BELL POTTER

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Sun Resources NL (SUR)

Acquiring acreage in marginal Eagle Ford Shale play after poor results in Woodbine

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Recommendation
Buy (unchanged)
Price
$0.021
Target (12 months)
$0.065 (previously $0.10)
Risk
Speculative

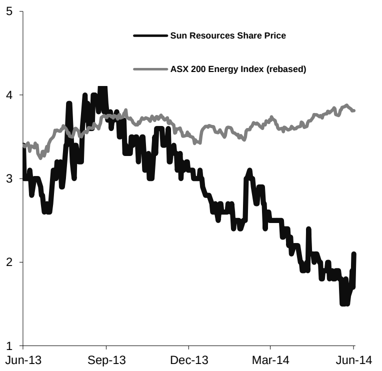
Expected Return	
Capital growth	**210%**
Dividend yield	**0%**
Total expected return	**210%**
Company Data & Ratios	
Enterprise value	**$44m**
Market cap	**$58m**
Issued capital	**2,644.9m**
Free float	**61%**
Avg. daily val. (52wk)	**$0.04m**
12 month price range	**$0.013 - $0.044**
GICS sector	**Energy**

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)	0.019	0.025	0.034
Absolute (%)	10.5	-16.0	-38.2
Rel. Market (%)	11.0	-15.3	-50.6

Absolute Price



SOURCE: IRESS

Targeting an offset area in the Eagle Ford Shale

Although oil and gas explorer/developer, Sun Resources NL (Sun), has inadequately tested its extensive areas in the prolific Woodbine unconventional oil province in East Texas, USA, it has decided to diversify its activities by acquiring an interest in an offset area to the main Eagle Ford Shale play. The unconventional Eagle Ford Shale is known to thin there and has had few wells into it but there may also be an Austin Chalk play. Sun has agreed to acquire a 50% non-operating interest for an undisclosed sum in the Badger Oil Project covering 10,028 acres (5,014 acres net). The first horizontal well for this Project is scheduled to spud by the end of November 2014.

Slow progress on current three well Woodbine program

With only one well completed and fracked and another partially drilled and suspended (pending analysis of its results), the progress in the current three well Woodbine program begun in October 2013 has been slow. The results so far from this program have been disappointing with the first well, F Thompson #1H, only flowing at up to 45 barrels of oil per day (bopd) initially and declining significantly from that level recently. Depending on the results of the second well, Jack Howe #1H, it may be completed as a horizontal well while the third well, Davis #1, is now due to spud during June 2014.

Valuations severely lowered; price target reduced to $0.065

Although we continue to believe Sun is still potentially well placed to achieve the continuing strong results of others in the Woodbine through appropriate development of its strategic Woodbine areas, we are disappointed by the slow progress and results over the past year. We have significantly reduced our equity diluted and risk weighted per share valuations to $0.10 for the base case and $0.28 for upside case because of the slow and disappointing recent results and forecast of a dilutive share issue to fund developments. Our target price has been similarly severely lowered to $0.065 per share but we still see potential for major upside beyond that if the company can begin to achieve the success of its neighbours in the Woodbine. We are very cautious about Sun's move into what we regard as a marginal part of the Eagle Ford Shale and have accordingly ascribed only modest potential value to it. Despite our reduced valuations and price target, 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	0.5	23.8	103.3
EBITDA (A$m)	(9.8)	(8.1)	(5.3)	32.6
NPAT (reported) (A$m)	(10.2)	(8.5)	(10.3)	15.2
NPAT (adjusted) (A$m)	(10.2)	(8.5)	(10.3)	15.2
EPS (adjusted) (¢ps)	(0.7)	(0.3)	(0.3)	0.4
EPS growth (%)	na	na	na	na
PER (x)	na	na	na	5.3
FCF Yield (%)	na	na	na	na
EV/EBITDA (x)	na	na	na	5.4
Dividend (¢ps)	-	-	-	-
Yield (%)	na	na	na	Na
ROE (%)	na	na	na	18%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Acquires offset area to main Eagle Ford Shale

Sun has decided to diversify its activities by acquiring an interest in acreage in an offset area to the main Eagle Ford Shale play in East Texas (Figures 1 and 2). The unconventional Eagle Ford Shale is known to thin as it drapes over the San Marcos Arch and from what we have been able to establish, the area where Sun has acquired its interest has had few wells into it but it may also contain an Austin Chalk play in the overlying sequence.

Sun has agreed to acquire a 50% non-operating working interest (WI) for an undisclosed sum in the Badger Oil Project covering 10,028 acres (5,014 acres net).

