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Sun Resources NL (SUR)

Slow progress with Woodbine program

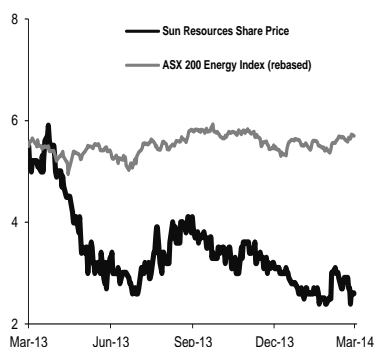
Recommendation
Buy (unchanged)
Price
\$0.025
Target (12 months)
\$0.10 (previously \$0.11)
Risk
Speculative

| Expected Return | |
|------------------------|--------------------------|
| Capital growth | 300% |
| Dividend yield | 0% |
| Total expected return | 300% |
| Company Data & Ratios | |
| Enterprise value | \$53m |
| Market cap | \$69m |
| Issued capital | 2,644.9m |
| Free float | 61% |
| Avg. daily val. (52wk) | \$0.05m |
| 12 month price range | \$0.021 - \$0.059 |
| GICS sector | Energy |

Disclosure: Bell Potter Securities acted as a broker to a \$20m placement in August/September 2012 and a \$6.3m placement in November 2013 and received fees for that service.

| Price Performance | | | |
|-------------------|-------|-------|--------|
| | 1mth | 3mths | 12mths |
| Price (\$A) | 0.025 | 0.031 | 0.051 |
| Absolute (%) | 0.0 | -19.4 | -51.0 |
| Rel. Market (%) | -6.3 | -23.5 | -57.3 |

Absolute Price



SOURCE: IRESS

Still waiting for first production from current 3 well program

Despite having been an early mover with significant acreage positions in the prolific Woodbine unconventional oil province in East Texas, USA, oil and gas explorer/developer, Sun Resources NL (Sun), has made slow progress. Many oil companies are now successfully producing substantial amounts of oil from the Woodbine but technical setbacks in the fracking of Sun's first six Woodbine wells resulted in much lower outcomes than achieved by others in adjacent areas. Sun has been slowly progressing on a three well program since November 2013 with more experienced personnel and more appropriate fracking and completion techniques.

Only one well fraced so far and results of that still awaited

The first well in the current program, F Thompson #1H in the Ameril (Centreville) Project (Sun 18% working interest (WI)), was successfully drilled and cased with a 5,000 feet horizontal lateral in the Upper Woodbine in December 2013, and after successful fracking in early February 2014, initial flow back operations then began. Sun recently reported that the flow back was continuing, including the first recovery of crude oil and gas, and that permanent production facilities and a jet pump to aid flow back were being installed. Sun said that a further period of flow back was needed before a proper assessment of the initial oil production rate could be determined.

Other two wells now due to be drilled in next month or so

The two remaining wells from the current program are in the Delta Oil Project (Petro-Hunt AML) (Sun 25% WI) and the Normangee oil Project (Sun 50% WI and Operator). These wells are now due to be drilled over the next month or so.

Valuation reduced and price target lowered to \$0.10

Sun is still well placed to replicate the results of recent Woodbine wells by others and to finally start unlocking potentially substantial value from its strategic Woodbine areas, but we are disappointed by recent progress. We have reduced our risk weighted per share fully diluted valuations to \$0.16 for the base case and \$0.41 for the upside case because of that. Our target price has been lowered to \$0.10 per share but we still see major upside beyond that. We retain our Buy with Speculative Risk recommendation.

Earnings Forecast

| Year end June | 2013a | 2014e | 2015e | 2016e |
|-------------------------|--------|-------|-------|-------|
| Oil Price (US\$/barrel) | 90 | 90 | 91 | 93 |
| Sales (A\$m) | 0.3 | 6.8 | 49.8 | 220.4 |
| EBITDA (A\$m) | (9.8) | (7.3) | 7.8 | 94.3 |
| NPAT (reported) (A\$m) | (10.2) | (8.8) | (3.2) | 58.5 |
| NPAT (adjusted) (A\$m) | (10.2) | (8.8) | (3.2) | 58.5 |
| EPS (adjusted) (eps) | (0.7) | (0.3) | (0.1) | 2.0 |
| EPS growth (%) | na | na | na | na |
| PER (x) | na | na | na | 1.3 |
| FCF Yield (%) | na | na | na | na |
| EV/EBITDA (x) | na | na | na | 2.5 |
| Dividend (eps) | - | - | - | - |
| Yield (%) | na | na | na | na |
| ROE (%) | na | na | na | 62% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

