Hartleys

WA Oil & Gas: Producer / Explorer

ADI.asx
SPECULATIVE BUY

ADELPHI ENERGY LTD

What Happened?

Adelphi Energy Ltd (ADI) has reported the first flow result from its recent program at its Sugarloaf Project located onshore Texas, USA. An initial rate of 4.38 million cubic feet of gas per day with 1,132 barrels of condensate has been flowed to sales from the Kennedy #1H well through a 22/64 choke. This result has been achieved pre-installation of production tubing and well cleanup is still in progress, with only a small amount of fracture fluid recovered to date.

The Kennedy #1H well was fracture stimulated over 2,200 ft of a possible 4,000 ft horizontal section after technical issues suspended the fracture program on the 27th January 2010.

ADI is free carried through the current program, which includes the workover of three historically drilled wells and the drilling of three additional wells. Post farmout, ADI will retain a 10% working interest in the project.

What Does it Mean?

Whilst this initial result is considered inconclusive for the long term production profile, we view it as highly positive for the following reasons:

1. The installation of production tubing can result in increased flow rates and is particularly significant for the condensate production. This is because well pressure can be more accurately controlled through the production tubing.
2. Shale wells do not always recover significant quantities of fracture fluids; however, reducing the amount of fracture fluid in the reservoir can improve production rates. To date only a small amount of fluid has been recovered.
3. Only 8 of 14 fracture stages were completed in this well, indicating that remaining potential for increased production exists with increased fracture stimulation.

There has been considerable success in the surrounding acreage in the Eagleford Shale play so we consider the resource risk to be low. There is also potential from the Austin Chalk reservoir, which was the initial zone of interest for the Joint Venture.

We interpret the key remaining risk to be operational. This has already been indicated by the issues at the first stimulated well in the program, Kowalik #1H, which remains suspended pending fishing operations. The Kennedy well also experienced some issues before it was able to be salvaged. The high liquids content of the wells also adds both an attractive element in terms of revenue as well as increased risk in terms of management of pressure so that the liquids production does not choke off the permeability in the fractures. As more wells are drilled and lessons learned on best practice techniques for this play we expect that this risk will also reduce.

The activity on the ADI acreage is expected to become more intense with near term results expected from the fracture stimulation of the Weston #1H well and the completion of the Easley #1H well. It is possible that up to 6 wells from the current program will be providing revenue to Adelphi by mid 2010.

Hartleys' Initial View

Investment at the current level, given the potential upside and the positive initial result is considered highly attractive and we have increased our price target from 23cps to 27cps. Risk remains until more production history has been obtained and technical difficulties are not uncommon in this space so we retain our Speculative Buy recommendation.

It is early days but still worthwhile to consider the possible resource of ~45 billion cubic feet of gas and ~8 million barrels of light oil / condensate to Adelphi. Our modelling suggests that this could be worth >180cps for the Company.

	1 Feb 2010
Share Price:	$0.175
6mth Price Target:	$0.259

Brief Business Description:
Oil and gas explorer / producer with assets onshore Texas

Hartleys Brief Investment Conclusion
Highly leveraged to success from current appraisal program in Texas

Chairman & CEO:
Alex Forcke (Chairman)
Chris Hodge (Managing Director)

Top Shareholders:
ARC Energy Limited (32.5%)
Mr Alexander Forcke (2%)
ANZ Nom Ltd <Cash Income A/C> (1.3%)

Company Address:
Ground Floor, 88 Colin St
West Perth, WA, 6005

Valuation:	$0.37
Issued Capital:	147.3m
- fully diluted	147.3m
Market Cap:	$25.8m
- fully diluted	$25.8m
Cash Equiv (31 Dec '09):	$4.5m
Debt (31 Dec '09):	$0.0m