We estimate Sun could have paid about $5.4M for its interests in the offset area in the Eagle Ford Shale

Given that the Badger Oil Project is in what is regarded as a marginal part of the Eagle Ford Shale play but that there is some interest in the general area from other oil and gas exploration and production companies, we estimate Sun is likely to have paid of the order of about $US1,000 per acre for its interest in the Project. That would indicate an acquisition cost to the company of around $A5.4M. Sun has indicated that it is acquiring this interest using its existing cash. That estimate compares with values of $US35,000 to $US70,000 per acre for large acreage transactions in the Woodbine and Eagle Ford Shale over the past few years including the recent acquisition of Aurora Oil and Gas (ASX – AUT, Sell) which was bought by Baytex Energy Corp (TSX – BTE, not rated) for $1.9 billion, imputing an enterprise value for AUT of about $2.8 billion and estimated value of over $US75,000 per acre.

The first horizontal well for the Badger Oil Project is scheduled to spud by the end of November 2014. Sun has estimated that the cost of the first well (a long horizontal lateral one that is fracture stimulated and drilled within the Eagle Ford Shale section) at less than $8M of which its share will be 50% (approximately $4M).

Figure 1 - Map of Sun's East Texas oil interests

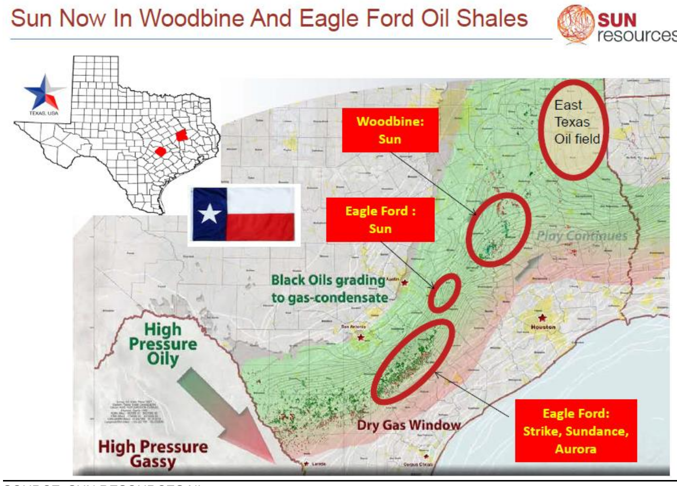
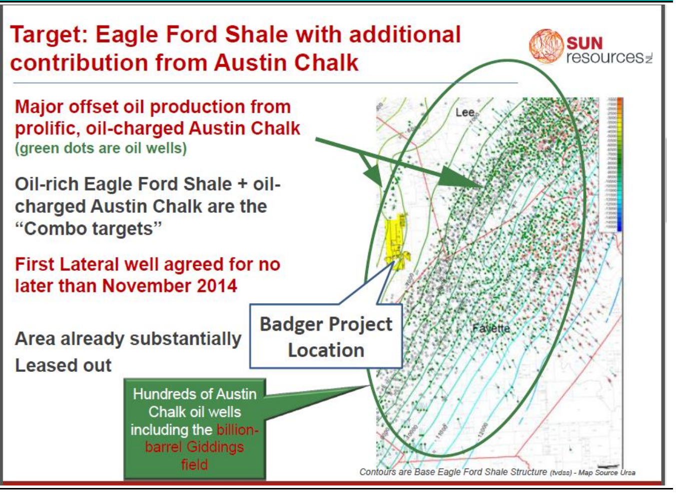


Figure 2 - Map of Sun's newly acquired Eagle Ford Shale acreage



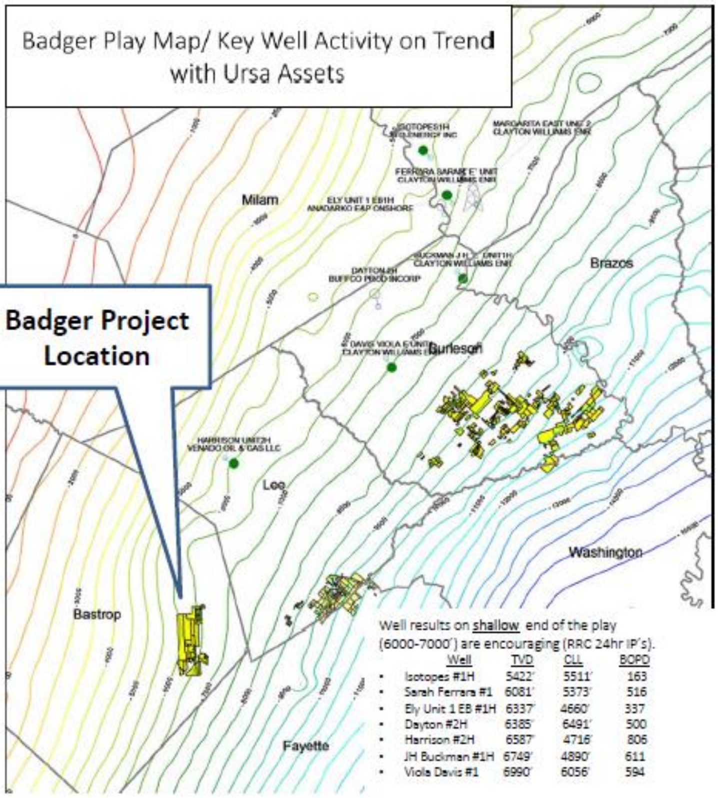
SOURCE: SUN RESOURCES NL

Sun's partner is the Operator of the Badger Oil Project and the holder of the remaining 50% WI in the Project is Ursa New ventures LLC (Ursa), a private oil and gas company with management and operations based in Houston, Texas. Ursa is backed by Denham Capital, a large global energy and resources private equity firm. Ursa has quite extensive unconventional oil production in four oil-rich unconventional plays across the USA and it has a natural gas asset in the Piceance Basin in Colorado. Its Principals have substantial prior experience operating in a number of onshore unconventional basins across the USA.

