Huntleys' SMALLER COMPANIES Guide
Incorporating the Australian Penny Share Guide

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DECLARATION
Huntleys' Investment Information Pty Ltd or associates hold interests in Blackmores, Comet Satellite & Cable, Mikoh Corporation, Redflex Holdings and Waivcom Worldwide. These positions can change at any time and are not additional recommendations.

GLOSSARY
Buy - Suitable for purchase now. **Accumulate** - Undervalued, but there is time to purchase.
Hold - Appropriately priced, neither a buy or a sell. **Lighten** - Overpriced. Better value elsewhere. **Mkt Cap** - The company's market capitalisation. **F/Y** - The company's month end financial year. **NPAT** - Net Profit After Tax - before abnormals. **EBIT** - Earnings before interest and tax. **EPS** - Earnings per share, in cents. **DPS** - Dividend per share, in cents. **Fr.%** - The percentage of the dividend that is franked. **YLD** - Dividend per share divided by the market price. **PER** - Price Earnings Ratio **Net Present Value** - Valuation using discounted cashflows.
We use two stock classifications - Smaller Companies and Speculative Companies. Smaller Companies cover stocks that are more risky than the Blue Chips and Second Liners covered in the Your Money Weekly publication, but have the potential to offer good growth. Speculative Companies are the highest risk stocks, offering potentially high rewards but with the commensurate risk. We recommend no more than 10% of your total portfolio be in Speculative Stocks. **pcp** - Previous corresponding period **cps** - cents per share

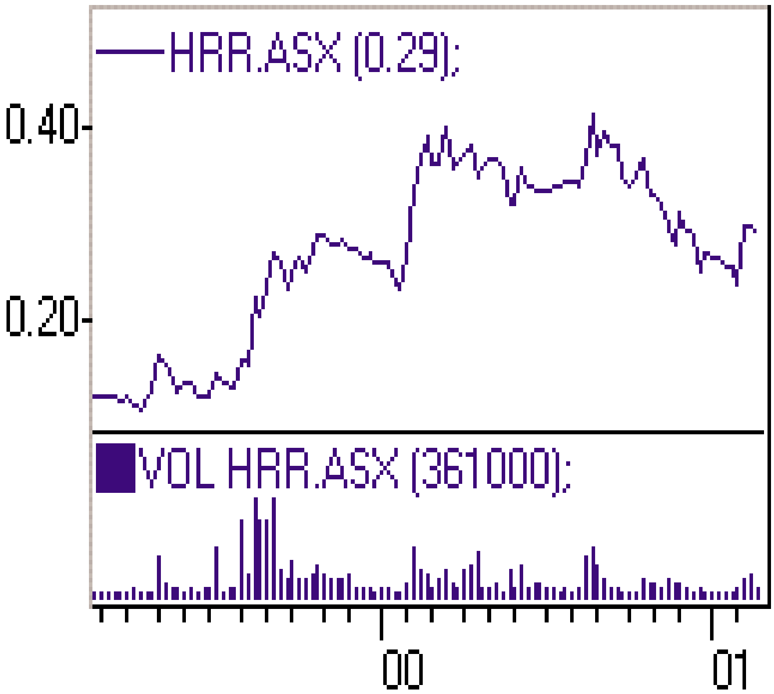
INFORMATION
Information in this publication is largely based on company reports to the Australian Stock Exchange and is supplied courtesy of the Australian Stock Exchange Limited. SCG, of course, is responsible for additional information, background and analysis. Charts are sourced from Bridge/DFS Pty Ltd through their IRESS market data system.

HIGHLIGHTS

- ★ Blackmores - back to value levels
- ★ Britannia Gold - a cancer treatment punt
- ★ IDT - strong growth to accelerate further

HERON RESOURCES (HRR) $0.29

Nickel Development	**Speculative Buy**
No. Shares: 100.9m	**Avg. Monthly t/o: 0.98m**
Mkt Cap: $29.3m	**Last Reviewed SCG 239**
52 Week High: $0.45	**Low: $0.24**



There's a lot to be said for keeping one's powder dry. HRR has watched other nickel laterite juniors rush into production, and just as quickly rush toward insolvency, while it has concentrated on building its resource base and waiting for the right deal. The share price has been flat for the last year, but that's still a better picture than the competition.

The company is now negotiating with WMC to supply an intermediate nickel feedstock to WMC's Kwinana nickel refinery. This will remove the need for HRR to construct an expensive "back-end" refinery if it chooses to move ahead with development. The deal could be similar to the Comet Resources/Billiton deal for the Ravensthorpe nickel laterite project. The Kwinana refinery produced 60,000 tonnes of nickel metal last year and is being de-bottlenecked to produce 67,000 tonnes per annum going forward. The plant is capable of 100,000 tonnes per annum with further capital expenditure. We understand WMC had been negotiating with another nickel laterite junior for a similar deal to that proposed with HRR.