Slow progress on three well Woodbine program

Sun is participating in a three well program targeting the Woodbine in its East Texas areas (Figure 1). The first of these wells has just been fraced and the other two are planned to be drilled over the next month or so. Details of each of these wells are as follows:

Centerville AMI (Amerril) Oil Project

Amerril has about 40% WI and is Operator; Furie Petroleum Company LLC (Furie) has about 42% WI and Sun has approximately 18% WI. The first well in this AMI, the F. Thompson #1H, was drilled in December 2013. It is a horizontal well into the Upper Woodbine (with oil shows recorded while drilling) and it has just been successfully treated by a multi-stage fracing from which initial flow back has begun. Sun reported on 24 February 2014 that about 21% of the fracing fluids had been recovered and that the Operator (Amerril) had reported the first recovery of crude oil and gas and was in the process of completing construction and full commissioning of permanent production facilities and a jet pump to facilitate the continuation of the flow back operations. The company believed that a further period of flow back would be required before a proper assessment of the initial oil production rate could be gauged.

There is excellent well control from a number of historic conventional wells drilled and abandoned back in the 1950s and 1960s because the oil was tight. The well is immediately to the north of the Halcon-operated Halliday Field, (which has been a strong producer) and is also near to the Cowtown #1H, which was drilled by a private group, Energy & Exploration Partners (E&EP), in late 2013 with a strong oil flow – Initial Production (IP) of over 600 barrels of oil per day (bopd). We believe, therefore, that there is good chance of the F Thompson #1H well achieving an IP of at least 400 barrels of oil equivalent per day (boepd) and an IP of 500 boepd may be possible. Importantly, the well costs have been within budget (Sun share estimated at \$US1.2M).

Delta Oil Project (Petro-Hunt Area of Mutual Interest (AMI))

Petro-Hunt is the Operator and has a 75% working interest (WI), Sun has a 25% WI. Sun has executed an amendment to the Joint operating Agreement for the first well to be drilled in this AMI, giving the Operator more optionality around whether to drill a lateral well (as had been originally agreed) or a vertical well. A vertical pilot well into the Lower Woodbine is now planned to be drilled starting about the end of March, 2014. After the vertical pilot well has been drilled and evaluated, a decision will then be taken by the participants as to whether to proceed and complete the pilot well as a vertical producer or to drill a horizontal lateral into the target Lower Woodbine sands that is then expected to be multi-stage fraced. Once commenced, the vertical well is expected to take about three weeks to drill and evaluate.

Normangee Oil Project

Sun has a 50% WI and is Operator with Amerril Energy LLC (Amerril) holding 50% WI. It is anticipated that the first well, the Jack Howe #1H, will be targeting the Lower Woodbine and is expected to commence in April 2014, subject to the satisfactory resolution of land leasing matters.

This was to be the first well to be drilled by Sun as Operator but Sun has been in discussions with a leading unconventional focused US oil and gas company that has expressed an interest in potentially partnering with Sun in the Normangee Project and drilling as Operator. While discussions on that continue, Sun is currently proceeding with its previously advised plan to drill the well as Operator. Once commenced, the vertical well is expected to take about three weeks to drill and evaluate.

One of the major Woodbine operators, EOG Resources (NYSE – EOG, not rated) which has a market capitalisation of over \$US51 billion, successfully completed a well (Rea #1H) immediately to the west of the Normangee Project leases in late 2013.

We understand more recently, Contango Oil & Gas Company (NYSE – MFC, not rated), which has a market capitalisation of over \$US 900M and which merged with fellow Woodbine oil & gas company, Crimson Energy Partners in late 2013, has had a number of successful wells (with IPs of at least 400 boepd and up to 800 boepd) in the southern part of Leon County in the general area of the Normangee Project.