While the Principals of Ursa have previous operational experience in unconventional basins in the USA including the Eagle Ford, Barnett and Haynesville, the company has not previously operated in the Eagle Ford Shale.

Other operators (such as Sanchez, Anadarko and Buffco) that are active in the vicinity of the Badger Oil Project are reported by Sun to have been achieving initial production rates (IPs) of 500 to 806 barrels of oil per day (bopd) from other Eagle Ford Shale offset wells on trend with the Badger Oil Project (Figure 3).

Figure 3 - Location of Badger Oil Project with nearby activity



SOURCE: SUN RESOURCES NL

We have some concerns about the thickness of the Eagle Ford Shale in the Badger Oil Project area and whether it has a significant oil charge

While the new lease interests of a 50% WI in all the Badger Oil Project leases are being acquired by Sun, and those leases hold rights to all depths and all formations, they only have about one and a half years remaining of the initial three-year term. All leases have an additional two-year extension option and have standard royalty conditions of 25% to the land owner. Sun believes that provided the initial well has encouraging results, then the leases could be retained without further lease costs and that significant oil production could be developed from a program of up to 64 lateral wells based on 160 acre well spacings.

With some doubt about the thickness of the Eagle Ford Shale at the Badger Oil Project as it is known to thin considerably as it laps onto the San Marcos Arch, and concern as to whether a significant enough proportion of it is oil charged, there is considerable uncertainty about the viability of the Eagle Ford Shale in this offset and marginal position.

Slow progress on three well Woodbine program

Sun is participating in a three well program begun in October 2013 targeting the Woodbine in its East Texas areas (Figure 4 over page). Progress on this program has been very slow. The first of these wells, the F. Thompson #1H, has been fracked but has only achieved very low flow rates. The second well, the Jack Howe #1H, has been drilled as a vertical pilot, which has been logged and had conventional cores cut from the Lower Woodbine that are being analysed prior to a decision being made to drill either a horizontal lateral that is fracked or to complete the well as a vertical producer. The third well, the Davis #1, is scheduled to be drilled in June 2014 as a vertical pilot that will then also be logged and have sidewall cores cut prior to a decision being taken to complete the well as a vertical producer or to sidetrack the well and drill a lateral into the Lower Woodbine.

Figure 4 - Map of Sun's interests in the Woodbine

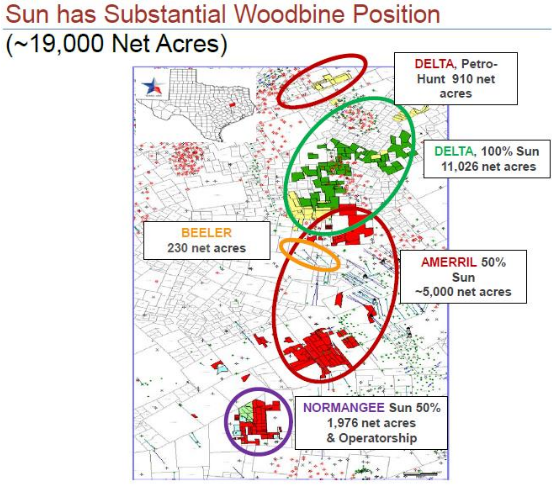
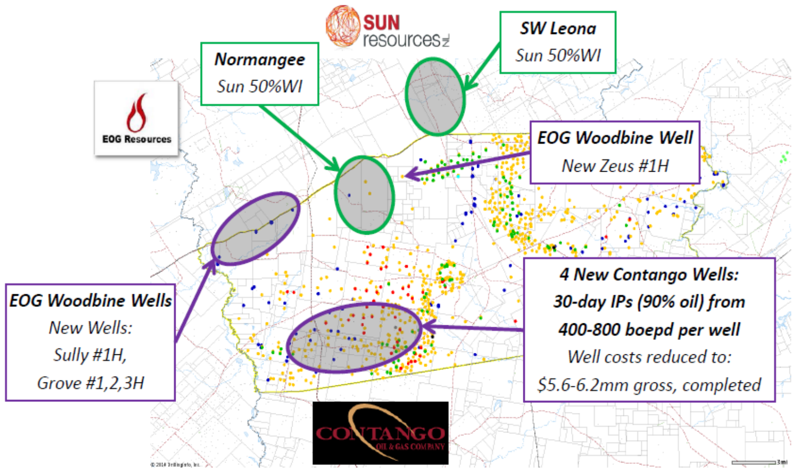


Figure 5 - Location map and activity around the Normangee Oil Project



SOURCE: SUN RESOURCES NL

Details of each of the Sun wells in the current Woodbine program are as follows:

F Thompson #1 well in Amerril (Centerville AMI) Oil Project

Amerril has about 40% working interest (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 was successfully treated by a multi-stage fracking from which disappointingly low oil flow rates have been achieved. After a peak flow of about 45 barrels of oil per day (bopd), flow rates have decreased.

