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Sun Resources NL (SUR)

Upcoming 3 well Woodbine programme targets same oil successes as neighbours

Recommendation
Buy (unchanged)
Price
$0.036
Target (12 months)
$0.11 (previously $0.095)
Risk
Speculative

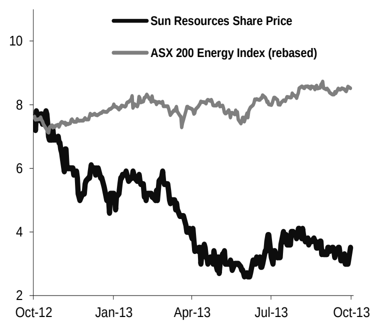
Expected Return	
Capital growth	**206%**
Dividend yield	**0%**
Total expected return	**206%**
Company Data & Ratios	
Enterprise value	**$78m**
Market cap	**$93m**
Issued capital	**2,434.9m**
Free float	**61%**
Avg. daily val. (52wk)	**$0.08m**
12 month price range	**$0.024 - $0.078**
GICS sector	**Energy**

Disclosure: Bell Potter Securities acted as a broker to a $20m placement in August/September 2012 and received fees for that service.

Price Performance

	1mth	3mths	12mths
Price ($A)	0.031	0.035	0.062
Absolute (%)	16.1	2.9	-41.9
Rel. Market (%)	9.2	2.3	-63.8

Absolute Price



SOURCE: IRESS

Simply seeking to replicate production successes of others

Sun Resources NL (Sun) was an early mover to secure significant acreage positions in what is now recognised as a prolific unconventional oil province in the Woodbine and other stratigraphically adjacent hydrocarbon bearing and productive horizons of East Texas, USA. There are now many large oil companies successfully producing substantial amounts of oil from the Woodbine, contributing to the rapid turnaround in the USA's oil production over the past five years that has just seen it become the No 1 oil producing country. Sun has suffered a number of unfortunate technical setbacks in the fraccing of its six Woodbine wells to date and has not achieved anything like the success of the generally much larger companies in areas near Sun's acreage.

Applying the appropriate fraccing recipe is the critical step

While the success of others has demonstrated that the Woodbine is a potentially huge hydrocarbon field capable of sustaining a large oil output by horizontal drilling and fraccing, most oil exploration and development companies operating there experienced initial technical setbacks that were eventually overcome by developing appropriate fraccing and completion techniques. We believe Sun has learned very valuable lessons from its setbacks and is now about to start replicating the very impressive oil production success of others with nearby acreage by applying expertly supervised similar fraccing and completion techniques. The company will participate in a three well programme in the Woodbine in the next two months comprising horizontal wells into its Petro-Hunt AMI (Delta), Normangee and Centerville AMI (Amerril) Oil Projects, where Sun has working interests of 25%, 50% and about 18% respectively.

Valuations increased and price target raised to $0.11

Sun is now well placed to replicate the results of recent Woodbine wells by others and is finally set to start unlocking potentially substantial value from its strategic Woodbine areas, aided by a recent placement. We have increased our risk weighted per share equity diluted valuations to $0.16 for the base case and $0.41 for the upside case. Our 12-month target price has been increased to $0.11 per share but we see considerable upside beyond that. We retain our Buy with Speculative Risk recommendation.

Earnings Forecast

Year end June	2012a	2013a	2014e	2015e
Oil Price (US$/barrel)	92	90	90	91
Sales (A$m)	0.0	0.3	14.5	77.8
EBITDA (A$m)	(4.5)	(9.8)	(8.3)	24.4
NPAT (reported) (A$m)	(4.4)	(10.2)	(12.3)	6.9
NPAT (adjusted) (A$m)	(4.4)	(10.2)	(12.3)	6.9
EPS (adjusted) (¢ps)	(0.5)	(0.7)	(0.4)	0.2
EPS growth (%)	na	na	na	na
PER (x)	na	na	na	16.0
FCF Yield (%)	na	na	na	Na
EV/EBITDA (x)	na	na	na	7.9
Dividend (¢ps)	-	-	-	-
Yield (%)	na	na	na	na
ROE (%)	na	na	na	9%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Three well Woodbine programme about to start

