

24 October 2007

ASX Code: RFE

12 month Target: \$1.15

BUY

Capital Structure

Sector	Oil & Gas
Share Price	A\$0.00
12 Month Target Price	A\$1.15
Fully Paid Ordinary Shares	71.7m
Options on Issue	29.0m
Market Capitalisation (diluted)	\$74.4m
Av. Daily Value Traded	\$386000

Management

Michael Fry	Chairman
David Prentice	Managing Director
Perry Gilstrap	President (Operations)
Bruce Miller	Director (Geology)

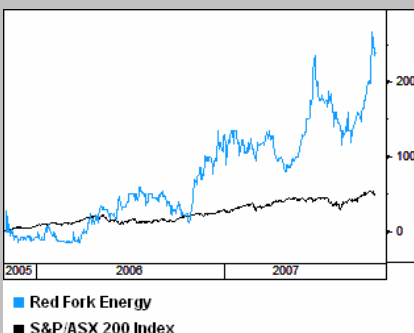
Major Shareholders

Maple Bar Asset Management	18.2%
Golden Deeds	10.1%
Top 20 Shareholders	74.9%

Analyst

Resources Analyst
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Share Price Performance



Red Fork Energy Limited

Reserve upgrades have just begun..

12 month target price upgrade to \$1.15

A reserve upgrade, earnings accretive infrastructure purchase and higher spot energy prices have underpinned an upgrade of our price target to \$1.15.

2P reserves upgraded by 250%

An independent report has lifted Red Fork Energy's 2P oil and gas reserves from 10.4Bcfe to 36.4Bcfe. Total reserves (3P) have risen from 37.6Bcfe to 62.2Bcfe. A busy drilling schedule in place for the year ahead means that further upgrades are in the pipeline.

Strategic infrastructure purchase is earnings accretive

Red Fork Energy has purchased additional gathering and pipeline infrastructure in Oklahoma for US\$0.6m. This will enable natural gas sales at the full Henry Hub spot price, meaning that payback on this purchase should take less than 12months. The acquisition includes two low pressure gathering lines extending 16kms, three sales lines, a compressor equipped stripper plant and taps into two purchasing entities.

News flow galore to provide share price catalysts

Land acquisitions, drilling activity, potential reserve upgrades and higher production rates should all provide a healthy pipeline of news flow to drive a further share price re rating.

Oil and gas prices have risen

Geopolitical conditions in the Middle East have triggered a rise in oil and gas prices.

Projects are operating on schedule and within budget

Red Fork Energy remains on schedule to drill 50 new wells over the next 12 months. Our DCF valuation continues to be based on forecast drilling of 15 oil wells, 56 coal bed methane wells, and 57 shale wells over the next 3 years.

Investment view

Red Fork Energy remains an excellent exposure to the oil and gas sector thanks to a low risk drilling schedule, strong management team and experienced local operational team.

Potential Earnings	2007A	2008F	2009F	2010F	2011F
EPS	(0.057)	(0.01)	0.08	0.16	0.17
EPS Fully Diluted	(0.057)	(0.01)	0.07	0.15	0.16
P/E	NA	NA	8.10	4.30	4.00

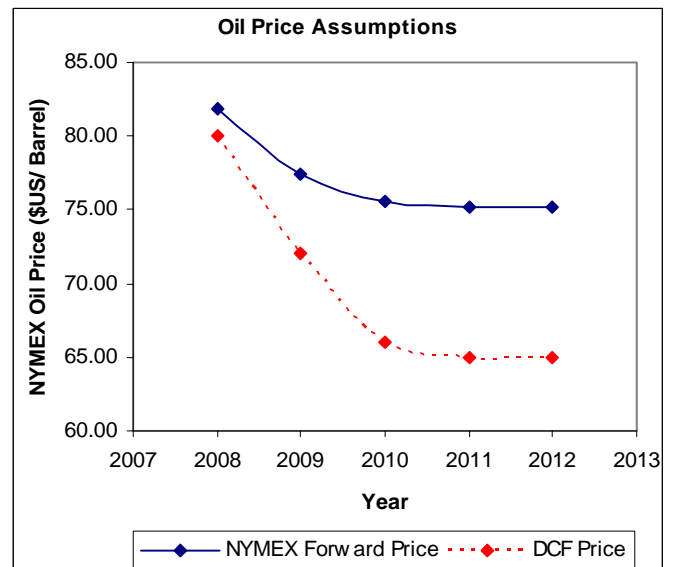
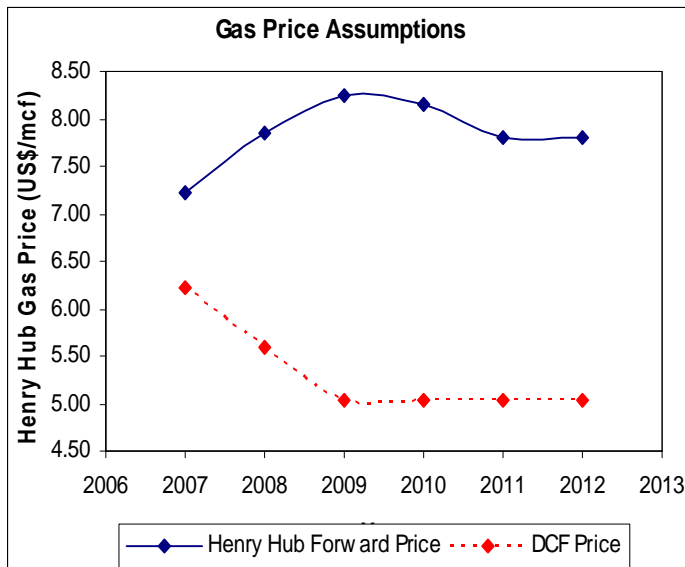
Source: Red Fork Energy Limited. RMWise Research