Jack Howe #1H well in Normangee Oil Project

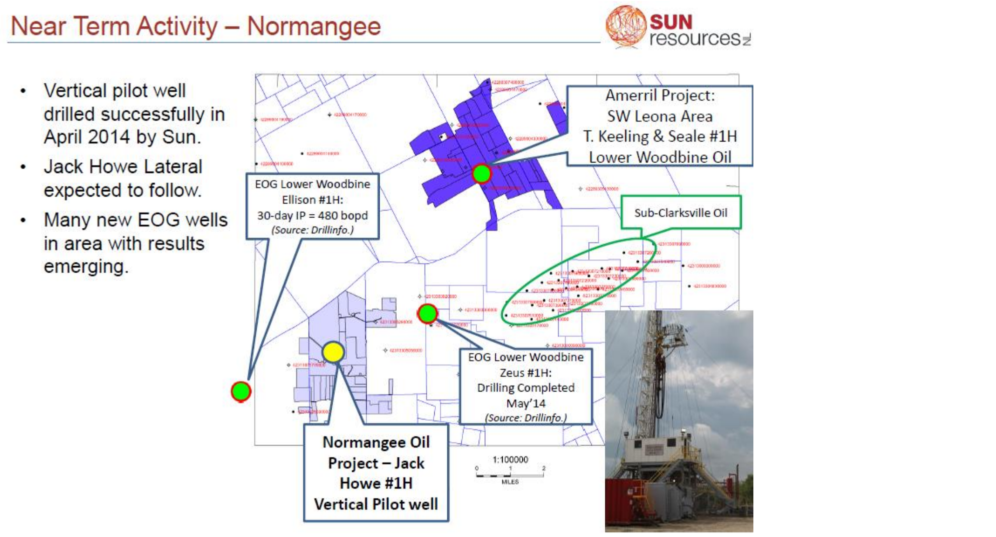
Sun has a 50% WI and is Operator with Amerril Energy LLC (Amerril) holding the other 50% WI in the Normangee Oil Project. The first well in this Project, the Jack Howe #1H, was drilled as a vertical pilot in May 2014. The well had the dual objectives of recovering conventional core across the primary objective of the Lower Woodbine Formation and to evaluate the underlying Buda Formation. Hydrocarbon indications were observed in both formations. The well was also comprehensively logged and it has been plugged and temporarily abandoned while analysis of the logs and core is carried out.

The Jack Howe #1H well is a very significant well for Sun

After thorough analysis of the well logs and core from the Jack Howe #1H well, a decision will be made to drill either a horizontal lateral that is subject to multi-stage fracking or to complete the well as a vertical producer. **We regard the Jack Howe #1H well as a very significant and potentially high impact well for Sun.**

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 and recently it spudded the Zeus #1H horizontal, its latest lateral in the Lower Woodbine. The Zeus #1H well is located about 7km to the east of the Jack Howe #1H surface location (Figure 5 above and Figure 6 over page).

Figure 6 – Detailed location map and recent activity around Normangee Oil Project



SOURCE: SUN RESOURCES NL

We understand Contango Oil & Gas Company (NYSE – MCF, 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 recently drilled 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.

Davis #1H well in Delta Oil Project (Petro-Hunt Area of Mutual Interest (AMI))

Petro-Hunt is the Operator and has a 75% WI, Sun has the remaining 25% WI in the Delta Oil Project (Petro-Hunt AMI). Preparations for the drilling of the Davis #1H well have advanced with site preparation and rig selection finalised. The well is scheduled to spud in the first half of June 2014, subject to rig availability after a current well commitment.

A vertical pilot well is planned to be drilled into the Lower Woodbine oil target and it will then be evaluated with the aid of wireline logs and sidewall cores. 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 sidetrack the well to drill a horizontal lateral into the target Lower Woodbine sands that is then expected to be multi-stage fracked. Once commenced, the vertical pilot well is expected to take about three weeks to drill and evaluate.

Sun still has a large position in the Delta Oil Project and we believe it should accelerate the testing of the area

Sun still retains a further 11,010 net acres in the rest of the Delta Oil Project for which it continues to seek to develop by way of farm-out, joint venture or by direct drilling. A substantial number of net acres under lease are coming up for renewal. Sun is evaluating whether to extend the leases, which can often involve substantially higher lease payments when this follows a normal three-year leasing arrangement, or to let the leases lapse now and look to re-apply for them or other similar areas as new leases with much lower lease payment obligations. **We believe Sun should accelerate testing the Delta Oil Project**.

