



Quarterly Review

ALTEXAustralia

Quarter 2, 2011

About the Indices

The ALTEXAustralia is Australia's leading index tracking alternate energy companies listed on the ASX. Since being launched in October 2006, it has grown to include 121 companies in five subsectors; Low Emission Utilities, Renewables, Natural Gas, Energy Minerals and Enabling Technologies. These subsectors are run individually to give the market a metric to gauge the performance of these sectors within Australia. The subsectors are also aggregated into the ALTEXAustralia index to give an overall metric for alternate energy as a whole.

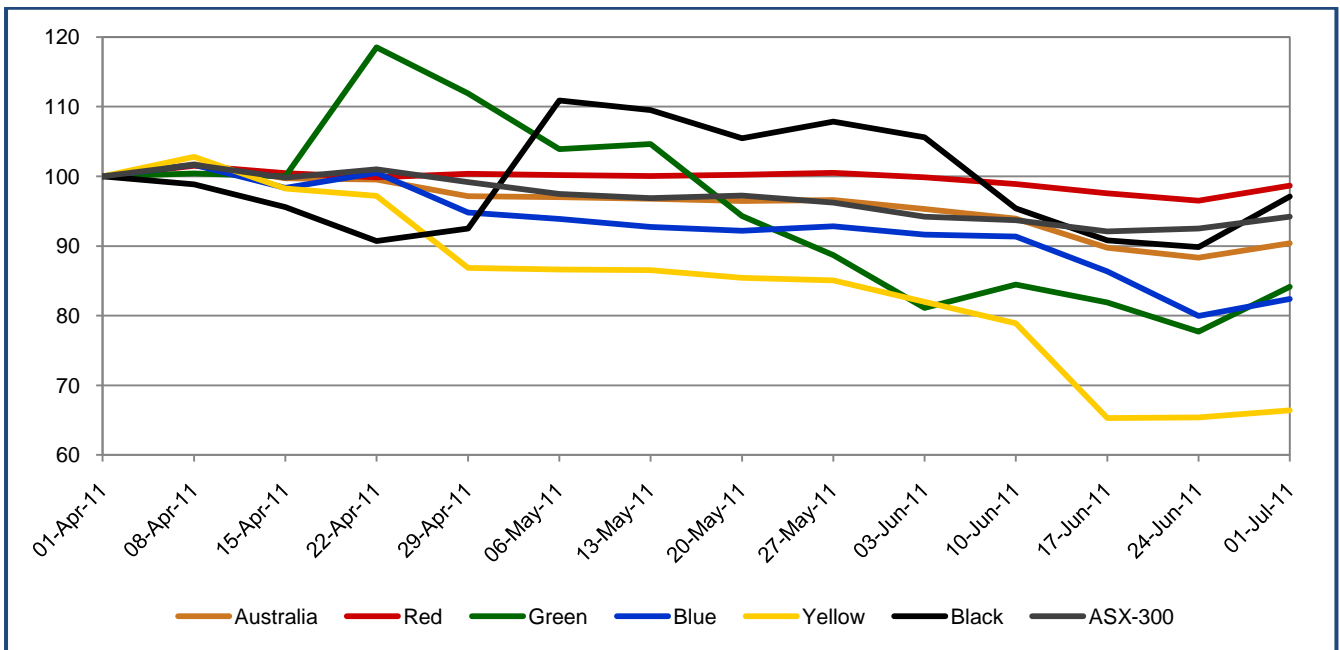
Quarterly Performance

The ALTEXAustralia indices have generally underperformed the market this quarter, with only the ALTEXRed and Black holding out above the trend. The main themes that are evident in this performance are uncertainty and sentiment. Uncertainty is evident through the lackluster performance of those companies which have yet to prove themselves, whether technically or commercially, like geothermal and wave energy, and a preference towards those companies with well understood, bricks-and-mortar assets, such as the low-emission utilities, which have more traditional energy infrastructure. Sentiment has been evident in the performance of those companies whose operations or technologies have been in the news lately for negative reasons, despite either no change in the key fundamentals, such as in the uranium market, or minor, but not insignificant, increases to their risk profile due to changing perceptions, such as Linc Energy and Carbon Energy who are in the underground coal gasification industry.

Given the transitional nature of alternate energy, moving our energy generation away from the dominance of traditional sources such as oil and coal, both uncertainty and sentiment are important factors which must be acknowledged as having the potential for significant impact on individual companies and whole sectors.

Performance Data

Index	Sector	Quarter 2 Performance	Year to Date Performance
ALTEXAustralia	Alternate Energy	-9.61%	-17.28%
ALTEXRed	Low Emission Utilities	-1.34%	-5.30%
ALTEXGreen	Renewables	-15.87%	-32.40%
ALTEXBlue	Natural Gas	-17.60%	-20.20%
ALTEXYellow	Energy Minerals	-33.59%	-48.54%
ALTEXBlack	Enabling Technology	-2.88%	-9.25%
S&P ASX-300		-5.80%	-3.51%



Low-Emission Utilities (ALTEXRed)

Best Performing Companies		
Name	Ticker	Performance
Australian Power & Gas	APK	+17.39%
Envestra	ENV	+16.10%
Spark Infrastructure Group	SKI	+15.04%

Worst Performing Companies		
Name	Ticker	Performance
Origin Energy	ORG	-6.05%
Bow Energy	BOW	-9.48%
Eneabba Gas	ENB	-33.78%

Quarter 2 was a generally good quarter for low emission utilities in Australia with a majority having price increases over the period. A driving factor behind these increases was the uncertainty surrounding the nature and structure of the Federal Governments proposed carbon tax. The majority of these companies, if not all of them, are unlikely to be affected by the proposed tax, given the low-emission nature of their business. Given this and likely continued rising electricity prices, there has been the opinion that these utilities represent safe assets in which to invest.