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

Sun's Net Woodbine Position



Sun has a working interest in over **31,500** gross acres across Leon County and down into Madison County

Sun owns **20,065** net acres across Leon County and down into Madison County

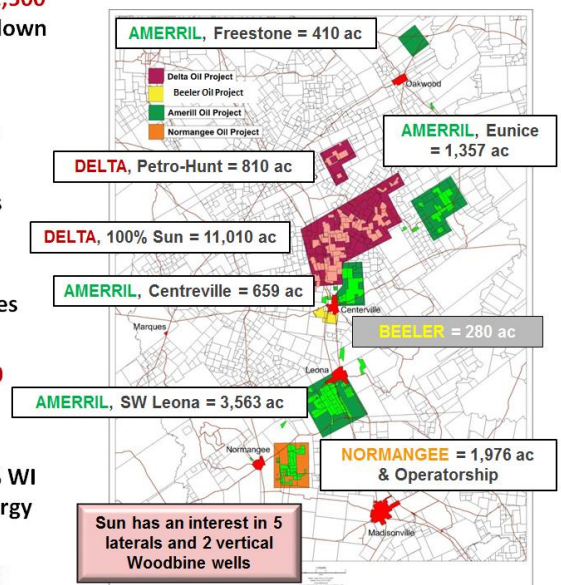
Sun has a 25%WI in **3,240** gross acres within a **7,832** gross acre AMI with Petro-Hunt in northern Leon County

Sun has a 50%WI in **11,979** gross acres in the Amerril Oil Project

Sun has a 100% WI position in **11,010** net acres within the Delta Project, Leon County

Sun is now **OPERATOR** and has a 50% WI in **3,952** gross acres with Amerril Energy within the Normangee Oil Project

Beeler Oil Project gross acres = **1,398**



SOURCE: SUN RESOURCES NL

SCALE: APPROX. 1:150,000

Beeler Oil Project litigation

As a joint venture partner in the Beeler Oil Project, Sun is currently defending legal proceedings in relation to the assignment of the interests of Richland Resources Corporation (Richland) in various leases in January 2013. The size of the claim involved in this matter has not been ascertained yet and based on legal advice, Sun believes Richland's claim is without merit.

Sun had previously become aware of the existence of claims of non-payment from a number of contractors who may have provided products or services to the Beeler Oil Project while Richland was the Operator. These claims are mainly directed at Richland but liens have been lodged over the leases that comprise the Beeler Oil Project and although Sun has issued a general denial in relation to any claims against it (through its operating subsidiary), there is ongoing legal action in relation to these liens. Sun estimates the company's maximum estimated liability to discharge any such liens could be \$3M.

Sun still has a significant net acreage position in the Woodbine

Sun currently holds a total net interest in 19,188 acres in the major hydrocarbon-rich Woodbine trend, principally in the Leon County area but extending into the Madison County of East Texas following some recent minor additions and relinquishments. This substantial land holding is made up of five main project areas. Except for 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 continued success of others in various parts of the Woodbine, with many wells regularly achieving IP rates of at least 400 to 600 bopd and establishing strong production rates (with lower decline rates than seen in comparable wells in the Eagle Ford Shale) has made the Woodbine one of the leading oil producing areas in the USA. The strong production rates are giving rise 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 \$US103/barrel (for WTI) with extremely high internal rates of return (IRRs) and very short pay backs (of as little as six months).

With virtually no un-leased ground available in the Woodbine, there is still strong interest from established oil and gas producers in the area to gain access to additional ground and from new companies (such as Aurora Oil and Gas (ASX - AUT, sell), so we believe there is a strong likelihood of Sun being able to either successfully develop its areas itself or achieve sensible arrangements with other companies to jointly develop them.

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% | | 11,026 | 11,026 | | | | Likely to be the subject of future farm-out, joint venture or direct dealing activity |
| Petro-Hunt AMI (Delta) | 25% | Petro-Hunt (75%) | 3,641 ¹ | 910 | | | | About to drill first well in AMI. Petro-Hunt is impressive operator and is Halcon's major shareholder. |
| Normangee | 50% | Amerill Energy LLC (50%) | 3,952 | 1,976 | | | | Sun is about to drill its first well here and as an operator on the Woodbine field |
| Amerill | 50% | Amerill Energy LLC (50%) | 10,124 | 4,662 | 3 | 3 | Minor production from Seale #1H; T Keeling #1H only partly fracced | Various areas. Principally targeting Lower Woodbine, also stacked targets |
| Centerville AMI (Amerill) | ~13% | Furie Petroleum Co LLC (~42%) Amerill Energy LLC (~30%) | 1,855 | 334 | 1 | 1 | Recently fracced F. Thompson #1H still on flow back | Amerill is Operator in the AMI, which is targeting oil in the Upper Woodbine |
| Beeler ² | 16.7% ³ | Richland Resources (~13.0%); Amerill Energy LLC (~13.0%); Steadfast Resources (~39.1%); Farmors (~13.1%) | 1,398 | 280 | 4 | 3 | Minor production from 3 wells | Principally targeting Upper Woodbine, also stacked targets |
| Totals | ~64% | | 31,595 | 19,188 | 8 | 7 | | |

