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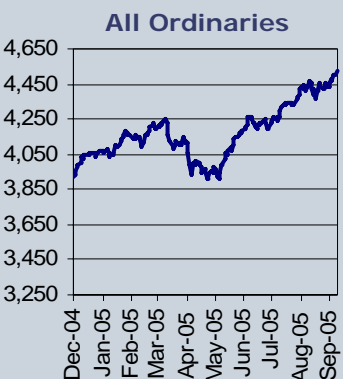
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Market Notes

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Indices & Prices	
All Ordinaries	4527.20
Energy Index	10152.50
Brent US\$/bbl	64.76
AUS\$/US\$	0.7666
As at Close September 20th	



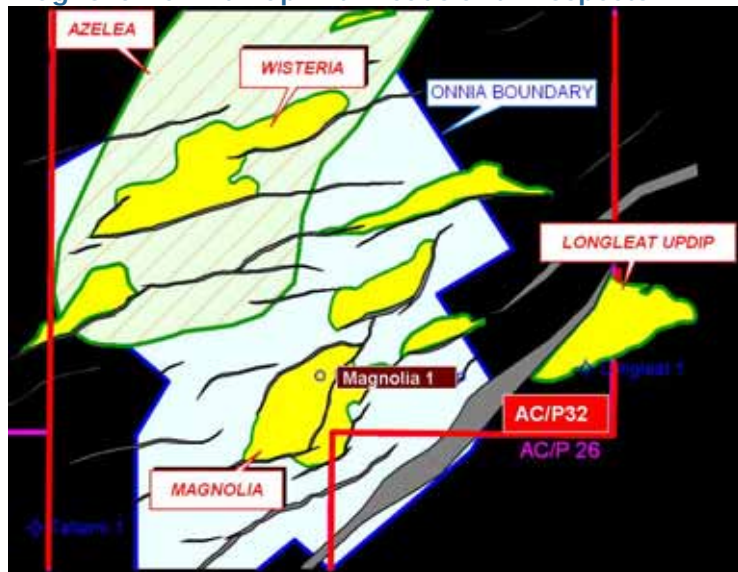
Adelphi Energy Arcs up

The management of Adelphi Energy has been busy establishing a portfolio of exploration prospects, adding to its initial interest in the Magnolia prospect in AC-P-32, which is now set to drill in mid November. The company is now set in three project areas, with a 15% interest in Magnolia (following a 10% farm-out to AWE), a 12.5% working interest (8.75% NRI) in the huge Sugarloaf prospect, onshore GOM and an 8.5% interest in Blocks 7 and 74, in the prospective Basins in The Yemen.

Adelphi holds about \$12m of cash of which about \$3.5m is now earmarked for drilling in Australia and the USA. The company is actively seeking additional projects in the Middle East, South East Asia and Australia/New Zealand.

Magnolia is a highly anticipated exploration target, not only because it has an intriguing structure, with two target horizons down to a depth of about 2,800 metres, but also because its partners in this project consist of several junior companies including Norwest with 19.6%, Bounty with 10% and AWE with 10%. Should Magnolia be a discovery, the permit offers good follow up potential with at least 5 other fault dependent structures so far identified. Success at Magnolia would be a life changing event for Adelphi, with an 80MMbbl discovery worth over \$1.60 per share to the company.

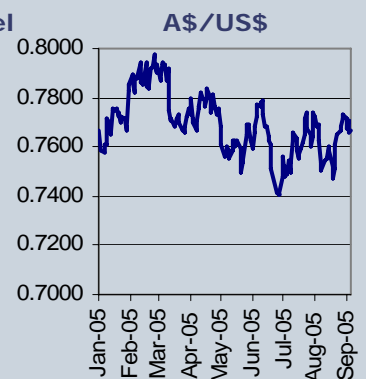
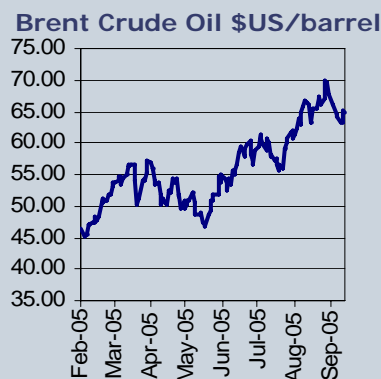
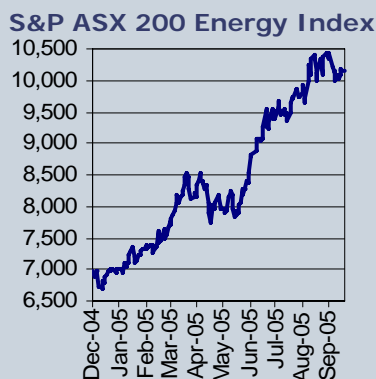
Magnolia Permit Map with Leads and Prospects



