

**This Week**

**In This Issue...**

**Market Moves**

Where to from here? Taking a look at the short term, medium term—and where to hide

Page 1

**United States of Silver**

In the USA, several States of the union are about to recognise gold and silver as legal tender ...

Page 3

**Jupiter Energy (JPR)**

Jupiter remains a buy ...

Page 4

**Horizon (HZN)**

Good outcome in PNG, but murky decision ...

Page 4

**Antares (AZZ)**

The stock is a strong trading buy below 40 cents...

Page 4

**Gindara (NDO, KIK)**

I would not recommend chasing Nido and Kairiki and prefer to wait on the sidelines...

Page 5

**Tap Oil (TAP)**

Tap Oil is weathering conflicting market forces...

Page 6

**Australia's Carrying Capacity**

How many people can Australia sustain?

Page 7

**Indices & Prices**

<b>All Ordinaries</b>	4,998.60
<b>Energy Index</b>	17,190.40
<b>Brent AU\$/bbl</b>	117.46
<b>AUS\$/US\$</b>	1.0330
As at Close April 5th, 2011	

**In this Issue**

Where to from here?

Shift to hard currency i.e. metal!

Remains a buy below 10 cents

Good outcome in PNG, but murky decision.

Buying back into the game. Speculative buy

Don't chase Nido & Kairiki. No support if duster

Cheap even with litigation overhang

How many people can Australia SUSTAIN

**Market Moves - We're The Hellarwe!**

**The short term**

My expectation is that the market has sufficient momentum from high commodity prices and M&A activity to take it onwards and upwards until the end of May.

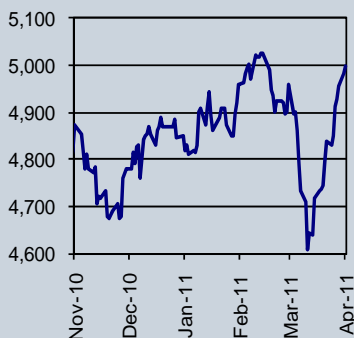
➤ The Australian market entered a correction phase in mid February '11, prior to the Japanese earthquake and tsunami on 9<sup>th</sup> of March.

➤ Following an 8 month upward move, the market has completed a standard 10% correction and now looks like it has regained composure, which should take it upwards over the coming 3 months until July.



(Continued on page 2)

**All Ordinaries**



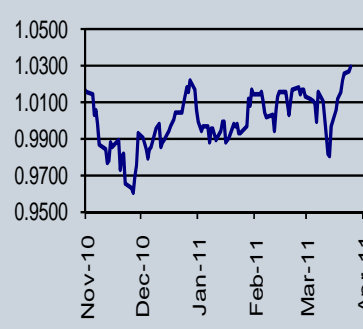
**S&P ASX 200 Energy Index**



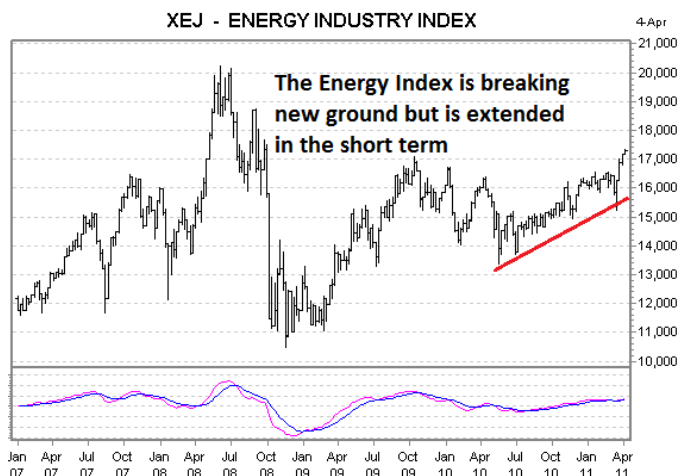
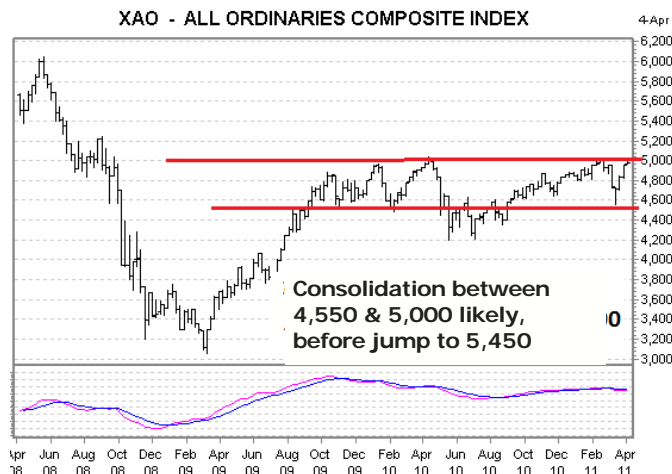
**Brent Crude Oil \$A/barrel**



