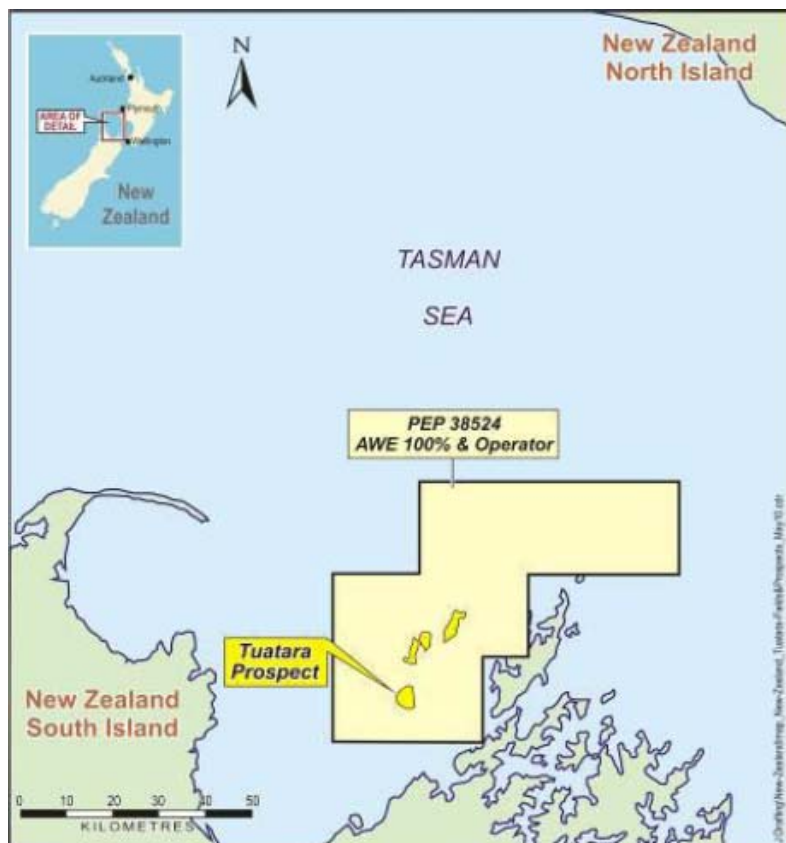
Taranaki Dreaming AWE, PPP, NZO, ROC, CVN



Carnarvon Petroleum has joined ASX peers **Roc Oil** and **AWE** in the upcoming Tuatara wildcat well, located off the north of New Zealand's South Island. Tuatara is scheduled as the next cab off the rank once work at the Kahu prospect, which is presently drilling, is completed.

Kuhu targets about 10 to 12 mmbbls of recoverable oil, adjacent to the producing Tui oilfield. A discovery in this location could be rapidly tied in to Tui's production facilities, leading to an estimated extra 8,000 BOPD during CY 2011, which would just about double current estimates from Tui alone for FY 2011. All this is provided that oil is found at Kahu and that the reservoir characteristics are similar to those found at the Tui fields. Subscribers should be able to see results from Kuhu by late next week. Discovery of 12 mmbbls at Kahu would provide a relatively big boost for **Pan Pacific**, lifting its value by about 6 cps, while AWE would enjoy a 28 cps lift.

Tuatara Location



AWE had planned to drill Tuatara during the current programme; even if it had to pay the full \$25 million estimated drilling cost. Prudent management by AWE has led it to accept farm-in offers from Kiwi outfit Kea, along with Roc and Carnarvon, who are taking 15% and 10% of the equity respectively for a promoted drilling cost, leaving AWE with a partly funded, 65% working interest.