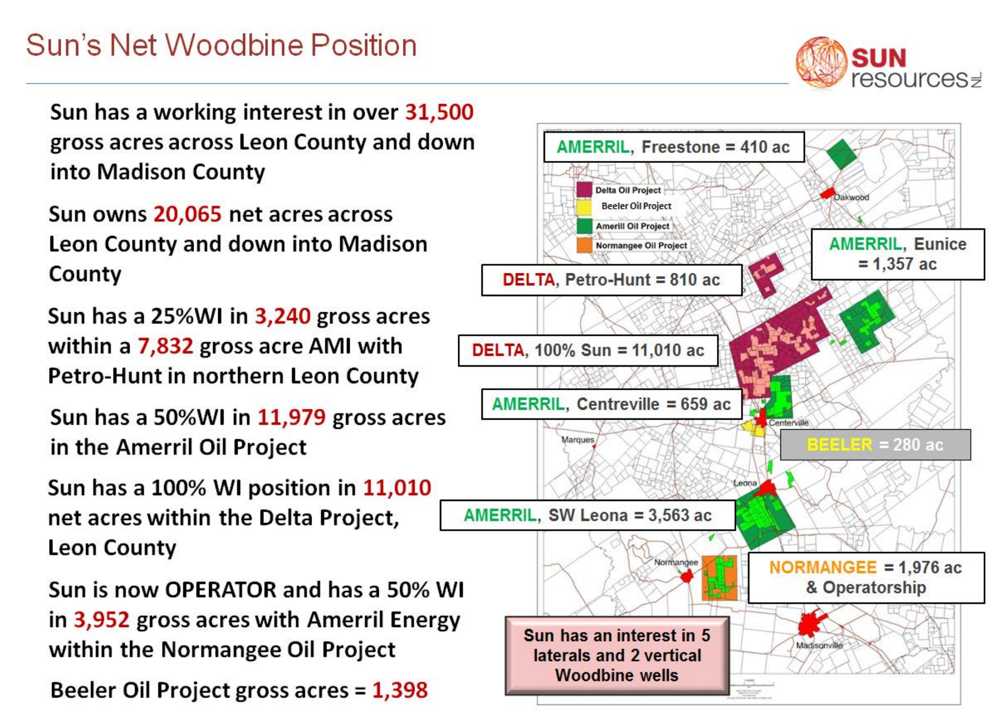
Sun is about to participate in three wells targeting the Woodbine in its East Texas areas (Figure 1) that are planned to be drilled over the next two months. These wells and Sun's interest in them are:

- **Petro-Hunt Area of Mutual Interest (AMI) (Delta) Oil Project** – Petro-Hunt is the operator and has 75% working interest (WI), Sun has 25% WI. A horizontal well targeting the Lower Woodbine is planned for mid-December 2013. We understand Petro-Hunt, which is a very experienced and successful Woodbine operator, has done a lot of planning for this well including research of old historical vertical offset wells that intersected a thick oil charged sandstone unit with excellent porosity (up to 24%), which will be the target. The first well in the AMI, it is planned to be drilled with an initial pilot followed by a 5,500 foot horizontal lateral that will be subjected to multi-stage fraccing.
- **Normangee Oil Project** – Sun has a 50% WI and is Operator with Amerril Energy LLC (Amerril) holding 50% WI. A horizontal well (Jack Howe #1H) after an initial vertical pilot well is principally targeting the Lower Woodbine (but we understand the pilot well may be drilled past that and extend into the locally oil-bearing Glen Rose Formation) and is planned for December 2013. This is the first well in this project and the first to be drilled by Sun as Operator. Sun has been assembling a team to deliver this drilling and fraccing activity. Sun's team is headed up by Mr Steve Smith, who is Vice President of Operations in the USA for Sun. He is very experienced for this role, having had 35 years of oil field experience that has mainly concentrated on well drilling and completions in key positions with exploration and production companies in many parts of the USA and internationally. Sun reports that one of the major Woodbine operators, EOG Resources (NYSE – EOG, not rated) which has a market capitalisation of over $US50 billion, recently completed a well (Rea #1H) immediately west of the Normangee Project leases.
- **Centerville AMI (Amerril) Oil Project** – Amerril has about 30% WI and is Operator; Furie Petroleum Company LLC (Furie) has about 50% WI and Sun has approximately 18% WI. A horizontal well (F. Thompson #1H) will be a multi-staged fracced one targeting the Upper Woodbine (which has been a strong producing zone immediately to the south in the Halcon-operated Halliday Field). The first well in this AMI, it is planned for mid-November 2013 and there is excellent well control from a number of historic conventional wells that were drilled and abandoned back in the 1950s and 1960s because the oil was tight. The well is also nearby to the Cowtown #1H, which was recently drilled by a private group, Energy & Exploration Partners (E&EP), and had a strong oil flow – Initial Production (IP) of over 600 barrels of oil per day (bopd). A data swap has been done with E&EP, which has given the Operator access to the well logs and fraccing design of the Cowtown #1H so the fraccing of F. Thompson #1H is likely to be done with the same design.