**A\$/US\$**



- The market has effectively moved sideways for 20 months.
- The Libyan / oil price situation is holding back further advances. A higher oil price lowers economic growth projections and will ultimately weaken all other commodity prices.
- While the ASX market does not look cheap, takeover activity and top-of-the-market, speculative activity may push it over 5,000 and up to 5,450.
- The energy sector remains in an uptrend as coal stocks and Woodside outperform.
- This is unlikely to change.
- Rising oil price could provide a cap to economic growth and a catalyst for further weakness as 2011 comes to an end.
- Extra demand for thermal coal and LNG by Japan has buoyed stocks in those sectors.



### *The medium term*

My analysis above concludes that the stock market should hold up until June '11 and then all bets are off. While there are many independently moving parts to this equation, **High oil prices, China's over capitalisation** in the short term and **high levels of sovereign debt**, especially in the USA, will all work to deliver a poor outcome for global stock markets during 2012.

In previous editions, StockAnalysis pointed to headwinds for the market. These include an oil price which at its current level, represents spending of over 5.5% of US GDP. Without some dramatic, rapid and unexpected technology advance, high energy costs will act as a brake on economic activity. Weaker economic activity will lead to lower corporate profits, falling commodity prices and lower share prices as we move into 2012. This part of the equation looks the most certain to me. It's all a matter of timing and I suspect that the effects will be felt by midyear.

Over building in China creates further longer term market instability. During the GFC, China's central bankers pushed money out into the provinces, with instructions that economic activity should be promoted by lending to developers and others. The result of this policy is about 20 Dubai's worth of empty buildings and commercial premises and chicken farmers holding inventories of copper metal! Now, the Chinese central bank has told regional banks to hold 20% equity against their loan books, when western banks are required to hold about 8%-9%. The Chinese central bank is clearly trying to rein in lending by these measures and by lifting interest rates but it is also in effect saying that it believes that 20% of the risked assets held by regional banks could dissolve into nothing, so they want the banks to hold 20% equity against their loan book to ensure that the banks remain solvent in a worst case scenario!

(Continued on page 3)

It is foolish to spit against the wind, but sooner or later, the wind will change direction so it is wise to be prepared. If China's imports of iron ore begin to taper off from 60 mt per month or if we see more civil unrest than is usual in China, then we should be very cautious about an imminent slowdown. I am not expecting the Chinese miracle to collapse. Ongoing urbanisation in China along with increasing wealth of its citizens is almost assured for the next 20 years, even with peak oil production. All I am saying is that after 13 years of almost unparalleled, straight-line or increasing GDP growth of around 10%-11% pa, a speed bump is now on the horizon. If China's growth rate falls to say 4% pa, the price of high grade iron ore will fall from \$160 to \$80 per tonne and the price of copper will fall from \$4.30 to \$1.80 per pound, offset by an Aussie dollar back at 75-80 US cents to the Aussie dollar, with profound implications for the valuation of many resource companies.

As to sovereign debt, I don't think anyone knows what is going on, so I certainly have no idea. All I can say is that there will be countries that default on their government debt. This could lead to a second round of market jitters as debt markets contract. With no one willing to lend money, very little construction or finance activity will be possible, squeezing business activity just like we saw in Q4, 2008 and Q1, 2009.