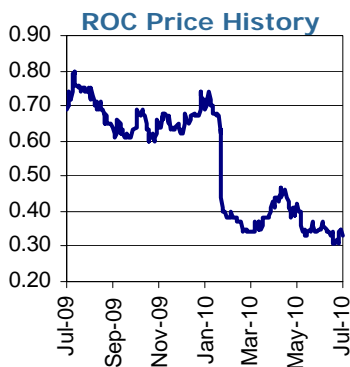
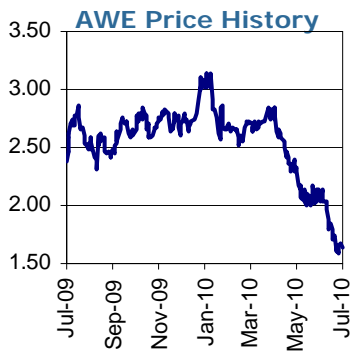
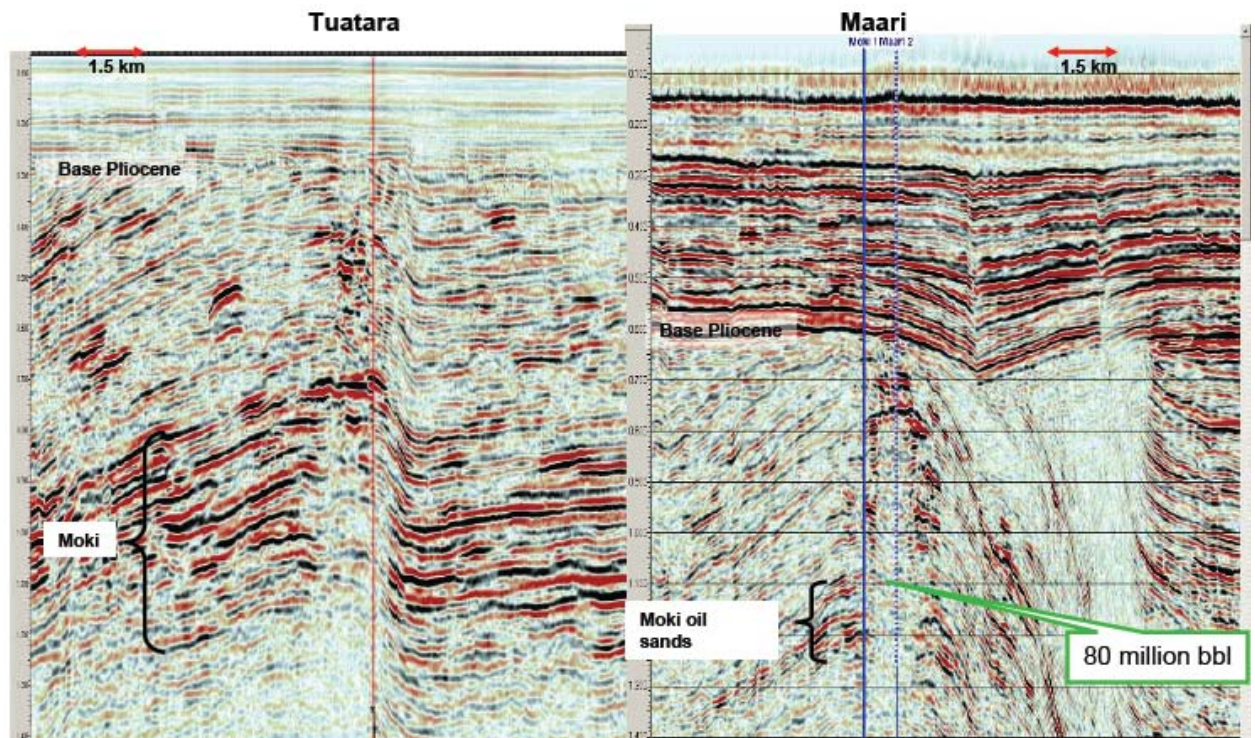
StockAnalysis is encouraged that the technical teams at both Roc and Carnarvon liked the Tuatara prospect enough to fork out cash on a promoted basis to get a share. Both companies have solid technical teams and their endorsement of the prospect should not be dismissed.

The seismic sections below compare the target with the 80 mmbbl Maari oilfield, located to the north of Tuatara. Tuatara appears to have a thick section of Moki sands with fault and four-way dip closure that AWE believes has potential to hold 100 mmbbls of recoverable oil.

Drilling at Tuatara will be undertaken later this month and into August.

(Continued on page 4)

Comparison between Maari Oilfield and Tuatara Prospect



StockAnalysis values a discovery at Tuatara assuming an 80 mmbbl find with an insitu value of \$20/bbl. Applying these parameters, discovery would be worth \$1.93 per share for AWE, while Roc could also double its current price, by adding 33 cents to value in the event of a discovery. Carnarvon's 10% equity would deliver it the lowest leverage, but still add a handy 23 cents per share to its value.