There is considerable technical justification for each of these wells such as excellent supportive data from historic drilling that was seeking conventional reservoirs to being adjacent to very successful production wells recently drilled by others. Importantly each of the wells will be using highly competent fraccing contractors adopting the most appropriate fraccing and completion techniques based on significant nearby well experience and in some instances the fraccing will be done by the same fraccing contractor using virtually the same fraccing design as a recent nearby successful production outcome.

While there is no certainty that any of these wells will achieve successful production outcomes, simply because of the potential for unforseen geological irregularities and potential for unexpected fraccing complications, **we believe the upcoming programme represents an excellent opportunity for Sun to finally replicate the successful and substantial oil production many other large publicly listed and independent oil companies have been having for some time in adjacent and surrounding leases**.

Figure 1 - Map of Sun's interests in the Woodbine trend in East Texas, USA



SOURCE: SUN RESOURCES N L SCALE: APPROX. 1:150,000

We believe the reason Sun hasn't been monetising its Woodbine acreage to date is related to inappropriate fraccing and completion so this upcoming programme will be an important opportunity to demonstrate that Sun's acreage is every bit as good as the surrounding productive acreage and can be progressively and effectively monetised.

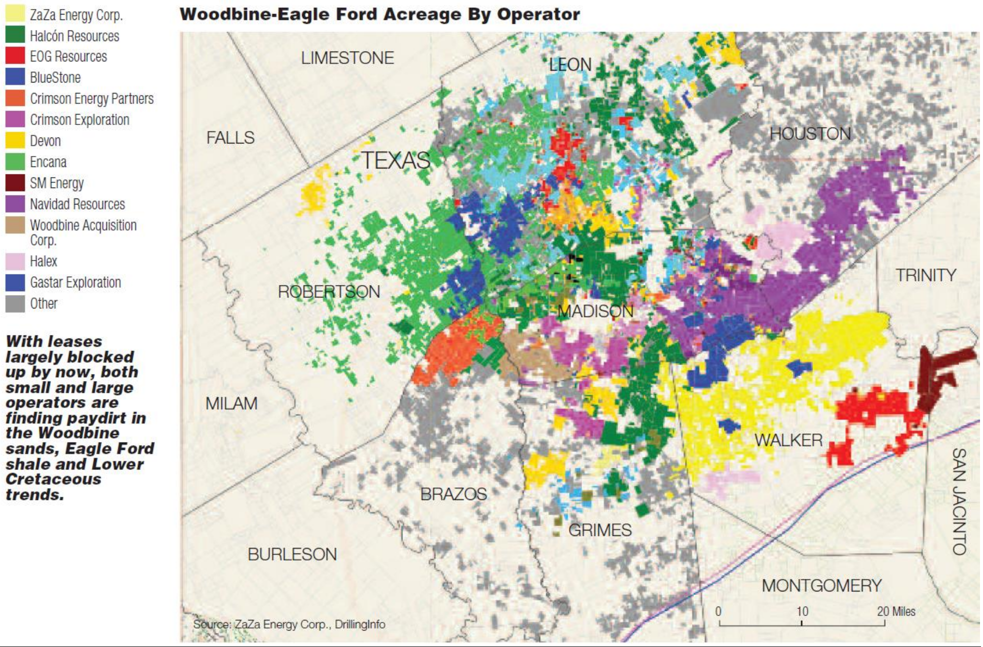
While Sun is adequately funded for this upcoming drilling programme, from the placement in August 2013 to Winform Nominees Pty Ltd, the wholly owned subsidiary of Hancock Prospecting, (Hancock), which raised $13.5M before costs, the company has a considerable net acreage position in the Woodbine and is likely to be keen to accelerate activity on it, especially if it has the sort of success of others in the Woodbine recently - achieving IP rates of at least 600 bopd and establishing strong production with lower decline rates than seen in comparable wells in the Eagle Ford Shale that are pointing to Expected Ultimate Recovery (EUR) rates of well over 350k barrels of oil equivalent (boe). Such outcomes are highly economic at current oil prices of $US98/barrel (for WTI) with extremely high internal rates of return (IRRs) and very short pay backs (of as little as six months). This could see Sun seeking to raise additional funding over the course of FY14 to enable it to build on successful momentum from the upcoming programme and to accelerate the monetisation of its prime Woodbine areas in the near future.

