

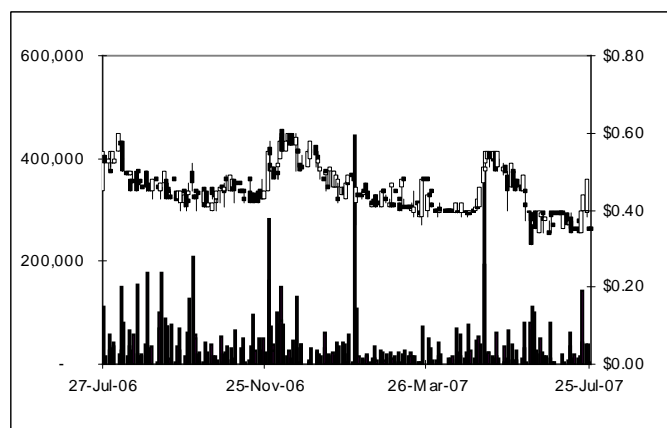
Texalta Petroleum Ltd. (TSXV: TEX-A) – Positive Drilling Results At West Wildwood

Sector/Industry: Oil & Gas

www.texalta.com

Market Data (as of July 27, 2007)

Current Price	C\$0.36
Fair Value	C\$0.60
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	\$0.31 - \$0.61
Shares O/S	34,717,365
Market Cap	\$12.15 million
Current Yield	N/A
P/E (forward)	N/A
P/B	2.29
YoY Return	-30.8%
YoY TSX-V	22.7%



About Texalta Petroleum Ltd.

Texalta Petroleum Ltd. is a junior oil and gas company with exploration and development projects in Northern Territory, Australia and southeastern Saskatchewan. The project in Northern Territory, Australia, located in the Georgina Basin, is a speculative exploration stage project with good upside potential. Major companies including Santos (ASX: STO) and Magellan Petroleum Australia have interests in producing fields in similar basins in the Northern Territory. There has been a significant increase in interest in the area recently. According to the Northern Territory Government, about 90% of the Territory's prospective onshore basins are currently under license or application, versus less than 10% a few years ago. Texalta strategically offsets the risks associated with exploration through its interests in several existing producing wells in southeastern Saskatchewan, Canada.

Key Financial Data (FYE - June 30)						
(C\$)	2003	2004	2005	2006	2007E	2008E
Revenue	472,165	582,509	517,753	638,549	1,781,467	3,187,000
Net Income	(60,544)	(8,579)	(131,427)	(24,961)	146,733	489,093
Cash	50,529	47,768	-	1,471,231	3,507,978	3,865,530
Working Capital	14,256	(274,265)	(200,312)	537,408	3,049,867	2,706,210
Total Assets	1,241,711	1,477,415	1,530,084	3,648,341	7,461,606	9,635,932

Positive Results At West Wildwood

In our initial report dated June 27, 2007, we had mentioned that Texalta and its partners were planning to drill a horizontal well in West Wildwood (Saskatchewan, Canada), about 1,100 m southeast of an abandoned well that had a 7m thick pay zone. The company announced on July 23, 2007, that swab testing conducted on the new horizontal well yielded positive results. Fluid production by the end of the swab testing (July 17 – July 19) was about 38 bbl per hour, with oil averaging around 50%. Swabbing results also indicated that the well has the potential to be a high-volume producer. Texalta expects the well to flow at about 300 bbl of fluid per day (with 50% oil). Produced oil will be trucked 1.8 miles to their processing plant in West Queensdale.

Texalta is the operator, with a 50% working interest (WI), in the 800-acre West Wildwood property. The West Wildwood property is one of four main properties that Texalta is currently focusing on in Saskatchewan. Currently, two of the four properties, the Wordsworth and West Queensdale properties, are producing. Production in Q3-2007, ended March 2007, from these two projects was 85 bpd net (up from 25 bpd net in the comparable period in the previous year).