A major exception to this rule over the period was Eneabba Gas (ENB) which as its name would suggest, was actually more closely correlated to the performance of the ALTEXBlue index, with its quarterly performance being almost exactly the average performance of natural gas companies over the same period. Eneabba Gas is however included in the ALTEXRed due to fitting within the rules of this sector more accurately.

Renewables (ALTEXGreen)

Best Performing Companies		
Name	Ticker	Performance
Sterling Biofuels	SBI	+14.29%
Australian Renewable Fuels	ARW	+10.00%
Infigen Energy	IFN	-4.05%

Worst Performing Companies		
Name	Ticker	Performance
Green Rock Energy	GRK	-31.82%
Torrens Energy	TEY	-43.75%
Panax Geothermal	PAX	-60.00%

Quarter 2 was not a good quarter for renewable energy companies, particular geothermal companies and other companies with less proven technology. This can be seen in the markets general preference towards Biofuel



companies and smaller losses for Infigen, a wind energy company, both which focus on better understood and proven technologies. Further evidence of this general market sentiment towards investing in proven, and therefore presumably financial safer, technologies is that all major Australian geothermal companies took a fall in share prices of at least 10%, or in the cases of the three worst performing renewables, in excess of 30%. Hopefully given the recent announcement of the Federal Governments carbon tax scheme, confidence in the renewable space will return, including an appetite for companies and technologies which still must prove themselves, but that also represent a potentially large upside.

Disclaimer - Bakers has been engaged by Panax Geothermal (ASX:PAX) in the past. Please see the disclaimer at the end of this document for more information.

Natural Gas (ALTEXBlue)

Best Performing Companies			Worst Performing Companies		
Name	Ticker	Performance	Name	Ticker	Performance
New Standard Energy	NSE	+25.00%	Red Sky Energy	ROG	-53.33%
Blackham Resources	BLK	+8.70%	Cougar Energy	CXY	-55.56%
Linc Energy	LNC	-3.39%	Mec Resources	MMR	-57.69%

Quarter 2 was generally a poor quarter for natural gas companies, with all but five companies having price drops greater than 10%. Generally this has been fueled investments in other segments of the economy in the lead up to the announcement of the Federal Governments carbon tax, with natural gas being overlooked or assumptions that it will be badly affected under the scheme.

The exception to this trend has been the performance of the underground coal gasification (UCG) companies. While having similar poor performance, they have been driven by different factors. Cougar Energy, one of the three companies permitted to operate a trial pilot plant in Queensland to prove the technology, has suffered significant setbacks, both politically and lesser so technically. These setbacks with its Kingaroy project have resulted in significant media and community interest, which may impact on UCG political viability, particularly in Queensland. The other two companies, Linc Energy and Carbon Energy have both made moves to differentiate and distance themselves from Cougar through various means.

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Energy Minerals (ALTEXYellow)

Best Performing Companies			Worst Performing Companies		
Name	Ticker	Performance	Name	Ticker	Performance
Uranex	UNX	+14.71%	Manhattan Corp	MHC	-55.00%
Northern Uranium	NTU	+12.10%	Berkeley Resources	BKY	-60.61%
White Canyon Uranium	WCU	+11.90%	Mantra Resources	MRU	-96.10%

Quarter 2 was a very poor quarter for energy mineral companies, particularly those in the uranium sector, due to the political and actual fallout from the Fukushima nuclear disaster in March. Over two-thirds of uranium companies tracked by the ALTEXYellow saw share price falls of over 25%, including Paladin Energy (PDN) and Energy Resources of Australia (ERA).



However, these losses are largely due to the markets over reaction to the disaster and what it assumes will be the likely impact on the nuclear power industry internationally. Despite the disaster supposedly representing the beginning of the end for nuclear power, most indications are showing that the nuclear industry will remain an important element to those countries that already use it and will be important to other countries which still are planning new reactors. France is currently leading the nuclear cause, with the construction of new plants due to begin in the next few years to meet increasing demand without increase, and possibly decreasing, carbon emissions.

Enabling Technologies (ALTEXBlack)

Best Performing Companies		
Name	Ticker	Performance
CO2 Group	COZ	+42.86%
Clean Teq Holdings	CLQ	+14.29%
Carbon Conscious	CCF	0.00%

Worst Performing Companies		
Name	Ticker	Performance
Orbital Corp	OEC	-35.53%
Enviro. Clean Tech.	ESI	-42.11%
Quantum Energy	QTM	-46.27%

Quarter 2 has been a mixed quarter for companies with technology which enables alternate energy developers and providers. While companies involved in carbon sinks and similar abatement schemes have performed well, companies with environmental or energy efficiency technologies have not. These results are reflective of the market sentiment seen in both the ALTEXRed and ALTEXGreen indices, due to the Federal Governments proposed carbon tax. General market sentiment is shown to be that carbon sinks are likely to benefit under the scheme but it is unknown which environmental and energy efficiency technologies will, and given current market conditions it is best to wait and see.

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This report was prepared by our Senior Analyst, Thomas Paul.



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