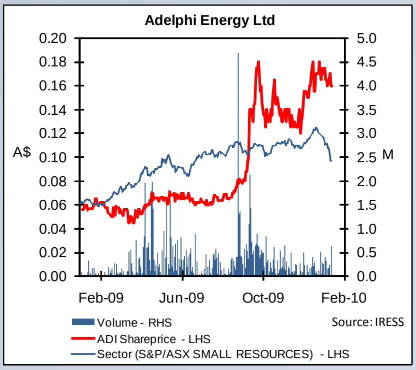
Valuation Summary

Asset	Value $m	risked cps	unrisked cps
Sugarloaf	53.7	36.5	182.4
Yemen	0.3	0.2	3.5
Cash	4.5	3.1	3.1
Debt	-	-	-
O/heads	- 4.0	- 2.7	- 2.7
Total	**54.5**	**37.0**	**186.2**

	FY08a
Chg in Cash	-$4.3m
Net Cash End	5.6m

Resource Target (mmboe)	15.59
EV / 2P Resource ($/boe)	$1.36

Source: Hartleys Research



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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Adelphi Energy Limited. See disclosure on back page for details.

HARTLEYS RESEARCH COVERAGE LIST

Hartleys Research Coverage Name		Ticker	Last Price*	M. CAP (A$m)	EV (A$m)	Hartleys Research Recommendation	Industry
	Oil & Gas						
1.	Woodside Petroleum Ltd	WPL	42.67	31,951	34,848	Buy	Major
2.	Eastern Star Gas Ltd	ESG	0.780	637	558	Buy	Producer / Explorer
3.	Carnarvon Petroleum Ltd	CVN	0.525	360	330	Buy	Producer / Explorer
4.	Nexus Energy Ltd	NXS	0.270	254	435	Speculative Buy	Developer / Explorer
5.	Tap Oil Ltd	TAP	1.07	167	119	Buy	Producer / Explorer
6.	Cooper Energy Ltd	COE	0.475	139	43	Buy	Producer / Explorer
7.	Red Fork Energy Ltd	RFE	0.840	115	87	Buy	Explorer / Producer
8.	Strike Energy Ltd	STX	0.280	92	82	Buy	Explorer / Producer
9.	Amadeus Energy Ltd	AMU	0.240	73	119	Buy	Producer / Explorer
10.	First Australian Resources Ltd	FAR	0.058	38	19	Speculative Buy	Explorer / Producer
11.	European Gas Ltd	EPG	0.135	27	91	Speculative Buy	Producer / Explorer
12.	Sun Resources NL	SUR	0.076	26	16	Speculative Buy	Explorer / Producer
13.	Oilex Ltd	OEX	0.110	24	4	Neutral	Explorer / Producer
14.	Adelphi Energy Ltd	ADI	0.155	23	16	Speculative Buy	Junior
			Sub-Total	33,925	36,768		
	Resources						
1.	Riversdale Mining Limited	RIV	7.30	1,375	1,107	Speculative Buy	Coal
2.	Atlas Iron Limited	AGO	1.95	869	689	Buy	Iron Ore
3.	Western Areas NL	WSA	4.15	743	922	No Rating	Nickel
4.	Medusa Mining Limited	MML	3.08	520	487	No Rating	Gold
5.	Dominion Mining Limited	DOM	3.00	309	357	Speculative Buy	Gold
6.	Gold One International Limited	GDO	0.280	225	140	Buy	Gold
7.	Jabiru Metals Limited	JML	0.380	210	185	No Rating	Zinc-Copper
8.	Focus Minerals Ltd	FML	0.068	194	185	Speculative Buy	Gold Producer
9.	Silver Lake Resources	SLR	0.925	165	135	Speculative Buy	Gold
10.	Intrepid Mines Limited	IAU	0.265	113	66	Speculative Buy	Gold
11.	Magma Metals Limited	MMB	0.610	99	79	Speculative Buy	PGM-Cu-Ni
12.	Peninsula Minerals Ltd	PEN	0.050	69	60	Speculative Buy	Uranium Developer / Explorer
13.	Emmerson Resources Limited	ERM	0.235	48	35	Speculative Buy	Junior Explorer
14.	Shaw River Resources Limited	SRR	0.205	41	34	Speculative Buy	Junior Explorer
15.	YTC Resources Limited	YTC	0.210	34	22	Buy	Junior Explorer
16.	Ausquest Limited	AQD	0.130	30	3	Speculative Buy	Junior Explorer
17.	Orion Gold NL	ORN	0.036	27	23	Speculative Buy	Gold
18.	Impact Minerals Limited	IPT	0.195	18	14	Speculative Buy	Junior Explorer