### *Where to Hide*

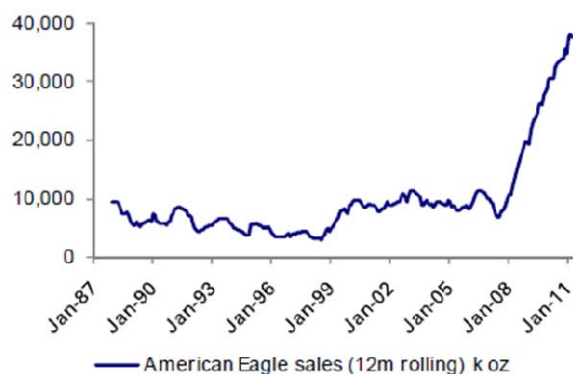
Gold is only going to be any good to you if there is a market for the stuff, or you can exchange it for other goods or services. If the shit were to really hit the fan, you might get very hungry trying to eat gold. Holding some physical gold is probably not a bad idea, but for no more than 5% of your asset base. I would eschew gold derivatives of any kind, except debt free gold miners.

Holding selected (i.e. Australian) government bonds and high yielding notes or hybrids would appear to be a sound strategy. Banks and consumer staple businesses, which have reliable cash flows, often issue listed hybrid securities which act like debt but have an equity component. They can be perpetual notes, reset preference shares or floating rate notes with interest rates set to the 90 day government bond yield, for example. Many of these instruments currently deliver yields of 6-10% pa and provided the underlying business is of the quality of Coles, Woolworths, ANZ Bank and the like, these securities should deliver some level of capital stability because of their high yields and the underlying strong cash flow of the issuing bodies.

## *United States of Silver*

In the USA, several States of the union are about to recognise gold and silver as legal tender and in Utah, regulators are working to introduce a mechanism for ratepayers to pay their taxes with gold or silver coins. In early March, the Utah state legislature approved a bill recognising gold and silver as legal tender and the state's governor signed the bill into law on the 25<sup>th</sup> of March. While Utah and the 13 other states that are currently considering legalising gold and silver as currency will of course retain paper currency as legal tender, their actions have the effect of partially abandoning the US dollar as a means of exchange and certainly weaken the US dollar's position as the undisputed, sole means of exchange in the USA.

US Mint Sales, Silver Eagle Coins (Koz)



Source: US Mint, Deutsche Bank

These moves are just a small crack in the wall. Eventually, with current US policy settings and under the heavy weight of its public sector debt, the mighty US dollar is likely to fall and more or less become the American Peso.

The graph alongside illustrates how worried some US citizenry have become about their savings since the GFC in 2008/09. Sales of Silver Eagle coins have quadrupled over the past three years to around 40 million ounces pa, which at current prices represents about \$1.4 billion pa of savings or speculative dollars, heading out of US dollars (and possibly other currencies) and into silver.

## Jupiter Energy Performs JPR

As predicted by StockAnalysis, Jupiter Energy has upgraded its oil reserves and resources in Kazakhstan to 24 mmbbls of 2P plus a further 10 mmbbls of contingent resources. At a share price of 6.3 cps, Jupiter trades with a market capitalisation of just \$3.95 per barrel of 2P reserves, when a rating of >\$6 would be more appropriate. If Jupiter were to trade with a market cap of \$6 per barrel of 2P, its share price would be at my previously established target price of 10 cents per share, before allowing any value for 10 mmbbls of contingent resources, which require drilling and testing to convert into Reserves.

One reason that Jupiter is not trading towards fair value is that it requires at least \$15 million of additional equity to support ongoing field development, prior to establishing an operating cash flow. Then of course, the company's activities are located in Kazakhstan, where early oil sales are at about \$36/bbl, while export approvals are agreed and some degree of political risk is factored into equity pricing.

***Taking these factors into consideration, Jupiter remains a buy with an initial price target of 10 cents per share, but upside to 13 cps.***

## Horizon HZN

It is interesting to see how the PRL-5, now PRL-21, saga has played out. Horizon and Talisman thought they had a 50/50 holding in the permit, where Horizon has previously estimated recoverable probable reserves of 380 Bcf of gas and 25 million barrels of condensate. After several trips to the PNG resources Minister's office, as if by magic, two local companies had shown up with a 30% stake in the newly created PRL 21, while Horizon and Talisman were cut back to 35% each.