Source: Adelphi Energy Ltd

In Texas, Adelphi has teamed up with Aurora Oil & Gas to test a deep gas prospect with potential to hold several Tcf of gas, but a stated mean reserves target of 800Bcf. In this part of the world, there is little risk of source, seal or structure, the main risk is reservoir quality at a depth of around 5,500 metres. The company's consultants are giving the prospect an 18% chance of commercial success, which StockAnalysis ranks as a moderate risk. Drilling is expected at Sugarloaf in H1 2006 and discovery of 800Bcf of gas, with an insitu value of A\$3.6/Mcf, would be worth over \$4 per share for ADI and over \$3 per share for Aurora.

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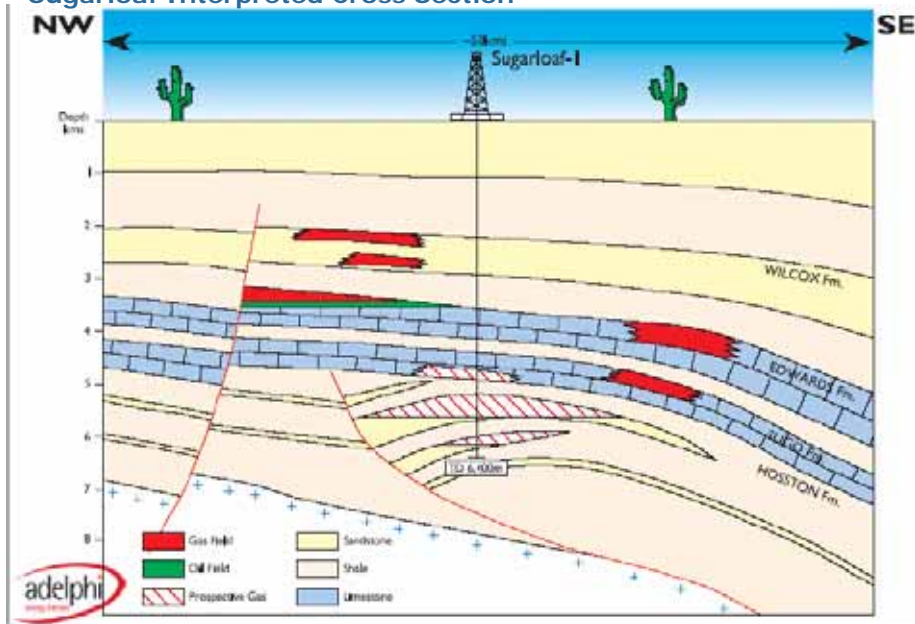


Adelphi Energy

ASX Code	ADI
Current Price	0.37
Number Shares (mil)	70.3
Options (mil) @ 0.25	8.75
Options (mil) @ 0.36	8.55
Market Cap (mil)	32.41

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Sugarloaf Interpreted Cross Section