Sun's net Woodbine position still significant, largely untested

Sun currently holds a total net interest in 19,122 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 significant land holding is made up of five main project areas and is largely untested. Apart from the largest net holding (Delta Oil Project), the areas are held in joint venture arrangements with other exploration and production groups (Figure 4 above and Table 1).

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.

Table 1 - Sun's interests in acreage over the Woodbine and Eagle Ford Shale in East Texas

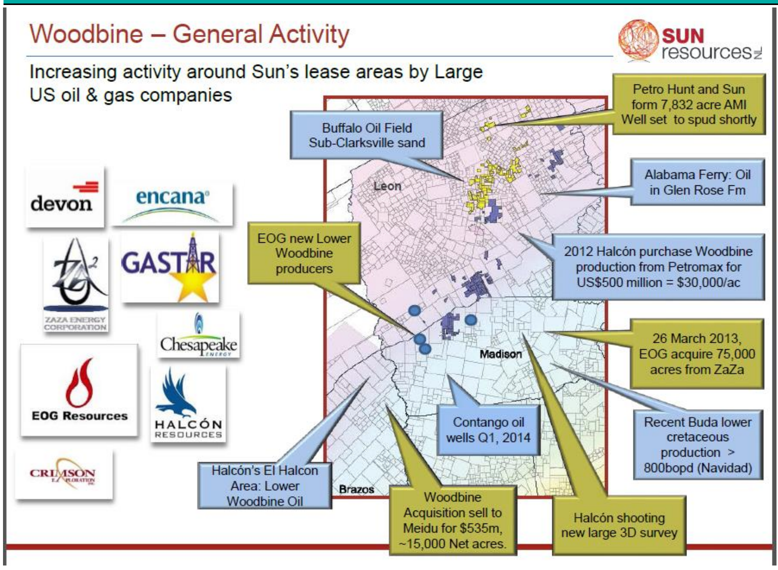
Oil Project Name	Sun Working Interest	Other Participants	Gross Leased Area (acres)	Sun Net or Equity Leased Area (acres)	Wells Drilled	Wells Fracked	Production Status	Comments
Woodbine								
Delta	100%		11,010	11,010				Likely to be the subject of future farm-out, joint venture or direct dealing activity
Delta (Petro-Hunt AMI)	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
Normangee	50%	Amerril Energy LLC (50%)	3,952	1,976	1			Sun has drilled first well as Operator in Woodbine field
Amerril	50%	Amerril Energy LLC (50%)	9,624	4,812	3	3	Minor production from Seale #1H; T Keeling #1H (partly fracced)	Various areas. Principally targeting Lower Woodbine, also stacked targets
Amerril (Centerville AMI and Eunice AMI)	~18%	Furie Petroleum Co LLC (~42%) ; Amerril Energy (~40%)	1,023	184	1	1	F. Thompson #1H producing at very low rates	Amerril is Operator in the AMI, which is targeting oil in the Upper Woodbine
Beeler[2]	16.7%[3]	Richland Resources (~13.0%); Amerril Energy LLC (~13.0%); Steadfast Resources (~39.1%); Farmors (~18.1%)	1,398	230	4	3	Minor production from 3 wells; Ellis #1H is main producer	Principally targeting Upper Woodbine, also stacked targets
Sub Totals For Woodbine	**~71%**		**27,007**	**19,122**				
Eagle Ford Shale								
Badger	50.0%	Ursa Energy II (50%)	10,028	5,014			First well due by November 2014	Targeting offset Eagle Ford Shale and overlying Austin Chalk
Totals	**~65%**		**37,035**	**24,136**	**9**	**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

The strong production rates are giving 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 with very high internal rates of return and very short pay backs. There is still strong interest in the Woodbine from established and new companies (such as AUT, which acquired 30,000 acres in late 2013) shown in Figure 7, so we believe Sun should be able to successfully develop its areas on its own or jointly with others.

Figure 7 - General activity in the Woodbine



SOURCE: SUN RESOURCES NL

While Sun has been totally focused on the Woodbine (and the Lower Woodbine more particularly), the company has recognised that there are other oil-rich hydrocarbon horizons elsewhere in the stratigraphic column in their lease areas as neighbouring operators have begun to produce from lower horizons. 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 Jack Howe #1H well in the Normangee Oil Project has been drilled initially as a vertical pilot hole that has been comprehensively logged and has also been drilled into and tested the underlying Buda Formation.

Lower valuations from reassessment after slow progress, disappointing outcomes

Valuations for Sun are still well above the current share price

The delays in testing its Woodbine areas have caused us to reduce our valuations of Sun

The slower than expected progress with Sun's current three well program has caused us to make 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 reduced.