Local PNG outfits Dabajodi International Energy, which is in several ventures with Oil Search has a 20% interest in PRL-21 while newcomer Elevela Energy ends up with 10%. Whether this action is part of the PNG government's policy of increasing local content in its resource business or a carpet bagging effort of grand proportions, I am unsure, but I would like to see a little bit more transparency in PNG's affairs and also I would like to see a list of Elevela Energy's shareholders!

## Antares Energy AZZ Buys into Texas' Permian Basin

***Recommendation: Antares is trading with an estimated enterprise value of just \$20 million, following its purchase of Permian Basin leases. The company maintains small GoM oil and gas production of around 350 BOPD and has several oil/gas exploration projects. A recent purchase of leases in the Permian Basin opens up potential to recover oil with an NPV of ~\$350 million or over \$1 per share. The stock is a strong trading buy below 40 cents.***

AZZ - Capital Structure		
Shares (est)	279.0	m.
Convertible notes	7.5	m.
Performance rights	10.8	m.
<b>Total</b>	<b>297.3</b>	<b>m.</b>
Net Cash (est) \$m.	90	
Price	\$0.395	
Market Cap \$m.	\$ 110	m.
EV \$m.	\$ 20	

Antares has purchased an initial 8,035 net acres of mineral leases in the Midland sub-Basin of the larger Permian Basin, located on the border of Texas and New Mexico, for an undisclosed sum. Mineral leases in this location are becoming available as lease holders struggle to meet their drilling obligations. Many US oil & gas companies have found that they are over-committed to this capital intensive resource play, needing to drill wells to hold leases by production, but running out of time or funds.

(Continued on page 5)

Even major gas producer Chesapeake found the going too tough at its Fayetteville shale gas play and was forced to sell to **BHP Billiton**. Antares is believed to be making opportunistic acquisitions at the 'right' price, but we will not know full details until cash flow statements are in, and even then some of the acquisition costs may be deferred.

The company's focus is on the Wolfberry play, but deeper targets will also be assessed (StockAnalysis thinks that the Strawn zone might be a dark horse). Metrics over the play indicate costs of \$2.5 million per well, drilled on 40 acre centres to deliver about 190,000 barrels of oil per well. This equates to about 2.4 million barrels of oil per 640 acre section and would enable AZZ to recover over 35 million barrels of oil on the leases it has acquired. The company discloses that trials at 20 acre centres are underway in the Basin, which if successful, could hold upside for AZZ's leases.

The company's latest purchase comes complete with an existing, 3,500 metre deep, cased and suspended well, which is ready and equipped for reservoir stimulation. News of initial oil flow rates from this well, most likely in May, will show the production potential of this play.

StockAnalysis estimates that oil produced under these conditions would have an NPV of about \$12.6 per barrel at an oil price of US\$100/bbl, equating to potential value of \$350 million or about \$1.45 per share for AZZ.

Antares is understandably being coy about how much it has paid for these deals and exactly where its new project areas are located, because it has not finished buying into the play. Too much information on price, expected value and location would alert sellers to AZZ's actions and would likely alert competitors and lift prices for further acquisitions.

### Antares Valuation Estimate

AZZ - Asset	Value \$m	\$ per Share	Comment
USA production	12	0.04	
Term Assignment	25	0.09	30% of NPV for 300 Bcfe
Cash (est)	103	0.36	Estimate
Convertible note	(15)	(0.05)	
Other	(5)	(0.02)	Corporate
	120	0.41	
Exploration Value	270	0.91	Risk adj
<b>Total Value</b>	<b>390</b>	<b>1.32</b>	

Source: Strachan Corporate

Antares maintains an active share buyback programme so that by now, it should have just under 280 million issued shares. In addition, senior management of Antares have been consistent buyers of the stock on market, adding to confidence that the path being undertaken should create value for shareholders and supporting the share price above 38 cents. Management takes a reasonable view that with hard asset backing of around 41 cps and risked exploration and development upside to \$1.32 per share, buying shares on market from willing sellers at 38 cents makes good sense for all concerned.