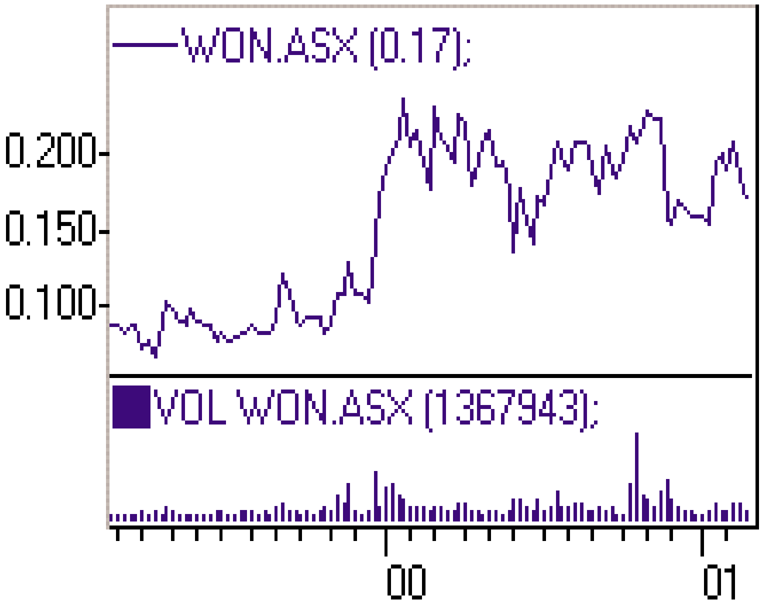
Herons' indicated and inferred resources at the Goongarrie project stand at 180mt grading 1.05% nickel and 0.08% cobalt. The key to success will be to outline the very high grade portions of the orebody for selective mining and processing. The company has already outlined some bonanza resources, including 1.2mt at 1.7% nickel and 0.72% cobalt at Goongarie South. The overall inventory of high grade ore scheduled to be processed through the Cawse Stage 2 plant currently stands at 14mt grading 1.8% nickel and 0.16% cobalt. This is substantially higher than typical WA nickel laterites.

We view the WMC negotiations as a useful lever for HRR in its ongoing discussions with Centaur over the Stage 2 expansion project. Centaur appears to be in a difficult financial situation and its future will almost certainly be determined by the project lenders. A stage 2 expansion is probably the last thing on their minds. We speculate that Centaur, or its financiers, may seek to process some of HRR's bonanza grade ore through the current stage 1 plant in an effort to generate some meaningful profits for Cawse. The fixed cost structure of Cawse is too high and hence very high grade ore will be required to generate profits. We remind readers that Cawse, and the similar sized Bulong project, are little more than pilot scale plants. It was always understood they would require major expansions to become economically significant, however the extended commissioning periods suffered by both plants coupled with higher than forecast maintenance costs has meant that neither is capable of generating a meaningful return from their existing orebodies.

We believe the future of Cawse will require resolution in the short to medium term and that HRR is probably the only feasible source of high grade ore if the plant is to have any prospect of remaining in operation and returning something to its financiers. It is difficult to know just what type of deal will result, however since HRR has the high grade ore and is not bleeding cash, it may be reasonable to assume it holds the stronger negotiating position. One scenario is for HRR to supply high grade feed to Cawse (its capacity is 500,000 tonnes per annum) for either a split of profits or equity in Cawse. Given the in-situ value of HRR's high grade orebodies, we calculate this could realise $50-100 profit per tonne of ore for at least the first three years of production, and potentially for much longer. This would be achieved with minimal capital outlay. HRR has just placed 10 million shares at 28 cents each to raise $2.8m and its current market capitalisation is close to what it could earn in one year under the above production scenario. There is certainly risk to our scenario, however it is becoming increasingly difficult to see how Cawse can continue in its current state, and we therefore believe HRR is an exciting speculative buy.

WEST OIL (WON) $0.17

Oil/Gas Explorer | **Spec Buy**
No. Shares: 93m | **Avg. Monthly t/o: 5.2m**
Mkt Cap: $15.8m | **Last Reviewed SCG 254**
52 Week High: 25.5¢ | **Low: 10.8¢**



The Puffin 6 appraisal well is now being drilled in the Timor Sea. The Puffin 5 well intersected a 9.5 metre oil column last year with excellent reservoir characteristics, including a very high permeability. Puffin 6 is being drilled updip of Puffin 5, and 3.5 kilometres to the south west. A 20-30 metre thick hydrocarbon column is prognosed, which would imply a reservoir size of 40-55 million barrels. This ought to be an economic proposition which could be developed in around two years.

The market has shown some scepticism toward the Puffin field, mainly due to its perceived complexity. We are hopeful that Puffin 6 will wipe away those perceptions and lead to a substantial share price re-rating for WON. Success at Puffin 6 could impute a value around 80 cents per share for WON.

We believe that WON's share register may contain some 'stale bulls', who bought the stock while the tantalising Coleraine 1 well was being drilled late last year. Coleraine was plugged and abandoned after producing some very suggestive gas kicks and oil shows above the target sands. Those stale bulls may be hoping for some speculative interest in Puffin 6 as an opportunity to exit their positions. As such, there may only be a relatively small run-up in the share price while Puffin 6 is being drilled and investors will have to hang on until drilling is complete, rather than taking part profits and averaging down their entry price. This is the strategy we normally recommend for speculative oil exploration stocks.

Having said that, we believe Puffin 6 has solid technical merit and will therefore retain our speculative buy recommendation. ◆