Taranaki Valuation Matrix

Equities	AWE	PPP	NZO	ROC	CVN
PMP 38158 (Kahu)	42.5%	10%	12.5%		
PEP 38524 (Tuatara)	65%			15%	10%

Well	mmbbl	Risk %	NPV \$m	NPV /bbl
Tui - Kahu	12	40%	360	30
Tuatara	80	20%	1600	20

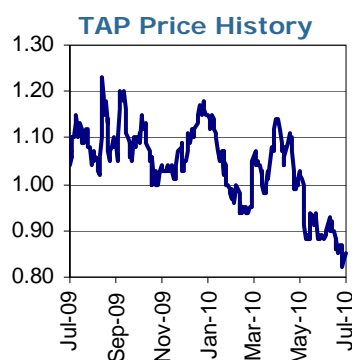
Discovery Value/share \$	AWE	PPP	NZO	ROC	CVN
Tui - Kahu	0.28	0.06	0.11		
Tuatara	1.93			0.33	0.23
Risk Adjusted Target/Share	0.38	0.02	0.03	0.05	0.03

Leverage/share	AWE	PPP	NZO	ROC	CVN
Tui - Kahu	17%	38%	12%		
Tuatara	116%			98%	70%
	134%	38%	12%	98%	70%

Source: Strachan Corporate Pty Ltd

Recommendation: StockAnalysis maintains its buy recommendation for AWE and has speculative buys on Roc, Carnarvon and Pan Pacific.

Tap Oil Turns the Bit



Recommendation: Tap is a buy.

Tap's share price is underpinned by about 60 cents worth of oil & gas reserves and contracted gas sales. Net cash boosts value to about \$1 per share, while risked exploration less corporate overheads, sets a target value of over \$1.60 per share.

Ignoring cash, which purely provides a mechanism to ensure that exploration is funded, the company has a risked target value of about \$1.30 per share, based on petroleum reserves, contract gas and risked exploration upside.

ASC Code	TAP
Shares	156.5 m.
Options	6.3
Fully Diluted	162.7 m.
Price	\$ 0.84
Market Capitalisation	\$ 151 m.
Net Cash (est)	\$ 60 m.

After a long break from exploration, induced by the GFC and its related effects, junior oil and gas production and exploration company Tap Oil, is re-entering the ranks of explorers. Play was also halted by a lack of operating cash flow, following an explosion at its part-owned Varanus Island gas plant, which halted production of gas and condensate for several months prior to the GFC's chilly winds.

Block M Location



Source: Tap Oil

The company is about to spud the Mawar-1 well on its 39% held and operated Block M in Brunei. This well targets a prospective resource of 9 million barrels. **StockAnalysis estimates that discovery would be worth 34 cent per share to Tap.** The wildcat well is the first of two, targeting a fault trend which was outlined by 3D seismic data, acquired by Tap in 2009 and which is thought to have potential to yield up to 64 million barrels of oil in total.

Mawar-1 is being drilled as a deviated exploration well to test multiple sandstone objectives within the Mid-Late Miocene Belait formation. The well is designed to a total depth of about 1,300 metres below the drill floor.

An oil or gas discovery here could be readily developed, since the prospect is just 30 kilometres from an oil refinery and an LNG plant on the coast. Results from this well should be known by the second week of August, but final testing will require the introduction of a testing rig, since Tap plans to move its drilling gear to a second wildcat location.

SEAAOC – South East Asia Offshore Conference 2010

I will be speaking at the upcoming SEAAOC—South East Asia Australia Offshore Conference 2010— in Darwin on 22-24 September 2010. My presentation will focus on peak oil and gas (Where are we at?) and petroleum investment (How attractive is Australia, who are the upcoming players, and why?).



For more information, click [here](#).

Special offer: Register now and receive a complimentary place* at the SEAAOC official closing dinner courtesy of Peter Strachan. For more information, click [here](#).

**Please note that the complimentary place is available to those registering for the two day conference package or above.*

Contact

Peter Strachan:

Peter@stockanalysis.com.au

Pex Publications:

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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