We regard valuation estimates based on NPV-related forecasts as the best guide to the long term value of Sun. We have revised our previous assumptions for Sun's Woodbine areas, most notably by doubling the well spacing (which halves the number of potential wells) but also by increasing the average cost of each well and by reducing the expected production rates for all of the company's Woodbine oil projects (Table 2):

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

Variable	Assumptions
Average well cost (including completion)	$US 7.8M
Average well spacing	160 acres
Expected Ultimate Recovery (EUR) per well	Up to 350,000 barrels of oil equivalent (boe)
Initial Production (IP) rate per well	Up to 500 barrels of oil equivalent per day (boepd)
Average hydrocarbon makeup	85% oil; ~3% condensate; ~8% Natural Gas Liquids (NGL); up to 4% natural gas

SOURCE: BELL POTTER SECURITIES ESTIMATES

Our base case assumptions for development of the Badger Oil Project only consider oil in the Eagle Ford Shale (Table 3). Although we recognise the potential for oil in the overlying Austin Chalk, we have only considered it being present and potentially recoverable in our upside case, even then with a considerable discount to the potential outcomes for the Eagle Ford Shale.

Table 3 - Assumptions for forecasts of production from Sun's Badger Oil Project

Variable	Assumptions
Average well cost (including completion)	$US 7.8M
Average well spacing	160 acres
Potential wells to be drilled	63
Average EUR per well	106,000 barrels of oil equivalent (boe)
Initial Production (IP) rate per well	Up to 200 barrels of oil equivalent per day (boepd)
Average hydrocarbon makeup	85% oil; ~3% condensate; ~7% Natural Gas Liquids (NGL); up to 5% natural gas

SOURCE: BELL POTTER SECURITIES ESTIMATES

We forecast Sun will need to raise additional equity capital over FY15 to meet its forecast commitments

After allowing for the estimated acquisition cost of about $5M for its interest in the Badger Oil Project in the Eagle Ford Shale, we have assumed that the company will need to raise net additional equity capital of about $20M over the course of FY15 (Table 4). This forecast is based on Sun's need to fund the remaining exploration associated with the current three well program in the Woodbine (estimated at about $6M), its commitment to fund its 50% share of the planned well in the Badger Oil Project due by November 2014 (estimated at about $4M) and also to meet ongoing corporate costs (estimated at about $2.5M) and the potential liability (of up to $3M) for litigation resulting from Sun's involvement in the Beeler Oil Project. We have assumed the additional capital to be raised in FY15 will be done at the current share price even though there could be favourable outcomes from the remaining two Woodbine wells that may lead to a share price re-rating by the time that capital is actually sought.

Table 4 - Forecast additional equity to be raised in FY15

Year to June	2015e
Net amount to be raised[1] ($ M)	20.0
Share price assumed ($)	0.02
Number of shares to be issued (M)	1,009.5
Total number of shares on issue at year end(M)	3,654.5

SOURCE: BELL POTTER SECURITIES NOTE 1. AFTER CAPITAL RAISING COSTS

We have reduced our equity adjusted per share base case and upside case valuations by 38% to $0.10 and by 32% to $0.28 respectively

We have retained the heavily risk adjusted discount factor (of 50%) on the valuation of the company's East Texas oil assets to determine an overall base case valuation for the whole company (Table 5). The base case valuation per share has been reduced by 38% to $0.10 and the upside valuation per share has been reduced by 32% to $0.28 Our base case valuation only considers the Woodbine and the Eagle Ford Shale – it does not consider any of the other nearby oil-bearing stratigraphic horizons in either area. The upside case valuation now considers the full but significantly downwardly revised NPV-related valuation for the Woodbine and our initial NPV-related valuation for the company's new Eagle Ford Shale areas (which uses lower assumptions than those of Sun). The upside valuation also contains a modest valuation component for other oil-bearing stratigraphic horizons in both areas. **Both valuations are equity diluted to account for potential additional shares issued in FY15 (Table 4)**.

Table 5 – Equity diluted NPV-based valuations of Sun

	Base Case		Upside Case	
	$M	**$ per share[1,2]**	**$M**	**$ per share[1,2]**
Exploration - Woodbine & Eagle Ford Shale	378	0.10	1,061	0.28
- Other Projects	1	0.00	3	0.00
- Total	379	0.10	1,063	0.28
Net Corporate and Financials[3]	12	0.00	12	0.00
Total	**392**	**0.10**	**1,076**	**0.28**

SOURCE: BELL POTTER SECURITIES ESTIMATES NOTES: 1. MAY NOT ADD BECAUSE OF DILUTION EFFECTS.
2. BASED ON EQUITY DILUTED SHARE CAPITAL OF 3,654.5M SHARES
3. INCLUDES CORPORATE COSTS.

Our revised assumptions for Sun's development of its East Texas oil assets now incorporate a slower initial ramp up in oil and related products output, principally in FY15 and FY16 but also impacting on subsequent years, from the delays in establishing commercial hydrocarbon production from the current three well program. It is worth noting that similar delays were experienced by other similar companies in the early stages of the development of the Eagle Ford Shale, such as was the case for Aurora Oil & Gas (ASX – AUT, sell), which has recently been acquired for $1.9 billion by Baytex Energy Corp (TSX – BTE, not rated).