Sun has a significant net acreage position in the Woodbine

The company holds a total net interest in 20,065 acres covering the major hydrocarbon-rich Woodbine trend, principally in the Leon County area but extending into the Madison County of East Texas. This is a substantial land holding, which is made up of five project areas. With the exception of the largest net holding (in the Delta Oil Project), the areas are held in joint venture arrangements with other exploration and production groups (Figure 1 above and Table 1 on page 4).

The growing oil production success in the Woodbine has seen virtually all the prospective areas taken up under lease (Figure 2 over page) and we understand Sun has received various approaches from other and often considerably bigger Woodbine operators to gain access to Sun's highly prospective acreage by way of farm-in or joint venture. This has resulted in Sun agreeing to the AMI with Petro-Hunt in Sun's Delta oil Project.

Figure 2 - Map showing the Woodbine acreage by operator



SOURCE: OIL & GAS INVESTOR

Because of the fact that oil leases usually run for a finite time (three years), there is an imperative for lessors like Sun to actively explore its acreage otherwise it is liable to lose it (which in practice usually means they will not have the leases renewed). So far, Sun's activity in the Woodbine has been relatively modest (Table 1), reflecting disappointing results to date. We see this as one of the main reasons Sun is likely to want to accelerate its drilling activities in the Woodbine over the next year, provided it is able to obtain suitable funding for that.

Table 1 - Sun's interests in acreage over the Woodbine in East Texas

Oil Project Name	Sun Working Interest	Other Partners	Gross Leased Area (acres)	Sun Net or Equity Leased Area (acres)	Wells Drilled	Wells Fracced	Production Status	Comments
Delta	100%		11,010	11,010				Recently transferred 810 acres to Petro-Hunt AMI
Petro-Hunt AMI (Delta)	25%	Petro-Hunt (75%)	3,240[1]	810				About to drill first well in AMI. Petro-Hunt is impressive operator and is Halcon's major shareholder.
Normangee	50%	Amerril Energy LLC (50%)	3,952	1,976				Sun is about to drill its first well here and as an operator on the Woodbine field
Amerril	50%	Amerril Energy LLC (50%)	10,124	5,655	3	3	Minor production from Seale #1H well; T Keeling #1H well only partly fracced	Principally targeting Lower Woodbine, also stacked targets
Centerville AMI (Amerril)	~18%	Furie Petroleum Co LLC (~50%) Amerril Energy LLC (~30%)	1,855	334				Furie is operator and is about to drill the first well in the AMI
Beeler[2]	16.7%[3]	Richland Resources (~13.0%); Amerril Energy LLC (~13.0%); Steadfast Resources (~39.1%); Farmors (~18.1%)	1,398	280	4	3	Minor production from 3 wells	Principally targeting Upper Woodbine, also stacked targets
Totals	~64%		31,579	20,065	7	6		

SOURCE: SUN RESOURCES NL AND BELL POTTER SECURITIES ESTIMATES

NOTES: 1. The total AMI covers 7,832 acres but has not been fully leased up yet
2. Formerly Richlands Oil Project
3. Has 13.5% interest in the C W Brown #1H well

While Sun is currently totally focused on the Woodbine (and the Lower Woodbine more particularly), the company recognises that there are other oil-rich hydrocarbon horizons elsewhere in the stratigraphic column in their lease areas. We believe that Sun is likely to progress to exploring and potentially producing from some of these other stratigraphic horizons in the next year as these other plays are better developed and the company is able to afford to explore and develop them using cash flow from Woodbine production.

Placement to Hancock Prospecting funds current programme

In our previous note (August 2013), we estimated that Sun would require at least $20M of new funding (which we regarded as only likely to come from additional equity) for its FY14 exploration and development programme in the Woodbine. The company raised part of this amount when it made a placement of shares at a price of $0.03 per share to Winform Nominees Pty Ltd, a wholly owned subsidiary of Hancock Prospecting Pty Ltd (Hancock) in August 2013 that raised $13.5M.

We estimate that the upcoming three well programme will cost Sun about $US11.5M (about $12.1M), so the Hancock placement funds that programme but the company would want to maintain momentum coming from that programme and it has ongoing needs for funding in order to adequately explore and develop its significant Woodbine acreage.