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 some of these other plays are better developed and the company is able to afford to explore and develop them using cash flow from Woodbine production. The upcoming Jack Howe #1H well in the Normangee Oil Project is planned to be drilled initially as a vertical pilot hole that is intended to continue through the Woodbine to test some of these other potential oil-bearing horizons below the Woodbine.

Modest valuation reductions from delays

Valuations for Sun are still well above the current share price

The slower than expected progress with Sun's current three well program has caused us to make modest reductions to our base case and upside case valuations for Sun. The delays in drilling and establishing successful oil and related hydrocarbon production from each of the three wells has meant that the expected operating cash flow from those wells has not been achieved and there has been a knock-on effect of that cash flow being deferred in that it defers the funding of subsequent wells in the company's various Woodbine project areas. Since our principal methodology is done on a net present value (NPV) basis, the deferral of the production and cash flow has a negative impact on the NPV-based valuations, which have been modestly reduced.

We regard valuation estimates based on NPV-related forecasts as the best guide to the long term value of Sun. We have retained the following 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

We have retained the heavily risk adjusted discount factor (of 35%) on the valuation of the company's Woodbine assets to determine an overall base case valuation for the whole company (Table 3). The base case and upside valuations per share have been reduced by 9% and 8% respectively. 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 fully diluted.**

The major changes to our assumptions are from a slower initial ramp up in oil and related products output, principally in FY14 and FY15 but also impacting on subsequent years, from the delays in establishing commercial hydrocarbon production from the current three well program.

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 | 475 | 0.16 | 1,209 | 0.41 |
| - Other | 1 | 0.00 | 3 | 0.00 |
| - Other Projects | 5 | 0.00 | 12 | 0.00 |
| - Total | 481 | 0.16 | 1,224 | 0.42 |
| Net Corporate and Financials ² | (29) | (0.01) | (29) | (0.01) |
| Total | 452 | 0.16 | 1,196 | 0.41 |

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. MAY NOT ADD BECAUSE OF DILUTION EFFECTS.

2. INCLUDES CORPORATE COSTS.

Recommendation

Results of current program can still lead to a major re-rating

Although Sun has not yet achieved any significant oil production success in over two years that it has been targeting the Woodbine, we believe the company's Woodbine areas in East Texas are still very prospective for substantial oil production by using the most appropriate fracing and completion techniques. We do not believe the current Sun share price is a true reflection of the prospective value of its Woodbine areas but is more a reflection of the company's inability to monetise its Woodbine assets by delivering successful outcomes in keeping with the results of other oil companies nearby. 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.

Despite firm 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 valuation for Sun's shares, we expect the market will remain cautious about the ability of the company to 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 fracing and completion techniques or by farming out more of its areas so the financial and technical strength of others is brought to bear 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 35% 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 wells in the Woodbine. Our 12-month price target is \$0.10 but we see considerable upside beyond that once the company clearly demonstrates that its Woodbine areas are capable of yielding substantial oil production on a similar commercial basis to other companies nearby.

Risks and Share Price Drivers

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

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

- Establishing an appropriate fracing 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 several upcoming events that could be significant share price drivers over the next year or so:

- Successful oil and related products production outcomes from the current three well program in in the company's Delta (Petro-Hunt AMI), Normangee and Amerril (Centerville AMI) Oil Projects. This would involve the wells achieving strong IPs from significant and sustainable oil production that demonstrates these areas are capable of having multiple wells with significant UERs and that by applying the appropriate techniques across its other areas, Sun is going to be able 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, fracing and completion of multiple 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, fracing 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 various oil-rich horizons in Sun's East Texas areas; and
- Successful application of the techniques of horizontal drilling and completion using multi-staged fracing of tight oil-bearing horizons in other appropriate tight oil-bearing provinces elsewhere in the world.