## Gindara Nido & Kairiki (NDO, KIK)

NDO - Capital Structure		
Shares	1390.2	m.
Con Note	38.0	m shares on conversion
Options	14.2	43.3 cts Av
<b>Fully diluted Total</b>	<b>1442</b>	
Price	\$0.130	
Market Cap	\$ 181	m.
Cash (est)	\$ 9	m.

**Recommendation:** *Both ASX listed stocks with interests in the Gindara prospect, have begun to move higher ahead of drilling. Speculative gains can be expected over the next week or two. StockAnalysis thinks that Nido might move to 16 cents while KIK might see 6 cents. I would not recommend chasing the stocks and prefer to wait on the sidelines for drill results.*

Drilling of the high impact Gindara prospect is expected to commence in April. The Gindara structure sits on the edge of a graben (deep sedimentary trough) which has been shown to produce hydrocarbons at other locations along its extent. While there are no known oil slicks in that part of the Palawan Trough, seismic data and mapping looks attractive enough to attract Shell as a partial funding partner. Shell is paying for 75% of the drilling costs up to US\$24 million to earn a 45% working interest, so Nido is likely to need to find about \$9 million while Kairiki has just raised about \$8 million, which should cover its exposure to drilling costs.

(Continued on page 6)



The prospect has been mapped as most likely to hold about 1,000 million barrels of oil in place at three formation levels. StockAnalysis assumes a recoverable target of 222 million barrels and values the oil in the ground at \$16 per barrel. Discovery would be worth about \$1.2 billion to Nido and \$780 million to KIK, but how much of this bounty they would keep in the success case remains to be seen, since neither company is actually flush with cash and both would need to farm down or massively dilute to fund ongoing appraisal. In fact, even after the recent new issue, Kairiki's cash is almost equal to its debt, prior to funding its share of drilling costs.

Assuming that both companies would have to give up 60% of their equity to stay in the game, success would be worth 33 cps for Nido and 21 cps for KIK, but failure, or a gas discovery, would see significant downside for both stocks and that is why I am not keen to play this one.

## Tap Oil TAP

Tap Oil is weathering conflicting market forces. On one hand, it has participated with a 10% WI in a +1.5 Tcf gas discovery at Zola, which at an NPV of 85 cents per Mcf would be worth about \$130 million or more (54 cps) to the company, depending on how much condensate is associated. On the other hand, the Harriet Joint Venture (HJV) is now being sued by both Burrup Fertilisers and Alcoa for failure to supply gas during the Varanus Island crisis and more litigation is already on foot regarding failure to meet contract volumes under an agreement to supply gas at a price of about US\$1.20/Gj to Burrup Fertilisers.

### Tap Oil Valuation

Valuation	Holding %	TAP % mmBoe	Value \$m.	\$/share
Oil Reserves	12.2-100%	3.5	42	0.17
Zola	10%	26	130	0.54
Gas contract			65	0.26
Manora	30%	7.2	44	0.18
Litigation Liability			(30)	(0.12)
Corporate			(32)	(0.13)
Cash (est)			82	0.33
Hard Value			301	1.24
Exploration			60	0.24
Option Exercise			4	0.01
Total Value		36.9	364	1.49

Source: Strachan Corporate

In its valuation for Tap, StockAnalysis has already allowed a cost of \$30 million for potential litigation, just to be on the safe side. Tap is confident that it has no liability. The HJV agreed to supply gas to Burrup from a particular group of gas fields. When those fields proved to hold less gas than was originally estimated, HJV declared Force Majeure on the contract, saying that it could not supply from the designated fields. Burrup is acting as you would expect, but StockAnalysis think that the HJV is acting within its contract.

The gas disruption issue from Varanus Island is a separate case. If Alcoa and Burrup were successful, there is a high likelihood of a class action from Uncle Tom Cobbley and everyone who suffered as a result of that explosion (stuff up). Tap is confident that the HJV is not liable and even if it is, it holds insurance against this event. So my allowance of \$30 million against claims is a conservative case and should be about right!

So just to reiterate what I have said over recent issues, Tap has a hard asset backing now of about \$1.24 per share, after allowing 12 cps for litigation costs. Exploration upside, largely in Ghana, Thailand and WA-351-P, lifts total risked value to \$1.49 per share.