Hancock's support of Sun's activities is seen as a logical extension of Hancock's desire to be involved in large scale unconventional oil and gas opportunities. Through its involvement as a major participant in the Jacaranda Alliance since 2008, Hancock has been exploring in Australia for unconventional oil and gas for several years and it has very large tenements (of about 9M acres) in the Northern Territory where recent progress has been slowed by Native Title issues.

Capital raising likely to be linked to upcoming well programme

On the assumption that the upcoming three well programme in the Woodbine is successful, we believe Sun will be keen to maintain the resultant momentum from that. In order to do that, we believe the company will need to raise additional capital during FY14 to enable it to fund its share of an expanded exploration and development programme involving many additional wells using the successful fraccing and completion techniques. We have assumed that the company will raise up to a net $12M of additional equity capital in FY14 and is likely to link the raising of additional capital to that upcoming three well programme.

For the purposes of our forecasts and valuations, we have conservatively assumed this would be done on the following basis:

- Shares to be issued: approximately 386M
- Issue price: $0.033 (around the current price)
- Net amount to be raised: $12M

We have assumed this potential capital raising would be done at around the current market price because we believe that price is already at a significant discount to fair valuation because of the poor outcomes from the fraccing of its previous wells. Successful outcomes from the proposed three well programme should lead to a higher rating and share price.

Valuation

Sun's valuation is well above the current share price

Several methodologies can be used to derive valuations for areas which contain economic deposits of hydrocarbons in major geological formations such as the Woodbine. Whilst we still regard net present value (NPV) based estimates derived from areas with significant oil and associated hydrocarbon production that is underpinned by certified proven reserves as the most reliable, the more subjective valuation methods of NPV-based forecasts and of land area values derived from recent commercial transactions provide very useful guides when certified reserves or resources are not available.

Our estimates of the value of the company's Woodbine areas by each method gives a value for Sun's shares that is well above the current share price.

Revised NPV-related forecasts give increased valuation

We regard valuation estimates based on NPV-related forecasts as the best guide to the valuation of Sun. We have used the following revised assumptions for our forecasts of potential hydrocarbon production from the company's Woodbine areas (Table 2).

Table 2 - Assumptions for forecasts of production from Sun's Woodbine areas

Variable	Assumptions
Well cost (including completion)	$US 7.2M
Well spacing	80 acres
Expected Ultimate Recover (EUR) per well	350,000 barrels of oil equivalent (boe)
Initial Production (IP) rate per well	500 barrels of oil equivalent per day (boepd)
Time to drill and complete a well	24 days
Time from spudding well to production	55 days
Average hydrocarbon makeup	Oil 80%; condensate 5%; NGL 5%; gas 10%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Applying the forecasts in Table 2 we have derived a valuation for Sun's Woodbine assets. We have applied a heavily risk adjusted discount factor (of 65%) to the valuation of the company's Woodbine assets to determine an overall base case valuation for the whole company (Table 3). The base case valuation only considers the Woodbine – it does not consider any of the other nearby oil-bearing stratigraphic horizons. The upside case valuation considers a much lower discount factor (of 20%) for the NPV-related valuation of the Woodbine assets and also contains a modest valuation component for other deeper oil-bearing stratigraphic horizons. **Both valuations are equity diluted and assume the issue of additional capital as explained on page 5**.

The major changes to our assumptions are from a slower initial ramp up in FY14 and FY15 (from delay related to setbacks in the T Keeling #1H well); a higher oil percentage in the hydrocarbon mix based on experience of nearby producers; and lower drilling and completion costs based on the reported general experience of other Woodbine operators.

Table 3 – Equity diluted NPV-based valuations of Sun

	Base Case		Upside Case	
	$M	$ per share [1]	$M	$ per share [1]
Exploration - USA Projects - Woodbine	507	0.17	1,275	0.41
- Other	1	0.00	3	0.00
- Other Projects	5	0.00	12	0.01
- Total	513	0.17	1,290	0.42
Net Corporate and Financials [2]	(25)	(0.01)	(25)	(0.01)
Total	**488**	**0.16**	**1,265**	**0.41**

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. ON EQUITY DILUTED BASIS ASSMING EFFECTS OF SHARE ISSUE IN FY14; MAY NOT ADD BECAUSE OF DILUTION EFFECTS.