Table 4 - Financial summary

| PROFIT AND LOSS | | | | | | |
|-------------------------------|------|------------|-------------|------------|------------|-----------|
| Year ending 30 June | Unit | 2012a | 2013a | 2014e | 2015e | 2016e |
| Revenue | A\$m | 0 | 0 | 7 | 50 | 220 |
| Expenses | A\$m | (5) | (10) | (14) | (42) | (126) |
| EBITDA | A\$m | (4) | (10) | (7) | 8 | 94 |
| Depreciation and amortisation | A\$m | (0) | (0) | (2) | (9) | (27) |
| EBIT | A\$m | (4) | (10) | (9) | (1) | 67 |
| Net interest expense | A\$m | 0 | 0 | 0 | (2) | (9) |
| PBT | A\$m | (4) | (10) | (9) | (3) | 58 |
| Tax Expense | A\$m | - | - | - | - | - |
| NPAT (reported) | A\$m | (4) | (10) | (9) | (3) | 58 |
| Adjustments (after-tax) | A\$m | - | - | - | - | - |
| NPAT (adjusted) | A\$m | (4) | (10) | (9) | (3) | 58 |

| 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 | 0 |
| Expenses | A\$m | (3) | (2) | (6) | (4) | (3) |
| 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) | (3) |
| Adjustments (after-tax) | A\$m | - | - | - | - | - |
| NPAT (adjusted) | A\$m | (3) | (2) | (6) | (5) | (3) |

| CASH FLOW | | | | | | |
|----------------------------|------|-------------|-------------|-------------|-------------|--------------|
| Year ending 30 June | Unit | 2012a | 2013a | 2014e | 2015e | 2016e |
| OPERATING CASH FLOW | | | | | | |
| Receipts | A\$m | 0 | 0 | 7 | 49 | 216 |
| Payments | A\$m | (1) | (2) | (10) | (31) | (111) |
| Tax | A\$m | - | - | - | - | - |
| Net interest | A\$m | 0 | 0 | 0 | (2) | (9) |
| Other | A\$m | - | - | - | - | - |
| Operating cash flow | A\$m | (1) | (2) | (3) | 15 | 96 |
| INVESTING CASH FLOW | | | | | | |
| Cap Ex and exploration | A\$m | (10) | (15) | (14) | (80) | (192) |
| Other | A\$m | - | - | - | - | - |
| Investing cash flow | A\$m | (10) | (15) | (14) | (80) | (192) |
| FINANCING CASH FLOW | | | | | | |
| Net equity proceeds | A\$m | 10 | 19 | 20 | - | - |
| Debt proceeds | A\$m | - | - | 0 | 69 | 101 |
| Debt repayments | A\$m | - | - | - | - | - |
| Dividends | A\$m | - | - | - | - | - |
| Other | A\$m | - | - | - | - | - |
| Financing cash flow | A\$m | 10 | 19 | 20 | 69 | 101 |
| Change in cash | A\$m | (1) | 2 | 1 | 1 | 1 |

| 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 | 7 |
| Accounts receivable | A\$m | 0 | 0 | 6 | 17 | 37 |
| Inventory | A\$m | - | - | - | - | - |
| Property, Plant & Equipment | A\$m | 0 | 0 | 1 | 3 | 9 |
| Exploration & development | A\$m | 17 | 59 | 72 | 137 | 292 |
| Other | A\$m | - | - | - | - | - |
| Total assets | A\$m | 18 | 63 | 83 | 163 | 345 |
| LIABILITIES | | | | | | |
| Accounts payable | A\$m | 0 | 6 | 13 | 26 | 47 |
| Borrowings | A\$m | 0 | 0 | 0 | 48 | 119 |
| Other | A\$m | 0 | 6 | 14 | 27 | 49 |
| Total liabilities | A\$m | 0 | 6 | 16 | 102 | 230 |
| SHAREHOLDERS EQUITY | | | | | | |
| Share capital | A\$m | 55 | 90 | 110 | 110 | 110 |
| Reserves | A\$m | 1 | 16 | 16 | 16 | 16 |
| Retained earnings | A\$m | (38) | (48) | (57) | (60) | (2) |
| Total equity | A\$m | 18 | 57 | 68 | 65 | 123 |
| Weighted average shares | m | 907 | 1,563 | 2,500 | 2,645 | 2,645 |