## Australia's Carrying Capacity

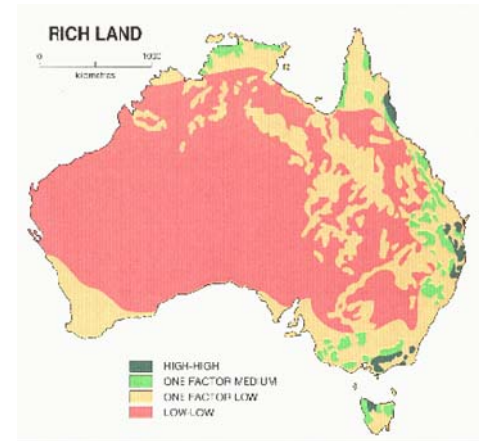
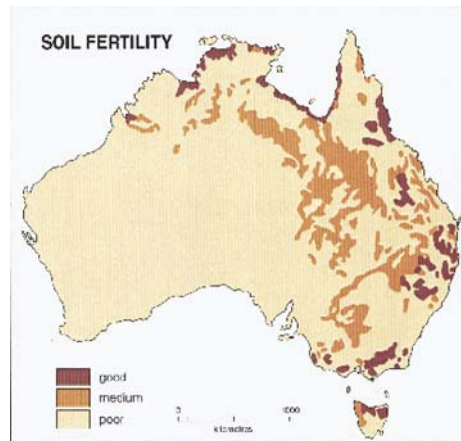
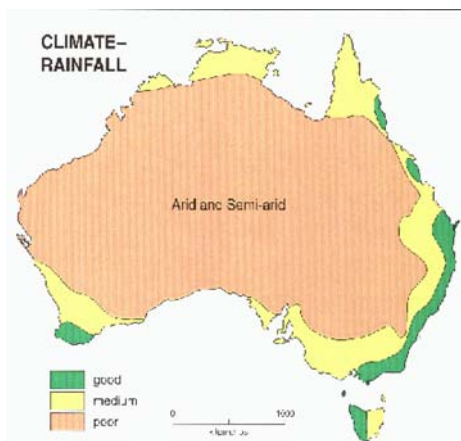
### Dick Smith is Right!

Those of you who took the time to follow the link I posted last week to the excellent presentation delivered by Sir David Attenborough at RSA House, will have been somewhat dismayed by Sir David's throwaway line about empty Australia's appointment of a minister for population. (One suspects that under relentless pressure from lobby groups, representing growth boosters from the property and retail sectors, what was initially a Minister for Sustainable Population has rapidly become the Minister for population etc.)

Harking back to your grade five geography class, you will have learnt that Australia is in fact the driest continent on earth. In a way, Australia is much like North Africa, without the Nile! It is a bloody great desert with a thin strip of well watered coastline on its south-eastern side.

While the tropical north gets lots of rain, it all falls in 5 months of the year and it is hot and dry for 6 months of the year, rendering agriculture reliant on dams, such as that on the Ord River Scheme. A search around this old and sandy continent for fertile soil is indeed a thankless task. There are no Mississippi or Nile River valleys with huge and fertile deltas, only clapped-out sandy soils with little nutrient value, where the eucalyptus trees have grown used to irregular watering. There are some good soils in the Goulbourn and Hunter valleys and in parts around Brisbane, much of which is fast disappearing under suburban sprawl. The Atherton Tablelands is also an area of excellent soil, reliable rainfall and great beauty.

Overlaying these two maps of rainfall and soil fertility gives us the areas of Australia that are both well watered and that have good soils, coloured in dark green while land that is OK, is coloured in light green. I am sure that you can see that of Australia's total land mass; only about 1% is what is called Rich Land and about 6-8% is in both green categories.



Produced by Dr Chris Watson during his career as a CSIRO soil scientist

At this scale, none of Western Australia ranks above the second lowest category. So WA's much fabled Wheat-Belt, from which a wheat crop of over 14 million tonnes can be harvested in a good year, relies heavily on fertilisers, as well as decent winter and spring rains to make any sort of impact.