2. INCLUDES CORPORATE COSTS AND ASSUMED ADDITIONAL EQUITY.

There has not been much publicly available information on recent acreage transactions in the Woodbine with the staged but quite complicated and changing arrangements involving the now more accelerated farm down by Za Za Energy Corporation (NASDAQ – ZAZA, not rated) to an un-named joint venture partner (believed to be Halcon) being the only one of note. The most recently reported aspect of the Za Za arrangement involves the second stage of that deal in which Za Za received cash, production interests in 23 wells and a 25% WI in approximately 19,000 net acres including carry for wells. We assess the average value per acre in this transaction to be about $US 3,500, which is much lower than other transactions over the past year but it is only an interim one in a much larger transaction and is difficult to fully assess its value without knowing the nature of the WIs involved.

We believe that a value per acre of around $US 12,000 is more appropriate for Sun's Woodbine acreage on the basis that Sun has a substantial net acreage position that is believed to be in a prospective part of the Woodbine as Sun's areas are located adjacent to areas that have achieved strong IPs and large EURs and are actively being developed by others, particularly major oil and gas companies.

Applying our value of $US12,000 per acre to Sun's Woodbine assets gives them a value of $241M or $0.09 per share on an undiluted basis and $0.083 on a fully and equity diluted basis (diluting for all options and using the assumption of additional equity as per page 5).

Recommendation

Results of upcoming programme should start a major re-rating

Although Sun has not yet achieved any significant oil production success in the two years it has been targeting the Woodbine, we believe its Woodbine areas in East Texas are still very prospective for substantial amounts of oil and that by using more appropriate fraccing and completion techniques, it really should be able to establish significant sustainable and highly profitable production. The prospectivity of its Woodbine areas is not reflected in the market rating of the company's shares. We assess the base case valuation for Sun's interests in East Texas is significantly higher than the current enterprise value (EV) of the whole company. We have seen that despite considerably firmer oil prices, expanding and highly profitable production from neighbouring company leases and further transactions involving nearby areas that have established sale metrics that impute a much higher rating for Sun's shares, the market will remain cautious about the ability of the company successfully monetise its Woodbine interests until Sun clearly demonstrates its ability to successfully produce oil from them as others in surrounding areas are doing.

Sun is still well placed to begin to unlock significant value

Despite its technical setbacks so far, the company still has a significant and largely untouched exploration tenement position in what is still regarded as very prospective areas of oil-rich East Texas. This sees Sun still well placed to begin to unlock the value in its areas either by continuing to fund its share of exploration and development using the most appropriate fraccing and completion techniques or by farming out some of its areas so the financial and technical strength of others is brought in for the good of Sun shareholders.

We retain our Buy recommendation for Sun with a speculative risk rating. In setting the price target, we have applied a 30% discount to our risk weighted base case valuation of $0.16 to reflect the fact that while the company is progressing, it is still yet to achieve successful production from its horizontal wells in the Woodbine. Our 12-month price target is $0.11 but we see considerable upside beyond that.

Risks and Share Price Drivers

Besides the usual oil and gas industry risks, establishing substantial oil production from an appropriate fraccing and completion regime is a critical risk

We regard the following as the major risks to Sun achieving success:

- Establishing an appropriate fraccing and completion regime that enables the company to establish substantial oil production and realise the full potential of its extensive net land position in the Woodbine
- Commodity prices and foreign exchange rate outcomes that are different to our forecasts
- Lack of exploration success and/or greater than expected geological complexities
- Lack of funding to carry out adequate exploration and development
- Adverse operational issues including from the effects of adverse weather
- Adverse changes to business conditions from changed government policy
- Adverse environmental and other regulatory issues
- Cost overruns or other adverse impacts from development delays
- Inappropriate acquisitions of other assets that divert management effort and yield inadequate returns

We identify the following as the main share price drivers:

We have identified many upcoming events that could be significant share price drivers over the next year or so:

- Successful adoption of an appropriate fraccing and completion regime for the three upcoming wells in November and December 2013 in the company's Delta (Petro-Hunt AMI), Normangee and Amerril (Centerville AMI) Oil Projects that yield strong IPs with significant and sustainable oil production that demonstrates the company's capability to unlock the substantial oil potential in the company's extensive acreage in the Woodbine
- Maiden Resource and Reserves estimates for the company's Delta (Petro-Hunt AMI), Normangee and Amerril (Centerville AMI) Oil Projects from significant and sustained production
- Successful roll-out of drilling, fraccing and completion of wells across the company's extensive land positions in the Woodbine that leads to the establishment of substantial reserves for all areas and subsequent profitable and rapidly growing oil production with strong cash generation from the wells in them
- Further exploration drilling, fraccing and completion success in stratigraphically nearby oil-bearing horizons other than the Woodbine that leads to the establishment of additional Maiden Resource and Reserve estimates and subsequent substantial and profitable oil production from all the oil-rich horizons in Sun's East Texas areas
- Successful application of the techniques of horizontal drilling and completion using multi-staged fraccing of tight oil-bearing horizons in other appropriate oil-bearing provinces elsewhere in the world.