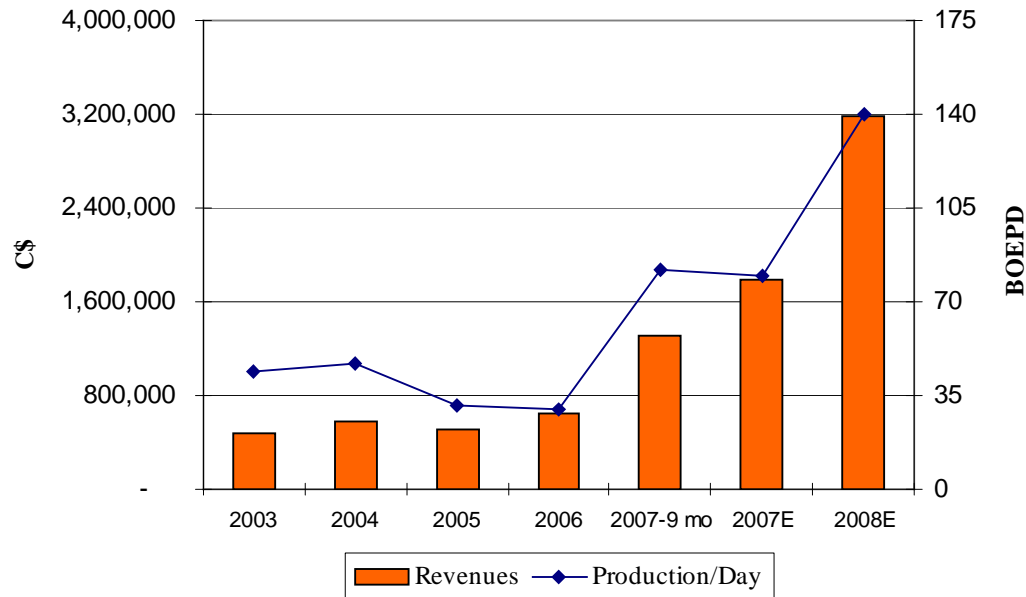
In our valuation model in our initiating report, we had made a conservative assumption that only the Wordsworth and West Queensdale properties in Saskatchewan contribute value to the company (in addition to the company's exploration permits in Northern Territory, Australia), as only those two properties have known reserve estimates at this time (proved and probable reserves of 145,000 bbl.). Therefore, we are pleased to see the highly encouraging development at West Wildwood. The successful new wildcat pool at West Wildwood is the company's second discovery. The first discovery was at Wordsworth in May 2006.

Although, the new horizontal well at West Wildwood yielded positive results, we would like to wait before we make any changes to our revenue and production forecasts for the company. We will revise our forecasts once we get more information on the test results, and actual flow rates. The new well, we believe, will be put into production by the end of August 2007.

There has not been any significant developments at the company's other properties in Saskatchewan, Canada, and Northern Territory (Georgina Basin), Australia, since our previous report. Texalta and its partners plan to drill three more wells in 2007 – one in Wordsworth and two in West Queensdale. As mentioned earlier, we have maintained our production and revenue forecasts for FY2007, and FY2008, at \$1.78 million (average production of 80 bpd net) and \$3.19 million (average production of 140 bpd net), respectively.

The chart on the next page shows our revenue and production forecasts.

Revenues and Production



Rating:

We reiterate our BUY rating, and maintain our fair value estimate on Texalta at \$0.60 per share, which reflects an upside potential of 66.7% from current price levels. We expect share prices to move closer to our fair value estimate as the new horizontal well at West Wildwood is put into production. Also, we believe that favorable results from the current reprocessing and interpretation of existing 2D seismic data on projects in the Georgina Basin will be another upside catalyst.

Appendix

Texalta Petroleum Ltd. - Income Statement (in C\$)

	2003	2004	2005	2006	2007E	2008E
Revenues						
Oil and Gas Sales	541,690	672,187	611,505	693,547	1,875,926	3,391,707
Less: Royalties	(96,647)	(101,653)	(111,490)	(107,524)	(189,911)	(343,362)
Royalty Income	20,142	11,843	17,635	22,877	20,983	37,938
Other Income	6,980	132	103	29,649	74,469	100,718
	472,165	582,509	517,753	638,549	1,781,467	3,187,000
Operating Expenses	131,611	128,101	149,395	155,085	356,293	796,750
Gross Margin	340,554	454,408	368,358	483,464	1,425,174	2,390,250
Stock Based Compensation		17,600	53,000	83,500	231,591	414,310
General and Administrative	155,899	173,215	188,731	207,448	267,220	478,050
EBITDA	184,655	263,593	126,627	192,516	926,363	1,497,890
Depletion, Depreciation and Accretion	262,801	256,682	363,093	281,520	700,620	745,439
EBIT	(78,146)	6,911	(236,466)	(89,004)	225,743	752,450
Income Taxes						
Current	(38,327)	5,830				
Future	22,659	9,660	(105,039)	(64,043)	79,010	263,358
Net Income (Loss)	(60,544)	(8,579)	(131,427)	(24,961)	146,733	489,093
Loss per Share	-	-	(0.01)	-	-	0.01