19.	Southern Gold Limited	SAU	0.125	18	14	Speculative Buy	Junior Explorer
20.	Ferrum Crescent Limited	FCR	0.110	17	15	Speculative Buy	Iron Ore
21.	Hazelw ood Resources Ltd	HAZ	0.165	17	13	Speculative Buy	Junior Explorer
			Sub-Total	5,071	4,529		
	Industrials						
1.	West Australia New s Hdgs Ltd	WAN	7.33	1,579	1,896	Buy	Media
2.	Monadelphous Group Limited	MND	12.890	1,094	964	Neutral	Mining Services
3.	Clough Limited	CLO	0.840	561	607	No Rating	Oil & Gas Services
4.	Mermaid Marine Australia Ltd	MRM	2.65	483	535	Buy	Oil & Gas Services
5.	Austal Limited	ASB	2.440	459	365	Speculative Buy	Capital Goods
6.	NRW Holdings Ltd	NWH	1.77	443	503	Buy	Mining & Civil Construction
7.	Fleetw ood Corporation	FWD	8.14	420	431	Neutral	Consumer & Mining Services
8.	Macmahon Holdings Limited	MAH	0.565	415	416	Speculative Buy	Mining & Civil Construction
9.	Ausdrill Limited	ASL	1.88	394	615	Buy	Mining Services (Drilling &
10.	Cash Converters Limited	CCV	0.640	233	184	Buy	Retail & Consumer Finance
11.	Neptune Marine Ltd	NMS	0.425	185	197	Neutral	Oil & Gas Services
12.	Southern Cross Electrical	SXE	1.47	176	153	Buy	Mining & Civil Construction
13.	Decmil Group Limited	DCG	1.33	162	137	Buy	Mining & Civil Construction
14.	RCR Tomlinson Ltd	RCR	1.020	134	183	Buy	Mining & Industrial Services
15.	Imdex Ltd	IMD	0.670	130	152	Buy	Oil & Gas / Mining Drilling
16.	Lycopodium Limited	LYL	3.080	117	113	Buy	Mining & Industrial Services
17.	VDM Group Limited	VMG	0.480	101	136	Buy	Mining & Civil Construction
18.	Sw ick Mining Services Ltd	SWK	0.480	73	127	Buy	Mining Services (Drilling)
19.	LogiCamms Limited	LCM	0.930	56	48	Buy	Resource Services
20.	Nomad Building Solutions Ltd	NOD	0.275	37	63	Reduce	Residential & Mining Services
			Sub-Total	7,253	7,827		
			GRAND TOTAL	46,248	49,123		

Source: IRESS, Hartleys Research. * 2 Feb 2010

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Hartleys Recommendation Categories

No Rating	No recommendation.
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but it is higher risk than a "Buy". For the share price to rise it may be contingent on the outcome of an uncertain or distant event.
Neutral	Take no action. Stock is already trading near the share price target and there are no foreseeable near term catalysts.
Reduce / Take profits	Stock is trading above the share price target and there is a near term negative catalyst that could cause temporary weakness.
Sell	Significant price depreciation anticipated

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Hartleys has completed capital raising within the past 12 months for Adelphi Energy Limited ("Adelphi") for which it received fees. Hartleys has also provided corporate advice within the past 12 months to Adelphi ("Adelphi") for which it received fees.

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