Sun Resources NL
as at 30 October 2013

Recommendation	Buy, Speculative
Price	$0.036
Target (12 months)	$0.11

Table 8 - Financial summary

PROFIT AND LOSS

Year ending 30 June	Unit	2012a	2013a	2014e	2015e	2016e
Revenue	A$m	0	0	14	78	276
Expenses	A$m	(5)	(10)	(23)	(53)	(152)
EBITDA	A$m	**(4)**	**(10)**	**(8)**	**24**	**124**
Depreciation and amortisation	A$m	(0)	(0)	(3)	(13)	(34)
EBIT	A$m	**(4)**	**(10)**	**(11)**	**11**	**90**
Net interest expense	A$m	0	0	(1)	(4)	(10)
PBT	A$m	**(4)**	**(10)**	**(12)**	**7**	**80**
Tax Expense	A$m	-	-	-	-	-
NPAT (reported)	A$m	(4)	(10)	(12)	7	80
Adjustments (after-tax)	A$m	-	-	-	-	-
NPAT (adjusted)	A$m	**(4)**	**(10)**	**(12)**	**7**	**80**

PROFIT AND LOSS (INTERIM)

Year ending 30 June	Unit	Dec-11a	Jun-12a	Dec-12a	Jun-13a	Dec-13e
Revenue	A$m	0	(0)	0	(0)	1
Expenses	A$m	(3)	(2)	(6)	(4)	(4)
EBITDA	A$m	**(3)**	**(2)**	**(6)**	**(4)**	**(3)**
Depreciation and amortisation	A$m	(0)	(0)	(0)	(0)	(0)
EBIT	A$m	**(3)**	**(2)**	**(6)**	**(5)**	**(3)**
Net interest expense	A$m	0	0	0	0	(0)
PBT	A$m	**(3)**	**(2)**	**(6)**	**(5)**	**(3)**
Tax Expense	A$m	0	0	0	0	0
NPAT (reported)	A$m	(3)	(2)	(6)	(5)	(4)
Adjustments (after-tax)	A$m	-	-	-	-	-
NPAT (adjusted)	A$m	**(3)**	**(2)**	**(6)**	**(5)**	**(4)**

CASH FLOW

Year ending 30 June	Unit	2012a	2013a	2014e	2015e	2016e
OPERATING CASH FLOW						
Receipts	A$m	0	0	14	76	270
Payments	A$m	(1)	(2)	(13)	(44)	(136)
Tax	A$m	-				
Net interest	A$m	0	0	(1)	(4)	(10)
Other	A$m					
Operating cash flow	A$m	**(1)**	**(2)**	**(0)**	**28**	**123**
INVESTING CASH FLOW						
Cap Ex and exploration	A$m	(10)	(15)	(51)	(91)	(205)
Other	A$m					
Investing cash flow	A$m	**(10)**	**(15)**	**(51)**	**(91)**	**(205)**
FINANCING CASH FLOW						
Net equity proceeds	A$m	10	19	26		
Debt proceeds	A$m			27	63	86
Debt repayments	A$m					
Dividends	A$m					
Other	A$m					
Financing cash flow	A$m	**10**	**19**	**53**	**63**	**86**
Change in cash	A$m	(1)	2	2	1	4

Balance Sheet ($M)

Year ending 30 June	Unit	2012a	2013a	2014e	2015e	2016e
ASSETS						
Cash and short term investments	A$m	1	4	5	6	9
Accounts receivable	A$m	0	0	6	17	37
Inventory	A$m					
Property, Plant & Equipment	A$m	0	0	5	11	15
Exploration & development	A$m	17	59	96	167	331
Other	A$m					
Total assets	A$m	**18**	**63**	**113**	**200**	**392**
LIABILITIES						
Accounts payable	A$m	0	6	13	24	45
Borrowings	A$m	0	0	19	64	124
Other	A$m	0	6	13	25	47
Total liabilities	A$m	**0**	**6**	**43**	**122**	**234**
SHAREHOLDERS EQUITY						
Share capital	A$m	55	90	115	115	115
Reserves	A$m	1	16	16	16	16
Retained earnings	A$m	(38)	(48)	(61)	(54)	26
Total equity	A$m	**18**	**57**	**70**	**77**	**157**
Weighted average shares	m	907	1,563	2,594	2,820	2,820

SOURCE: COMPANY DATA; BELL POTTER SECURITIES ESTIMATES.