Texalta Petroleum Ltd. - Balance Sheet
(in C\$)

	2003	2004	2005	2006	2007E	2008E
Assets						
Current Assets						
Cash	50,529	47,768	-	1,471,231	3,507,978	3,865,530
Accounts Receivables	101,139	30,979	77,707	235,449	712,587	1,274,800
	151,668	78,747	77,707	1,706,680	4,220,565	5,140,330
Property and Equipment	1,090,043	1,398,668	1,452,377	1,941,661	3,241,041	4,495,602
	1,241,711	1,477,415	1,530,084	3,648,341	7,461,606	9,635,932
Liabilities						
Current Liabilities						
Bank Loan and Advances		-	257,942	-		
Accounts Payable and Accrued Liabilities	137,412	353,012	20,077	1,169,272	1,022,006	2,285,428
Income Taxes Payables			-		148,692	148,692
	137,412	353,012	278,019	1,169,272	1,170,698	2,434,120
Asset Retirement Obligations	65,478	76,478	96,560	116,090	123,590	131,090
Future Income Taxes	224,222	233,882	128,843	472,300	448,010	448,010
	427,112	663,372	503,422	1,757,662	1,742,298	3,013,220
Shareholders' Equity						
Share Capital	1,513,182	1,505,818	1,797,548	2,414,891	6,052,157	6,052,157
Contributed Surplus		15,387	67,703	134,308	365,899	780,209
Purchase Warrants			-	205,030	18,070	18,070
Deficit	(698,583)	(707,162)	(838,589)	(863,550)	(716,817)	(227,724)
	814,599	814,043	1,026,662	1,890,679	5,719,309	6,622,711
Total Liabilities and S.E	1,241,711	1,477,415	1,530,084	3,648,341	7,461,606	9,635,932

Texalta Petroleum Ltd. - Cash Flow Statement
(in C\$)

	2003	2004	2005	2006	2007E	2008E
Operating Activities						
Net Income	(60,544)	(8,579)	(131,427)	(24,961)	146,733	489,093
Non-Cash Items:						
Depletions and Depreciation	262,801	256,682	363,093	281,520	700,620	745,439
Stock Based Compensation		17,600	53,000	83,500	231,591	414,310
Gain on Sale of Property and Equipment	(1,934)					
Future Income Taxes	22,659	9,660	(105,039)	(64,043)	(24,290)	-
	222,982	275,363	179,627	276,016	1,054,653	1,648,842
Change in Non-Cash Working Capital Items:						
Accounts Receivable	48,524	29,360	(46,728)	(157,742)	(477,138)	(562,213)
ARTC Receivable	-	4,800				
Income Taxes Receivable	(36,000)	36,000			7,500	7,500
Prepaid Expenses						
Income Taxes Payable	(25,409)				148,692	
Accounts Payable and Accrued Liabilities	(128,679)	215,600	(32,935)	1,149,195	(147,266)	1,263,422
	(141,564)	285,760	(79,663)	991,453	(468,212)	708,709
	81,418	561,123	99,964	1,267,469	586,441	2,357,552
Financing Activities						
Bank Loan						
Payment of Bank Loans and Advances			257,942	(257,942)	(186,960)	
Shares Issued for Cash (net)	35,134		(100)	1,234,547	3,700,000	
Share Issue Costs					(62,734)	
Share Issued for Debt						
Contributed Surplus						
Normal Course Issuer Bids	(10,150)	(9,577)	(8,854)	(21,570)		
	24,984	(9,577)	248,988	955,035	3,450,306	-
Investing Activities						
Acquisition of Property and Equipment	(370,240)	(665,080)	(396,720)	(751,243)	(2,000,000)	(2,000,000)
Others	203,415	110,773				
Short-Term Investments			-	(665,615)		
	(166,825)	(554,307)	(396,720)	(1,416,858)	(2,000,000)	(2,000,000)
Increase(decrease) in Cash	(60,423)	(2,761)	(47,768)	805,646	2,036,747	357,552
Cash (BOP)	110,952	50,529	47,768	-	1,471,231	3,507,978
Cash (EOP)	50,529	47,768	-	805,646	3,507,978	3,865,530

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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