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) | (9) | (3) | 58 |
| Adjusted EPS (Basic) | A¢/shr | (0.5) | (0.7) | (0.3) | (0.1) | 2.0 |
| EPS grow th | % | na | na | na | na | na |
| PER | x | na | na | na | (24.6) | 1.3 |
| DPS | A¢/shr | - | - | - | - | - |
| Franking | % | - | - | - | - | - |
| Yield | % | - | - | - | - | - |
| Free Cash Flow (FCF) | A\$m | (2) | (7) | (17) | (61) | (92) |
| FCF / share | A¢/shr | (0.2) | (0.4) | (0.6) | (2.0) | (3.1) |
| Price / FCF | x | na | na | na | na | na |
| FCF yield | % | na | na | na | na | na |
| EV / EBITDA | x | (14.8) | (4.9) | (8.8) | 16.8 | 2.5 |
| EV / EBIT | x | (14.8) | (4.7) | (7.2) | (193.7) | 3.4 |
| EBITDA margin | % | na | na | na | 16% | 43% |
| EBIT margin | % | na | na | na | na | 31% |
| Return on assets | % | na | na | na | na | 23% |
| Return on equity | % | na | na | na | na | 62% |
| LIQUIDITY & LEVERAGE | | | | | | |
| Net Debt (Cash) | A\$m | (1) | (4) | (5) | 62 | 163 |
| Net Debt / Equity | % | -7% | -6% | -7% | 96% | 132% |
| Net Debt / (Net Debt + Equity) | % | -7% | -7% | -8% | 49% | 57% |
| Net Debt / Total Assets | % | -7% | -6% | -6% | 38% | 47% |
| Net Debt / EBITDA | % | 27% | 36% | 67% | 798% | 173% |
| EBITDA / Interest | x | - | - | #DIV/0! | 2.9 | 10.4 |

| 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 | 0.4 | 1.8 |
| Natural Gas | Bcf | - | - | 0.1 | 0.3 | 1.3 |
| Condensate | Mbbl | - | - | - | 0.0 | 0.1 |
| Natural Gas Liquids | Mbbl | - | - | - | 0.0 | 0.1 |

| CAPITAL STRUCTURE | | | |
|---|------|--|----------------|
| Issued Securities | Unit | | |
| Ordinary shares | M | | 2,644.9 |
| Performance rights (exercisable at 0.1¢ by 30/4/17) | M | | 140.0 |
| Unlisted options (exercisable at 2.5 - 12¢ between 31/3/14 to 3/5/16) | M | | 172.0 |
| Total Securities | M | | 2,956.9 |

| Major Shareholders | | | |
|--------------------------|-------|-------|----------------|
| | M | (%) | Date of change |
| Winform Nominees Pty Ltd | 516.7 | 19.5% | 11/11/13 |
| Amerill Energy LLC | 327.0 | 12.4% | 12/09/12 |
| Nefco Nominees Pty Ltd | 126.9 | 4.8% | 28/08/13 |
| Dr W G Martinick | 40.8 | 1.5% | 3/07/13 |

| | VALUATION | | | |
|-----------------------------------|-------------|---------------------------|--------------|---------------------------|
| | Base Case | | Upside Case | |
| | \$ M | \$ per share ¹ | \$ M | \$ per share ¹ |
| Exploration Assets - Texas, USA | 475 | 0.16 | 1,209 | 0.41 |
| - Other | 6 | 0.00 | 15 | 0.00 |
| - Total | 481 | 0.16 | 1,224 | 0.42 |
| Net Financials² | (29) | (0.01) | (29) | (0.01) |
| Total | 452 | 0.16 | 1,196 | 0.41 |

| | |
|-----------------------|--------------------|
| Current price | \$0.025 |
| Recommendation | Buy |
| Risk rating | Speculative |
| 12-month price target | \$0.10 |

Notes: 1. May not add because of dilution effects.

2. Includes corporate costs.

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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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 a \$6.3m placement in November 2013 and received fees for that service.