Recommendation

Proper testing of Woodbine can still lead to a major re-rating

Although Sun has not yet achieved any significant oil production success in the two and a half 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 fracking 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 test and demonstrate that its Woodbine assets are capable of delivering successful outcomes in keeping with the results of numerous 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 and share price of the whole company.

Despite its slow progress in the Woodbine, we still believe Sun's areas there are very prospective for substantial oil production

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 the company demonstrates its areas are capable of successfully producing substantial amounts of oil 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 is reasonably well funded (with cash of $13.5M and no debt at March 2014) and Sun still has a significant and largely untouched exploration tenement position in what other companies still regarded as very prospective areas of oil-rich Woodbine in East Texas. We believe the company is still potentially well placed to begin to unlock the value in its areas using the most appropriate fracking and completion techniques either by continuing to fund its share of exploration and development or by farming out or otherwise coming to alternative development arrangements for more of its areas so the financial and technical strength and success 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 $0.10 to reflect the fact that while the company has been making slow progress and is still yet to achieve successful production from its Woodbine areas.

Our 12-month price target has been lowered to $0.065 but we still 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

With the drilling of the F Thompson #1H well, we believe Sun has begun to demonstrate improved ability to participate in wells into the Woodbine that are now appropriately drilled, fracked and completed, which was not something the company had been doing previously as evidenced by some of its recent wells.

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

- Continuing to develop and execute appropriate and cost-effective fracking and completion regimes that enable the company to establish substantial oil production and realise the full potential of its extensive net land position in the Woodbine and in any other suitable unconventional oil areas it gets involved in
- 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 such as litigation
- 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 production outcomes from the remaining two wells in the current three well program – namely in the company's Delta (Petro-Hunt AMI) and Normangee Oil Projects;
- Achieving successful oil production from the planned horizontal well into the company's new area in the Eagle Ford Shale and possibly also in the overlying Austin Chalk;
- Establishing meaningful Resource and Reserves estimates at least for the company's Delta (Petro-Hunt AMI), Normangee and Delta Oil Projects from significant and sustained production;
- Successful roll-out of drilling, fracking and completion of multiple wells across the company's extensive land positions in the Woodbine, that could include re-visiting areas where Sun's initial results were disappointing, leading 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, fracking and completion success in stratigraphically nearby oil-bearing horizons other than the Woodbine that ultimately leads to the establishment of 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 fracking of tight oil-bearing horizons in other appropriate tight oil-bearing provinces elsewhere in the USA and the world.

Sun Resources NL
as at 5 June 2014

Recommendation	Buy, Speculative
Price	$0.021
Target (12 months)	$0.065

Table 6 - Financial summary

PROFIT AND LOSS

Year ending 30 June	Unit	2012a	2013a	2014e	2015e	2016e
Revenue	A$m	0	0	1	24	106
Expenses	A$m	(4.5)	(10.1)	(8.7)	(28.8)	(72)
EBITDA	A$m	**(4.5)**	**(9.8)**	**(8.1)**	**(5.0)**	**34**
Depreciation and amortisation	A$m	(0.0)	(0.5)	(0.5)	(4.2)	(13)
EBIT	A$m	**(4.5)**	**(10.3)**	**(8.6)**	**(9.2)**	**21**
Net interest expense	A$m	0.1	0.1	0.1	(1.1)	(6)
PBT	A$m	**(4.4)**	**(10.2)**	**(8.5)**	**(10.3)**	**15**
Tax Expense	A$m	-	-	-	-	-
NPAT (reported)	A$m	(4.4)	(10.2)	(8.5)	(10.3)	15
Adjustments (after-tax)	A$m	-	-	-	-	-
NPAT (adjusted)	A$m	**(4.4)**	**(10.2)**	**(8.5)**	**(10.3)**	**15**

PROFIT AND LOSS (INTERIM)

Year ending 30 June	Unit	Jun-12a	Dec-12a	Jun-13a	Dec-13a	Jun-14e
Revenue	A$m	0.0	0.4	(0.1)	0.2	0.3
Expenses	A$m	(1.8)	(6.1)	(4.0)	0.8	(2.3)
EBITDA	A$m	**(1.8)**	**(5.8)**	**(4.1)**	**1.0**	**(2.0)**
Depreciation and amortisation	A$m	(0.0)	(0.0)	(0.5)	(0.0)	(0.4)
EBIT	A$m	**(1.8)**	**(5.8)**	**(4.5)**	**0.9**	**(1.6)**
Net interest expense	A$m	0.0	0.0	0.0	0.1	(0.5)
PBT	A$m	**(1.8)**	**(5.7)**	**(4.5)**	**1.0**	**(2.0)**
Tax Expense	A$m	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	A$m	(1.8)	(5.7)	(4.5)	1.2	(3.6)
Adjustments (after-tax)	A$m	-	-	-	(2.3)	-
NPAT (adjusted)	A$m	**(1.8)**	**(5.7)**	**(4.5)**	**(1.1)**	**(3.6)**