Source: Adelphi Energy Ltd

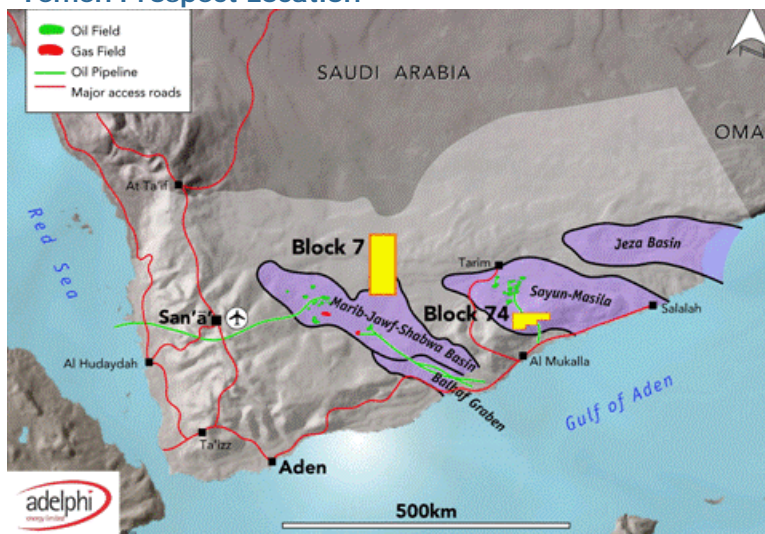
Leverage to Success at Sugarloaf

Company	Equity	Current Price cts	Discovery Value cps	Leverage %	Risk adj Value cps
ADI	12.5%	39	411	1067%	73.8
AUT	12.5%	45	323	719%	58.1
Target Value		800 Bcf	\$ 3.6 A\$/Mcf		
Prob		18.0%			

Source: Strachan Corp. Pty Ltd.

Things are hotting up in The Yemen, where Oil Search has recently made a significant oil discovery and drilling over the past 5 years has shown an impressive, 30% commercial success rate. European companies TOTAL and OMV have recently made huge discoveries of hydrocarbons in fractured basement rocks with the full significance of these accumulations, still to be determined.

Yemen Prospect Location



Source: Adelphi Energy Ltd

Yemen is considered an attractive environment for junior companies with balanced fiscal terms and proven but under explored petroleum basins. Well costs are also modest at US\$2-4m each with targets seen in the 100MMbbl range.

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Adelphi is in partnership with experienced operator Oil Search, with 34% and Arc Energy with 21.25%, but drilling is not expected in The Yemen until 2007, after seismic data is acquired and interpreted.

Risk Adjusted Valuation Matrix

Asset	Value \$m	\$ per Share	Comment
Cash	\$ 6.4	0.07	less commitments
Option cash	\$ 5.3	0.06	
Other	-\$ 4	-0.04	Corporate
		0.09	
Exploration Value		0.89	
Total Value		0.98	

Well	Equity	Target Pj	Target MMbbl	Risk %	NPV \$m	ADI Value \$/share	Riskd NPV \$m	ADI cost to drill \$m	Riskd NPV \$m
Magnolia	15.0%	0	80	14%	960	1.64	134	2.1	18.1
Yemen Global	8.5%	0	200	10%	1316	1.28	132	1.3	9.8
Sugarloaf	12.5%	800	8	18%	3069	4.38	552	1.2	67.9
									77.7

In-ground Value Assumptions

Offshore Oil \$A/bbl	\$ 12.0 /bbl
Onshore Oil \$A/bbl	\$ 20.0 /bbl
US gas A\$	\$ 3.6 /Mcf
Yemen Oil	\$ 6.6 /bbl

Source: Strachan Corp. Pty Ltd.

Adelphi has a base value of about 9 cents per share for its uncommitted cash. StockAnalysis assesses a risk adjusted valuation of its exploration portfolio at \$77million, or 89 cps on a fully diluted basis.

Recommendation

With a target valuation of close to \$1 per share, my experience is that the market will recognise about 30% to 50% of this value, so ADI might trade up to 50 cps ahead of drilling at Magnolia or the award of additional permits in the Middle East, SE Asia or Australia/New Zealand.

The stock has already run strongly, but its management and asset quality, plus its assured funding capability, supported by Arc Energy, places the company on the list of speculative buys.

Good Oil Stragglers

I have had some comment from alert readers who note that my summary of Good Oilers was not the complete list. This is true and the omissions were not meant to be a slight on those companies not reported on.

I consider that subscribers are completely up to speed on **Tap Oil**, which has been well covered in recent editions and as the presentation added nothing to that pool of knowledge, there was nothing to report. Tap's MD did however make a valid point with respect to proposed new accounting standards which would see companies forced to write off spending which was not immediately successful in outlining new reserves.

Given that a seismic programme might cost several million dollars in April, it makes no sense to have to write this off in June, simply because no drilling had been undertaken to follow up this work. A lot of exploration work undertaken by the oil industry has a value which can be recognised for 5-10 years after it was carried out, so the successful results criteria suggested needs some modification.

I did not attend the **Norwest** presentation since I believed that most subscribers should be on top of this story, which has been well covered in previous editions of StockAnalysis. During the **Drillsearch** and **Methanex** presentations I was recovering from my role as Chairman of the previous session and so missed those talks.