Financial Model

Year Ending June	2007A	2008F	2009F	2010F	2011F
\$AUD Millions					
Profit & Loss					
Sales Revenue	0.7	4.9	14.9	21.4	
Interest Revenue	0.1	0.2	0.1	0.8	
Operating Expenses	(0.7)	(1.1)	(1.8)	(1.8)	
Corporate & Admin	(1.0)	(1.6)	(1.7)	(1.8)	
EBITDA	(1.0)	2.4	11.6	18.6	
Depreciation	(0.3)	(2.8)	(5.3)	(6.3)	
EBIT	(1.1)	(0.4)	6.3	12.3	
Interest Expense	-	-	-	-	
Pre-tax profit	(1.1)	(0.4)	6.3	12.3	
Tax expense	0	(0.1)	1.9	3.7	
Abnormals	(2.3)	-	-	-	
NPAT	(3.4)	(0.5)	8.2	16.0	
Cash Flow					
NPAT	(1.1)	(0.5)	8.2	16.0	
Depreciation / amortisation	0.3	2.8	5.3	6.3	
Other	(0.3)	0.0	0.2	-	
Operating cash flow	(0.6)	2.3	13.7	22.3	
Capex	(3.4)	(12.6)	(12.6)	(5.1)	
Disposals / (Acquisitions)	-	(0.6)	-	-	
Working Capital	(0.3)	5.8	21.7	32.4	
Free cash flow	(4.2)	(7.4)	9.1	27.2	
Dividends	-	-	-	-	
New equity	5.0	6.0	3.3	0.7	
Debt drawdown / (repayment)	-	-	-	-	
Net cash increase / (decrease)	(0.6)	(1.4)	12.4	27.9	
Cash End of Period	4.1	2.7	15.1	43.0	
Receivables	0.4	3.6	6.2	6.4	
Shares on issue					
Shares	65.4	71.7	96.6	98.6	100.4
Options	28.0	29.0	12.8	11.2	9.4
Total	93.5	100.7	109.4	109.8	109.8
Production assumptions					
Natural Gas Production (Mmcf)	109	1,071	2,832	3,915	3,597
Natural Gas Revenue (\$m)	0.5	3.2	11.4	16.4	15.7
Oil Production Barrels (000's)	4.2	29.9	55.2	79.6	78.8
Oil Revenue (\$m)	0.03	1.5	3.0	4.2	4.5

Valuation Analysis	2008F	2009F	2010F	2011F	2012F
Terminal value growth rate	-	-	-	-	4%
Projected free cash flow (\$m)	-	-	-	-	26.6
Discount rate (WACC)	-	-	-	-	14%
Terminal enterprise value (\$m)	-	-	-	-	246.4
Implied terminal value EBITDA multiple	-	-	-	-	12.5 x
Discounted cash flows at WACC	-	-	-	-	-
Unlevered free cash flow (\$m)	(17.6)	(11.6)	4.4	13.4	12.3
Present value of terminal value (\$m)	-	-	-	-	128.0
Total discounted cash flows (\$m)	-	-	-	-	128.8
Equity value (\$m):	\$128.9	-	-	-	-
Fully Diluted Shares (m):	109.9	-	-	-	-
DCF value per share \$AUD:	\$ 1.15	-	-	-	-

Forward Price Assumptions



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Hold	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
Sell	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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