StockAnalysis is not sure that Australia's sustainable population is much more than 12 million people compared with its current level of just under 23 million. By sustainable I mean that population level which can thrive, without degrading the natural environment and which will leave the natural environment in no worse condition for generations to come. This is the sort of intergenerational equity for which we should surely be striving.

(Continued on page 8)

However, looking around the country at rising net imports of fruit and vegetables, the level of deforestation, rising soil salinity, oceans and estuaries devoid of fish, rivers which no longer run to the sea, animal habitat destruction, urban sprawl, water use restrictions and so the list grows, I think that the Australian community is well past its sustainable population level. I fear that over the past 30 years in Australia, the natural environment which sustains all forms of life has been degraded by its current custodians, leaving future generations poorer and more vulnerable to the effects of peak oil, food shortages and resulting famine (in order of their likely appearance).

Our generation would not thank our forefathers if we were born into a desolate country barely capable of feeding its population. Yet this is the future facing our grandchildren if we continue with business as usual.

Researchers at the University of Melbourne show that Australia does not produce enough fruit and vegetables for the population to sustain a healthy diet. Their work, published in 'The Victorian Food Supply Scenarios' project, suggests there is a lack of nutritious food in Australia. The group found that "climate change, increased importation of oil and population growth, is straining food production systems both in Australia and overseas".

How does this impact your portfolio? Well you can choose ethical investments and you can choose investments which will make money, while bringing technical solutions to the fore.

So far, wind energy and geothermal power companies have performed poorly, while wave and carbon sequestration carpet baggers have been even worse, at least for shareholders (some of the promoters and executives don't look pretty fat). Engineering service providers and equipment consolidators such as **Solco** show promise. Technology focused companies such as **Dyosol**, **Redflex**, **Silex** and **Ceramic Fuel Cells** may still be several years away from real profits but appear to be onto viable, long term solutions to some of the more pressing needs for delivering permanent power from intermittent sources.

## Contact

Peter Strachan:  
Pex Publications:

[Peter@stockanalysis.com.au](mailto:Peter@stockanalysis.com.au)  
[oilinfo@pex.com.au](mailto: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](http://www.stockanalysis.com.au)  
[www.pex.com.au](http://www.pex.com.au)

## Disclaimer

The information or advice (including any financial product advice) herein is believed to be reliable and accurate when issued however, StockAnalysis Pty Ltd ABN 39 079812945; AFSL 259730 ("Strachan"), does not warrant its completeness, reliability or accuracy. Strachan, its Directors and their Associates from time to time may hold shares in the securities mentioned in this report and therefore may benefit from any increase in the price of those securities. Opinions and estimates constitute Strachan's judgment. The author certifies that the views expressed in this document accurately reflect the analyst's personal views about the subject company and are subject to change without notice. Strachan, its officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The investments and strategies discussed herein may not be suitable for all investors. In preparing such general advice no account was taken of the investment objectives, financial situation and particular needs of a particular person. Therefore, before acting on the advice, you should consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. There may be a product disclosure statement or other offer document for the securities and financial products we write about in StockAnalysis. You should obtain a copy of the product disclosure statement or offer document before making any decision about whether to acquire the security or product. If you have any doubts you should contact your investment advisor. The investments discussed may fluctuate in price and changes in commodity prices and exchange rates may have adverse effects on the value of investments.

Since January 2010, Strachan Corporate has undertaken commissioned research or provided corporate advisory services to the following companies, for which it has received a fee. Transerv Energy, Mutiny Gold, Castlemaine Goldfields, European Energy, Norwest Energy, Incremental Oil & Gas, Mako Energy, Oilex, Matsa Resources, Mindax Resources, Gold Road, Dragon Mountain Gold, Iron Road, Aurora Minerals, Tectonic Resources, Avalon Minerals, Emerald Oil & Gas, Tangiers Petroleum, Pharmaust, Texon Petroleum and Quest Petroleum. In addition, over that period Strachan Corporate has delivered lectures at several Universities, provided expert witness statements and confidential financial services and advice to listed companies, several private investment companies and institutions as well as private investors. Disclosure of interests in these confidential actions by Strachan Corporate is only appropriate should Strachan Corporate determine a potential for conflict of interest.

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