Sun does not Shine on the Continent (PCL/SUR)

Pancontinental Petroleum and **Sun Resources** received some bad news on their Mediterranean project, located in waters off Malta last week, with a delay of at least 6 months expected to the acquisition of 3D seismic data while the Maltese Government bashes out a border agreement with its neighbours. If the experience of negotiations between Australia and East Timor is anything to go by, this could take longer than 6 months!

Investors in Pancontinental definitely need to be long distance runners and not sprinters. Both PCL and SUR are exploring for very substantial hydrocarbon accumulations, often in challenging physical and political conditions, so there will always be delays. The main issue for investors continues to be whether the companies can fund themselves through an exploration process in order to test their ground for hydrocarbons.

There is no doubt that delaying the Malta project takes a lot of the gloss away from PCL in particular, while SUR has several other active projects in the USA and China, which offer short term appeal. PCL may languish in the market now that the Malta project has been put on ice, however the hydrocarbons are not going away and investors will need to be patient to catch this very large fish. PCL is still working on a farm-out for Kenya and expects to be drilling a well in New Zealand in about 8-10 weeks.

Working Systems Makes New Friends (WSS)

For a long time, StockAnalysis has felt like a lone voice in the wilderness on this company. I have consistently recommended it to subscribers at prices from 7 cents to around 11 cents as recently as 31 August, on the back of its industry position, growth outlook and simple, undervaluation as a result of no-one taking notice of micro-cap stocks. I am delighted to see the stock now trading at 16 cps on some serious trading volumes as stale bulls exit the stock.

WSS appears to have found a new bunch of friends following a placement of 12.67m new shares at 15cps, which was a significant premium to the then market price. The new shareholders appear to be continuing to support the company, buying more stock at 16 cents.

Valuation			
DCF Valuation, WACC=	12.5% & Terminal growth	9.0%	\$0.38
Valuation based on FY06 EPS and P/E of 9 [x]			\$0.16
NTA per share			\$0.00
2006 EV/EBITDA =	6 [x]		\$0.21

Source: Strachan Corp. Pty Ltd.

StockAnalysis is comfortable with a valuation of around 16 to 21 cents, based on capitalisation of prospective earnings. My DCF valuation points to an even higher share value, but this relies on the company's management continuing to perform over many years.

StockAnalysis maintains its buy recommendation on any weakness below 16 cents.

Monaro Resources Shows its Grunt (MRO)

Novel resources float, mentioned in dispatches in StockAnalysis of 17 August, hit the market with a bang, rising from an issue price of 20 cents to a high of 50 cents post float. The company had the novel approach of not issuing any vendor shares to promoters, who took 4 million 20 cent partly paid shares instead. The Directors put together a portfolio of properties in NSW's Lachlan Fold Belt, at a cost of about A\$80,000 over a period of months. Other companies might have chosen to reward the promoters with the issue of 20 million odd vendor shares with a notional value of \$4m for this titanic effort, but the Directors of Monaro chose to take the \$80,000 back out of the proceeds of the float and then to reinvest this money buying Monaro shares. The end result is a company with just 15m shares on issue and almost all the money it started with, programmed to be spent on exploration and project identification.

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The key issue with Monaro is not the properties it presently holds, but those it will have an interest in next year! StockAnalysis firmly expects that Monaro will spread its wings and knowing the interest which its MD, Warwick Grigor holds in uranium properties, I expect that the company will be reviewing several opportunities in this area as we speak.

AED Boosts Potential Reserves

Puffin project developer, AED Ltd has boosted its estimate for recoverable reserves at the Puffin project to 14 million barrels from previous estimates of around 10.6 MMbbls.