FINANCIAL RATIOS

Year ending 30 June	Unit	2012a	2013a	2014e	2015e	2016e
NPAT (adjusted)	A$m	(4)	(10)	(12)	7	80
Adjusted EPS (Basic)	A¢/shr	(0.5)	(0.7)	(0.4)	0.2	2.6
EPS growth	%	na	na	na	na	na
PER	x	na	na	na	16.0	1.4
DPS	A¢/shr	-	-	-	-	-
Franking	%	-	-	-	-	-
Yield	%	-	-	-	-	-
Free Cash Flow (FCF)	A$m	(2)	(7)	(46)	(58)	(77)
FCF / share	A¢/shr	(0.2)	(0.4)	(1.7)	(1.8)	(2.4)
Price / FCF	x	na	na	na	na	na
FCF yield	%	na	na	na	na	na
EV / EBITDA	x	(14.8)	(4.9)	(15.7)	7.9	2.2
EV / EBIT	x	(14.8)	(4.7)	(11.4)	17.0	3.0
EBITDA margin	%	na	na	na	31%	45%
EBIT margin	%	na	na	na	15%	33%
Return on assets	%	na	na	na	4%	27%
Return on equity	%	na	na	na	9%	68%
LIQUIDITY & LEVERAGE						
Net Debt (Cash)	A$m	(1)	(4)	22	85	167
Net Debt / Equity	%	-7%	-6%	32%	111%	106%
Net Debt / (Net Debt + Equity)	%	-7%	-7%	24%	52%	51%
Net Debt / Total Assets	%	-7%	-6%	20%	43%	43%
Net Debt / EBITDA	%	27%	36%	-272%	350%	135%
EBITDA / Interest	x			(7.7)	5.3	12.2

ASSUMPTIONS - Prices

Year ending 30 June	Unit	2012a	2013a	2014e	2015e	2016e
Crude Oil (WTI)	US$/bbl	94	92	90	91	93
Natural Gas (Henry Hub)	US$/kft^3	3.0	3.3	3.5	3.5	3.5
Condensate	US$/bbl	87	85	83	83	83
Natural Gas Liquids	US$/bbl	61	60	59	59	59
CURRENCY						
USD / AUD	US$/A$	1.03	1.03	0.91	0.88	0.85

ASSUMPTIONS - Product Sales

Year ending 30 June	Unit	2012a	2013a	2014e	2015e	2016e
Crude Oil	Mbbl			0.1	0.7	2.2
Natural Gas	Bcf			0.1	0.5	1.7
Condensate	Mbbl				0.0	0.1
Natural Gas Liquids	Mbbl				0.0	0.1

CAPITAL STRUCTURE

Issued Securities	Unit	
Ordinary shares	M	2,434.9
Performance rights (exercisable at 0.1¢ by 30/4/17)	M	140.0
Unlisted options (exercisable at 2.5 - 12¢ between 6/1/14 to 3/5/16)	M	173.3
Total Securities	M	**2,748.2**

Major Shareholders

	M	(%)	Date of change
Winform Nominees Pty Ltd	450.0	18.5%	8/08/13
Amerril Energy LLC	292.0	12.0%	12/09/12
JDK Nominees Pty Ltd	40.8	1.7%	31/03/13
Dr W G Martinick	29.0	1.2%	3/07/13

VALUATION

	Base Case		Upside Case	
	$M	$ per share[1]	$M	$ per share[1]
Exploration Assets - Texas, USA	507	0.17	1,275	0.41
- Other	6	0.00	15	0.00
- Total	**513**	**0.17**	**1,290**	**0.42**
Net Financials[2]	**(25)**	**(0.01)**	**(25)**	**(0.01)**
Total	**488**	**0.16**	**1,265**	**0.41**

Current price	**$0.036**
Recommendation	**Buy**
Risk rating	**Speculative**
12-month price target	**$0.11**

Notes: 1. On an equity diluted basis assuming effects of a share issue in FY14; may not add because of dilution effects.
2. Includes corporate costs and assumed additional equity.

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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Disclosure of interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

John O'Shea owns 400,000 shares in SUR.

Disclosure: Bell Potter Securities acted as a broker to a $20m placement in August/September 2012 and received fees for that service.