

Sun Resources NL



Bowsprit acquisition clears path for Sun

Overview: Sun Resources NL (“Sun Resources”, “Sun”, “the Company”) is an Australian energy company focused on oil and gas exploration in the Gulf of Mexico, USA. Its principal asset is a 100% interest in the Bowsprit Project (“the Project”), which consists of two granted petroleum leases covering 4.6km² of shallow transitional waters of Louisiana. The Project is estimated to host contingent resources of 0.76million barrels (2C gross), and unrisks prospective resources of an additional 1.72 million barrels (Best; gross). Since initiating coverage in May 2018, Sun has advanced the technical studies on the project, but appraisal drilling did not occur as scheduled. Sun has now acquired 100% interest to accelerate project funding and drilling.

EXPLORATION

RESOURCE

RESERVE

Catalysts: Sun Resources has resolved a major hurdle with the 100% acquisition of the Bowsprit Project, as progressing the project was impossible unless both partners were funded. Whilst the project is already behind schedule, there is potential to bringing the field on production in 2020 if subsequent farm out discussions are successful. The coming appraisal drilling is designed to demonstrate the potentially robust economics of the project and finding the optimum funding method could be a major value driver.

Hurdles: Bowsprit is running significantly behind schedule and there is no guarantee that Sun can progress appraisal drilling and financing discussions as expected. Sun remains reliant on external capital to expedite commercial field development and there is a risk that further funding may be needed to prepare Bowsprit for commercial oil production. There remains significant technical risk and there is no guarantee appraisal results will be favorable. Bowsprit is in a strategically good location with upside potential in prospective resources, however as it is a small-scale project, Sun may need to acquire other assets in order to sustain a long-term production profile.

Investment View: Commercial discussions did not progress as forecasted but we continue to see significant upside for Bowsprit and remain attracted to the potential robust economics of the project and pathway to near-term, profitable oil production. While the recent project delays have negatively impacted sentiment, we believe it does not threaten the long-term commercial viability of the project. However, the coming period is critical as timely and cost-effective execution is required to restore shareholder confidence and accelerate commercial delivery. Funding remains a key risk but could also be a major value driver if delivered at favourable terms to shareholders. We resume coverage as we believe SUN is a speculative opportunity suitable for investors with an appetite for risk. Our initial valuation of 1.2c was based on a 50% interest in the project and we are placing this valuation *under review* to monitor Sun’s progress. Should Sun be able to bring the project back on track in the next few months, the upside potential in the share price could be considerable.

1 August 2019

Price: \$0.002

Update

Valuation under review

DISCLOSURES

REPORT COMMISSIONED BY	Sun Resources
AUTHOR OWNS THIS SECURITY	No
WISE-OWL OWNS THIS SECURITY	Yes

CORPORATE SUMMARY

TICKER	SUR.ASX
INDUSTRY	Oil and Gas
SHARES ON ISSUE	956.1m
OTHER SECURITIES	Options 393.8m, 1c Oct '20 Unlisted options 50m, 0.4c Dec '20 \$1.1m Convertible Loan Mar '21*
MARKET CAP	\$1.9m
CASH	<\$0.1m
ISSUED CAPITAL	\$1.29m

*repayable out of future oil production

ASSET OVERVIEW

TITLE	Bowsprit Project (100%)
LOCATION	Louisiana, USA
STATUS	Appraisal
RESOURCE	0.76mmbbls (2C), 1.72mmbbls (Best)
RESERVE	-

BOARD OF DIRECTORS

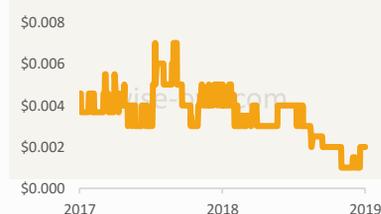
CHAIRMAN	Ian McCubbing
CEO & MD	Alex Parks
NON EXEC DIRECTOR	William Bloking

SHAREHOLDERS

MANAGEMENT & BOARD	7%^
FAST LANE AUST PTY LTD	21.4%
BELLARINE GOLD	6.4%
CM SUPER FUND PTY LTD	3.6%
TOP 20	~60%

^ excludes options and performance shares

SHARE PRICE



1 August 2019

THE BULLS AND THE BEARS



THE BULLS SAY

- The Bowsprit Project offers potentially robust economics with potential IRR's exceeding 200%
- The Bowsprit Project has a history of modest oil production in the 1960s prior to the advent of modern exploration techniques such as 3D seismic and horizontal drilling
- Location within the Gulf of Mexico shallows provides ready availability of critical infrastructure and expertise
- The 100% acquisition of Bowsprit clears the way to accelerate appraisal drilling and financing following a significant delay and provides significantly enhanced economics if the project is succesful
- A near term farm out transaction and appraisal drilling targeted for Q1 2020 are the major value drivers, potentially providing the foundation to convert existing resources to reserves.
- The Board and major shareholders have supported the Company during the delay
- SUR is valued as a shell and there could be significant upside in the event of commercial success



THE BEARS SAY

- Oil prices are volatile and there is no guarantee that future oil production can be achieved at a profit
- Sun Resources has an immediate need to raise capital, hence its development plan at Bowsprit is currently unfunded. There is no guarantee it can secure funding on terms beneficial for current shareholders
- The project area is quite small, limiting exploration upside beyond the current resource estimates. Over 70% of the resource is classed as prospective, which RISC Advisory Ltd has assessed the chances of success to be 1 in 5.
- Whilst farm out negotiations can mitigate Sun Resources capital demands, it reduces the Company's exposure to drilling success
- Achieving an attractive valuation is contingent on all of Bowsprit's 2C contingent and Best case prospective resource converting into reserves and does not take into account success rate probabilities ascribed by RISC Advisory Ltd.



Sun needs to prove the move to buy out the partner is the right one

1 August 2019

GLOSSARY

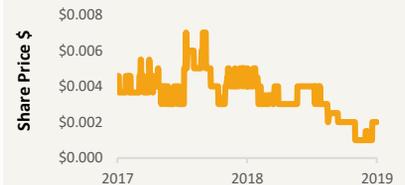
Buy	Increasing value of established business operations is likely to yield share price appreciation
Spec Buy	Increasing value of a new or developing business operation is likely to yield share price appreciation.
Hold	There exists an even balance of risks.
Sell	There is elevated risk of share price depreciation.
Stop	Our recommended, pre determined sell price, to be executed if the share price fails to appreciate
Exploration	An early stage of oil and gas development where assets are either absent of resource estimates 'or contain 'undiscovered', prospective resource estimates according to Society of Petroleum Engineers International (SPE)
Resource	An intermediate stage of oil and gas development characterised by Contingent Resource estimates according to SPE standards. These Resources (2C) are discovered but yet to be deemed commercial.
Reserve	An advanced stage of oil and gas development. Refers to companies that have defined Proved and Probable (2P) Reserves according to SPE standards.

ARCHIVES

Sun Resources (SUR.ASX)

May-18 Speculative Buy – 1.2c

Dec-18 Update



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