Puffin Project Financial Model

Y/E 31 December	2005	2006	2007	2008	2009		
Production bbls/day		17,000	13,860	6,930	3,465		
mbbls pa		5.87	5.06	2.53	0.51		
Revenue @ US\$/bbl	60.0						
Discount (premium) A\$/bbl	-0.5						
\$A:\$US	0.78	454	392	196	39		
Op cost \$/bbl	1.3	\$ 50.0	(57.6)	(56.6)	(53.3)	(25.3)	
Admin		(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	
Hedge cost \$/bbl	2.0		(11.7)	(10.1)	(5.1)	(1.0)	
			(1.5)	(70.9)	(68.2)	(59.8)	(27.8)
				12.08	13.48	23.66	55.03
Operating Margin		-2	383	323	136	11	
Capex							
Development Drilling		25	50				
Topside			25				
Abandonment less Salvage						7	
Debt			-60.0				
Total	0	25	15	0	0	7	
Operating cash flow		-1.5	383.2	323.5	136.0	11.3	
PRRT		-	(135.4)	(129.4)	(54.4)	(1.7)	
EBITDA		- 1.5	247.8	194.1	81.6	9.6	
Depreciation		-	(19.7)	(17.0)	(8.5)	(1.7)	
EBIT		(1.5)	228.1	177.1	73.1	7.9	
Interest			(6.0)	(4.5)	(2.8)	-	
PBT		-1.5	222.1	172.6	70.3	7.9	
Taxation @	30%	-	(66.6)	(51.8)	(21.1)	(2.4)	
Net Profit			155.4	120.8	49.2	5.5	
Cash flow		-26.5	160.2	137.8	57.7	0.2	
NPV							
	Disc	\$m.	\$A/bbl	\$/share			
	10.1%	\$251	18.0	\$ 1.65			
	12.0%	\$239	17.1	\$ 1.57			

Source: Strachan Corp. Pty Ltd.

The model above has been enhanced by addition of a debt funding assumption, applying \$60m of debt with a three year repayment schedule at an interest rate of 8.3% pa. If all goes according to plan, the project will produce an NPV of \$251m, at an oil price of US\$60/bbl, equivalent to \$1.65 per AED share, fully diluted for options. If AED's exploration programme is a success, the project could add over 10MMbbls, boosting valuation to over \$2.80/share.

AED still faces significant risks associated with development and funding/hedging, as well as drilling and production. My model assumes that AED's management is able to hedge oil production such that it achieves a price outcome of US\$60.50/bbl, including a small premium for high quality product.

AED is at present a one horse show. The company has a three year window of opportunity to demonstrate that it can apply cash generation from Puffin to grow its business.

Market Notes

Very early on in its life, StockAnalysis predicted that the oil price would rise to A\$80/bbl with potential spikes to A\$100/bbl. I have also expressed a strong belief that the US economy was facing huge structural challenges which would weaken its standing and lead to a fall in value of the US currency. So far, the rest of the world has been patient and there continues to be support for the torrent of US Federal Government paper pouring out of the treasury, with buying from Japan, China and Europe, all of whom have a huge vested interest in maintaining a strong US dollar. However, there are signs of a crack in this cosy alliance, with China reducing its buying and tending to rely on other stores of value for its reserves. StockAnalysis sees continuing uncertainty surrounding the US dollar and maintenance of a downward trend, set in place over the past 3 years.

Also in line with previous StockAnalysis expectations, fuel prices have now risen to a point where there is serious cost push pressure on inflation, which will become more apparent early in 2006. So far, prices have resisted the upward move with rising productivity taking up the slack and some margins being squeezed. In the meantime, people are definitely beginning to adjust their usage of energy. Fewer day trips, the elimination of unnecessary driving and the downsizing of vehicles to more fuel efficient, small cars is a growing trend, supported by the sales statistics. Those expecting the oil price to move higher in 2006 may be surprised at how rapidly demand will adjust over the coming 12 months, leading to a continued build up of fuel stocks and downward pressure on oil towards US\$50/bbl by mid 2006.

StockAnalysis has also been somewhat of a gold bull, but I have been remiss in not spending more effort to bring value opportunities to subscribers (there are only so many hours in the day!). The gold market has broken out into a serious bull run, with support now standing below the market at A\$586/oz. StockAnalysis prefers to look at the AUD price since this is the price received by most Australian producers and the USD price will be influenced by the currency's retreat as time moves on. I expect that gold stocks will takeover from nickel and iron ore stocks as the darlings of the market, alongside those exploring for uranium.

In a rising gold market, high cost producers offer the best leverage, so companies like New Zealand based, **Oceana Gold** (OGD) will be well placed to benefit. Others to catch my attention, without a lot of science, include miner developer **Ballarat Goldfields** (BGF) and explorer, **Alkane Exploration**. Still, a rising tide is likely to lift all ships.

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