CASH FLOW

Year ending 30 June	Unit	2012a	2013a	2014e	2015e	2016e
OPERATING CASH FLOW						
Receipts	A$m	0	0	1	23	104
Payments	A$m	(1)	(2)	(5)	(18)	(58)
Tax	A$m	-				
Net interest	A$m	0	0	0	(1)	(6)
Other	A$m					
Operating cash flow	A$m	**(1)**	**(2)**	**(4)**	**4**	**40**
INVESTING CASH FLOW						
Cap Ex and exploration	A$m	(10)	(15)	(12)	(53)	(122)
Other	A$m			(5)		
Investing cash flow	A$m	**(10)**	**(15)**	**(17)**	**(53)**	**(122)**
FINANCING CASH FLOW						
Net equity proceeds	A$m	10	19	20	20	
Debt proceeds	A$m				34	88
Debt repayments	A$m					
Dividends	A$m					
Other	A$m					
Financing cash flow	A$m	**10**	**19**	**20**	**54**	**88**
Change in cash	A$m	(1)	2	(1)	6	8

Balance Sheet ($M)

Year ending 30 June	Unit	2012a	2013a	2014e	2015e	2016e
ASSETS						
Cash and short term investments	A$m	1	4	5	7	16
Accounts receivable	A$m			2	13	32
Inventory	A$m					
Property, Plant & Equipment	A$m			1	5	9
Exploration & development	A$m	17	59	78	126	228
Other	A$m					
Total assets	A$m	**18**	**63**	**86**	**150**	**284**
LIABILITIES						
Accounts payable	A$m		6	14	28	52
Borrowings	A$m				34	122
Other	A$m		6	15	20	18
Total liabilities	A$m	**0**	**6**	**17**	**70**	**187**
SHAREHOLDERS EQUITY						
Share capital	A$m	55	90	110	130	130
Reserves	A$m	1	16	16	16	16
Retained earnings	A$m	(38)	(48)	(57)	(67)	(52)
Total equity	A$m	**18**	**57**	**68**	**78**	**93**
Weighted average shares	m	907	1,563	2,500	3,150	3,654

SOURCE: COMPANY DATA; BELL POTTER SECURITIES ESTIMATES.

FINANCIAL RATIOS

Year ending 30 June	Unit	2012a	2013a	2014e	2015e	2016e
NPAT (adjusted)	A$m	(4.4)	(10.2)	(8.5)	(10.3)	15
Adjusted EPS (Basic)	A¢/shr	(0.5)	(0.7)	(0.3)	(0.3)	0.4
EPS growth	%	na	na	na	na	na
PER	x	na	na	na	na	5.3
DPS	A¢/shr	-	-	-	-	-
Franking	%	-	-	-	-	-
Yield	%	-	-	-	-	-
Free Cash Flow (FCF)	A$m	(2)	(7)	(11)	(45)	(77)
FCF / share	A¢/shr	(0.2)	(0.4)	(0.4)	(1.3)	(2.0)
Price / FCF	x	na	na	na	na	na
FCF yield	%	na	na	na	na	na
EV / EBITDA	x	(14.8)	(4.9)	(6.5)	(21.2)	5.4
EV / EBIT	x	(14.8)	(4.7)	(6.2)	(11.5)	9.0
EBITDA margin	%	na	na	na	na	32%
EBIT margin	%	na	na	na	na	20%
Return on assets	%	na	na	na	na	7%
Return on equity	%	na	na	na	na	18%
LIQUIDITY & LEVERAGE						
Net Debt (Cash)	A$m	(1.2)	(3.6)	(4.6)	27	107
Net Debt / Equity	%	-7%	-6%	-7%	34%	114%
Net Debt / (Net Debt + Equity)	%	-7%	-7%	-7%	26%	53%
Net Debt / Total Assets	%	-7%	-6%	-5%	18%	38%
Net Debt / EBITDA	%	27%	36%	56%	-539%	313%
EBITDA / Interest	x				(3.8)	5.8

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				0.2	0.9
Natural Gas	Bcf					0.2
Condensate	Mbbl					0.0
Natural Gas Liquids	Mbbl					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	74.7
Total Securities	M	**2,859.6**

Major Shareholders

	M	(%)	Date of change
Winform Nominees Pty Ltd	516.7	19.5%	11/11/13
Amerril 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 [1,2]	$M	$ per share [1,2]
Exploration Assets - Texas, USA	378	0.10	1,061	0.28
- Other	1	0.00	3	0.00
- Total	**379**	**0.10**	**1,063**	**0.28**
Net Financials [3]	**12**	**0.00**	**12**	**0.00**
Total	**392**	**0.10**	**1,076**	**0.28**

Current price	**$0.021**
Recommendation	**Buy**
Risk rating	**Speculative**
12-month price target	**$0.065**

Notes: 1. May not add because of dilution effects.
2. Based on equity diluted share capital of 3,654.5M shares.
3. 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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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.